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10 issues that shaped 2016

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Welcome to the December 2016 issue

When we started planning this end of year issue, asking Ethical Corporation’s team of expert writers to explore the 10 issues that shaped sustainability in 2016, I thought Brexit would be the top cover story. But like a storm gathering force over the course of a turbulent year, the biggest shock came at the end: American voters’ decision last month to send bombastic outsider Donald Trump to the White House, threatening to undo decades of global progress on sustainability and globalisation and usher in a new world order. So sorry, Brexit, you were Trumped.

The list is:
1. CSR at sea amidst the Trump tsunami
2. Looking for points of light in the fog over Brexit
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5. Energy storage taking centre stage
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8. The food waste revolution
9. Big data’s impact on the supply chain
10. How the SDGs are transforming corporate reporting

The growing focus on human rights didn’t make our top 10, but it is the subject of an interview with John Morrison, chief executive of the Institute for Human Rights and Business, which has just published its annual list of the top 10 issues that will shape the business and human rights agenda for the coming year. Morrison said that rising anti-globalisation sentiment in Europe and North America had been a wake-up call for CSR. “We have really all failed, those of us who have been working in business and human rights for the past 15 years, to communicate the relevance of business to wider society,” Morrison admitted.

Ethical Corporation’s managing director, Liam Dowd, picks out the gems from Ethical Corporation’s Responsible Business Summits in London, New York and Singapore in 2016, while our regular columnist, Peter Knight of Context, finds nine reasons to be cheerful in 2017. In NGO Voices, Dr Nick Hill of the Zoological Society of London looks at how the Net-Works partnership with carpet maker Interface, judged best company in Ethical Corporation’s awards this year, is empowering fishing communities to protect marine biodiversity. And Oliver Balch’s Deconstructing CSR column tackles something we will all surely need for 2017: resilience theory.

2017 will bring some big changes for Ethical Corporation as well. From next month the pdf version of the magazine will adopt a new, more slim-line format,
doing deep dives into two big issues every month, with additional features, analysis and opinion pieces appearing on the website. We will continue to increase our coverage of news, with our WeeklyWatch and CSR Cheatsheet being updated every week.

We will kick off January by examining how companies, both in Europe and North America, are driving sustainability out of their CSR departments and into the boardroom and shop floor. And we will look at how companies are responding to the large numbers of disaffected citizens who feel they have been marginalised by the forces of globalisation, giving rise to Trump and Brexit.

We will also feature an interview with sustainability éminence grise John Elkington, and an excerpt from his new book commissioned by the Business and Sustainable Development Commission, Breakthrough Business Models. Elkington, who won Ethical Corporation’s Lifetime Achievement Award in 2015, argues that the entire sustainability industry must undergo a radical reinvention, with a shift in mindset from incrementalism to an understanding that capitalism can only survive if it adopts business models that are part of wider social and natural systems.

As we head into a hugely uncertain 2017, with a vacuum of progressive political leadership, such a kick up the backside from someone who has been working in sustainability for the past 40 years may be just what business needs.

Merry Christmas.

Terry Slavin
Editor
One thing is certain: Donald Trump is unpredictable – he’s neither followed a typical trajectory for those in political office (he has no previous government experience), nor has he toed the party line of the US Republicans (he has changed party affiliations five times since the 1980s). And big business, as a general rule, likes predictability. So how will a Trump presidency affect businesses and their plans for sustainability?

Trump’s intention to cut corporate taxes, and his general dislike of red tape (not to mention his penchant for stocking his Cabinet with lobbyists and loyal outsiders), may turn out to be a boon for business. The US stock market has so far reacted favourably. As far as overall sustainability is concerned, many companies are like big ships – difficult to make a 180° turn – and none has said publicly that it will curtail sustainability goals. So sustainability may plod ahead; not leaping forward, though not stalling. However, the uncertainty created by the president-elect’s outsider approach also fosters apprehension for US companies, and over time the momentum to get them to make and stay committed to long-term sustainability goals may falter.

Climate change denial
During his presidential campaign, Trump was brash and abrasive. He flaunted non-progressive ideals with his racist, sexist and anti-Islamic hyperbole and
tried to intimate – though he later said it was a joke – that climate change is a hoax perpetrated by the Chinese. All of these positions are troubling for social equity goals, but it is the last position, around climate change, that could have the most dire consequences.

To many, the changing environment is an indisputable fact, evidenced by extreme weather events such as the catastrophic Louisiana floods in August, and Trump’s stance is a turn away from the scant progress that has been made globally in controlling emissions, stabilising climate and working on mitigation.

Shel Horowitz, author of Guerilla Marketing to Heal the World, counsels business leaders and sustainability advocates to stay the course. “Social entrepreneurship will flourish even under a Trump administration,” Horowitz says. While he admits federal dollars – such as clean energy tax breaks – may dry up, Horowitz says he believes businesses will simply get more creative with products and services that create social and environmental benefits.

While large US companies may enjoy the increasing tax breaks and decreasing regulation of a Trump era, many are on a sustainability trajectory. Thirty-two percent of US and Canadian companies track their carbon emissions, according to a 2016 Carbon Disclosure Project report. CDP estimates that approximately 85% of companies that track also have set emissions reduction goals.

It seems that a Trump administration could be positive for short-term business growth and US domestic economics. The downside is that this growth may come at the expense of weakened societal stability and environmental equilibrium, as well as unpredictable results in the global trade arena.

**Economic upsides**

North American conservatives are feeling pleased that the Republicans now control the US presidency, the Senate and the House. This gives incoming President Trump more political capital and leeway in pushing through his plans than outgoing President Obama had, though it is frequently difficult to ascertain at a detailed level what Trump’s plans are. Pundits have described Trump as “trans-
actional”, meaning that he is always looking to make a deal in terms of win/lose, and without benefit of ideology or history. Perhaps this could be a positive in terms of how the US government, which has only become more polarised, gets things done in future.

President-elect Trump won over his US voting base by promising to ease the pain of working-class Americans who have seen their wages stagnate and their American dream falter. He has promised these voters relief, and plans to provide it by cutting the corporate tax rate from 35% to 15%; by reducing the regulations and oversight on businesses; and by repairing America’s sub-par infrastructure. He hopes these measures will have a trickle-down effect. It’s an idea that former US President Ronald Reagan tried in the 1980s and isn’t a concept many in big businesses argue with, as it increases corporate profits. However, the devil may be in the details, and there’s no agreement among economists that this version of trickle-down economics will work.

In terms of infrastructure, for example, Trump isn’t planning direct investment in new roads, ports, bridges and airports. Instead, according to analysis by the Economic Policy Institute, Trump’s plan is to provide investment tax credits up to $137bn and equal to up to 82% of the equity investors commit to financing projects. EPI sees a number of potential problems with this, including a system that could hand tax breaks to projects that were already going to be built.

Trump’s plan also has (so far) no mechanism to ensure that really important improvements, like lead-free water pipes for Flint, Michigan, become a reality. In addition, relying on private financing means projects that ensure a return – toll roads, toll bridges – become more likely, while necessary but less revenue-generating big-ticket projects languish. Lastly, trickle-down economics’ track record has been to make the national deficit swell.

Trade turbulence
One area where the economic benefit to business may be less certain is Trump’s promise to kill the possibility of the Trans-Pacific Partnership and to renegotiate the North American Free Trade Agreement. Trump’s “America first”
trade talk could spark trade skirmishes – he has suggested a 45% tariff on imports from China, for example – and make US corporations that do business abroad less competitive. It’s also a recipe for trillions more dollars added to the national debt, according to a report from the non-partisan Committee for a Responsible Federal Budget.

The question of how Trump will bring the economic benefits he promises to working-class Americans can be seen in current battle-waging with Carrier, an air-conditioning and furnace manufacturer with plants in Indianapolis, Indiana. Earlier in 2016, Carrier announced its plans to move those factories to Monterrey, Mexico, displacing as many as 2,000 US jobs. At a rally prior to his election, Trump claimed a 100% chance of keeping the Carrier plant in the US. After negotiations with Carrier, owned by United Technologies, last month, Carrier announced it had a deal with Trump to “keep close to 1,000” jobs in Indianapolis. Trump enticed Carrier not to move its plant with $7m in tax credits, and a promise to pursue tax relief so that United Technologies might repatriate some of the estimated $6bn in profits the company has stashed overseas. The Carrier deal gives Trump an early victory that is underwhelming in its economic effect, but highly significant in its psychological result. The company still plans to move one Indiana plant and almost 1,300 jobs to Mexico.

**Throwing a wrench into Paris**

Trump has said he wants to kill the Paris climate agreement; axe the US Clean Power Plan (CPP) before it gets started; change the mandate of the US Environmental Protection Agency; go for more oil drilling and pipelines; and revive Big Coal. This is not a pretty picture for progressives. The CPP calls for greenhouse gas cuts of 32% in the electricity sector by 2030 (2005 benchmark), and is an important portion of US GHG reduction promises connected with the Paris Agreement. The utility sector has already begun transformational carbon-cutting work: US emissions last year were an estimated 21% lower than 2005 levels, due to a transition to natural gas and away from coal-fired generation, according to Jeffrey C Peters of Stanford University. Peters says continuing to phase out coal is of utmost importance, and doubts that Trump’s plan to halt the so-called war on coal can actually change the market forces making natural gas cheaper.
There are many ways for Trump to throw an important wrench into the carefully negotiated Paris Agreement, however. According to John Upton of the non-profit group ClimateCentral.org, he can use a provision in the agreement after one year to withdraw the US without any legislative approval. Alternatively, Trump can simply refuse to fund the UN Framework Convention on Climate Change Programmes.

So far, businesses that were committed to the Paris Agreement have stayed firm – a group of 360 companies, including Kellogg Co, IKEA North America, and Levi Strauss & Co sent a letter to President Obama and President-elect Trump restating their commitment to building a low-carbon economy.

One other area that Trump has said is a high priority for him is reducing business regulations, as well as loosening enforcement of existing rules. This would likely usher in a new era of short-term profits over long-term sustainability, though the risk of another financial crisis looms. The mortgage meltdown and crisis of 2008 was global, yet originated in the US. Rules that evolved after the crisis were to help avoid a similar future scenario, and many of them are contained in the Dodd-Frank Wall Street Reform and Consumer Protection Act. Trump has said he wants to repeal Dodd-Frank, leading observers such as former representative Barney Frank to predict a return to the “good old days” in which financial entities enjoyed a free reign but risks of economic fluctuations or crashes grew.

**GOJO Industries**

For the time being, no company has publicly declared that a new Trump administration is changing its sustainability plans. Take GOJO Industries, maker of
Purell sanitisers and headquartered in Ohio. GOJO is a private company, with no requirement to report on internal sustainability initiatives. Yet global sustainability marketing director, Nicole Koharik, says stakeholders drive GOJO’s goals. After a 2015 materiality analysis, GOJO made an industry-first goal to cut its chemical footprint by 50% by 2020.

“Why our goals will not change going forward is that they are driven by our purpose, and because they are smart business,” Koharik said, adding that responding to stakeholder concerns is what lets GOJO know it is on the right track. And while GOJO doesn’t have a specific carbon emissions reduction goal – it reduced operational emissions by 46% by 2015 based on a 2010 baseline – it does plan to install a solar array on its distribution centre by 2020. GOJO’s approach lends support to the view that low oil prices and the clean energy evolution taking place can’t be stopped by Trump’s plans for a wholesale fossil fuel/coal revival.

Kelly Vlahakis-Hanks, CEO of Earth Friendly Products, headquartered in California, says nothing will change for her company’s deep-green approach. “We don’t know what policy changes the Trump administration will implement,” Vlahakis-Hanks says, “but we’ll continue to support the longstanding policies that have been good for the environment and for health.”

Scant CSR credentials
Predicting the future by plundering the past is tricky. In the case of President-elect Trump, this is made more difficult by his lack of a coherent political ideology, his unpredictable approach, and his well-documented penchant for lying. What is known is that Trump doesn’t display much of a penchant for philanthropy or sustainability. He is often referred to as the least charitable billionaire, and the sustainability credentials – such as LEED certifications or reporting – of his real estate holdings are thin. This will likely have reverberations throughout the business community. Renowned sustainability consultant John Elkington recently said he thinks the uncertainty from both Brexit and a Trump administration will cause some companies to “tread water or even drift backwards”.

EFP’s Vlahakis-Hanks says she thinks successful companies will be those that stay steadfast in sustainability action for the long term.

“Even if US leadership doesn’t make calls for sustainability,” she says, “the global market will still be demanding more sustainable options, and smart businesses will work to meet that demand.”
2. Points of light in the dark fog around Brexit

Martin Wright argues that a soft Brexit could offer opportunities, particularly for home-grown energy

So here we are then, six months on from the Brexit vote, six months on from Ethical Corporation’s initial take on it, and we are only a little wiser as to what it might all mean. Brexit, we are told repeatedly, means Brexit.

When it comes to policy guidance, that is about as useful as a Buddhist mantra. In fact, it would work quite well as such – a trick to still the turbulent mind by sending it into an endless loop… Brexit means Brexit? Yes, but what does Brexit mean? It means Brexit! Yes, but what does Brexit… Ommmm…

We’re currently in a state of limbo. Or, as some have described it less peacefully, a phoney war, with everyone waiting to see if and when the infamous Article 50, giving formal notice of withdrawal, is triggered. Some consequences are already apparent. The falling pound has driven import costs up, which has hit businesses relying on goods and materials sourced overseas, such as PV panels. But some argue that the pound was over-valued, and so a correction was overdue. More generally, the sheer uncertainty as to just what eventual deal may emerge makes it hard for companies to plan – and borrow or invest – with confidence. Business never enjoys trying to peer through the mist, and in the case of Brexit, it’s been a veritable fog.

That said, some of the scariest predictions have not (yet) come to pass. Economic confidence hasn’t collapsed, and the government hasn’t declared its intention to put a match to all EU-derived green regulations. These rules,
which cover everything from clean air and water, to habitats, wildlife, recycling and chemical safety, underpin much of the UK’s environmental progress over the last few decades. The government has declared that, along with all EU regulations, they are to be incorporated into UK law post-Brexit – after which, of course, they can be repealed or amended at leisure.

**Brexit: hard or soft?**

Some still fear a bonfire, especially if an embattled Tory party feels the need to assuage the populist right with some symbolic slashes at liberal greenery. But initial signs suggest a more moderate approach, at least on climate, as we reported in August. Within days of the leave vote, the government signed off on the Fifth Carbon Budget – reaffirming its commitment to relatively ambitious emissions cuts – and soon afterwards, it ratified the Paris Agreement. As to the future of climate diplomacy, an independent UK may well try to act as a bridge between Europe and a climate-sceptical US, but it would be unlikely to strike out with a wildly different negotiating position.

When it comes to teasing out the longer-term implications, we’re pretty much reading tea leaves. But here’s what we know so far. As with the whole debate, a huge amount depends on whether Brexit is hard or soft. If the former, then the UK is free from all EU rules and restrictions, and could, in theory, ditch the green tape overnight. That’s the nightmare scenario of the sustainability sector. But even if that happens, companies exporting to Europe would have to follow EU regulations applying to their products, so the ghost of Brussels would still be present.

But if, as seems increasingly likely, the UK goes for a softer option, allowing it significant access to the single market, then things get more nuanced. At
present, the price of entry to the single market for non-EU states such as Norway or Switzerland includes signing up to a whole range of regulations, including many environmental ones.

The reason is simple: it’s hard to make such a market work unless everyone involved is playing by the same rules. Of course, the UK deal is unlikely to be as straightforward as that. Unfettered free movement, for example, is a red line that no British politician would dare cross, such is the level of anti-immigration sentiment. So it may be that access is negotiated sector-by-sector – a messy but pragmatic outcome, and one that would militate in favour of keeping significant swathes of EU rules on the statute book.

None of this should be grounds for complacency, however. Even with the softest conceivable divorce, there will still be opportunities for future UK governments to water down or repeal legislation that has helped provide the foundation for the growth of much of Britain’s sustainability sector. Making the business case for regulation will therefore become of increasing importance as Brexit looms.

**Chance for restructure**

But could there actually be opportunities arising from Brexit? That’s a question notable by its absence from the debate, though the Aldersgate Group’s Nick
Molho looked at the up side, particularly for boosting low-carbon investment in the north of England, in a column for Ethical Corporation in August.

The vast majority of sustainability advocates, in and out of business, voted to remain. Some did so mainly out of concern over the negative economic impacts of leaving; some because they saw the EU as a vital guardian of environmental and human rights; some because their instinctive liberal, internationalist sympathies made them pan-Europeans.

There were exceptions. As we reported in May, some deep greens, affronted by what they saw as the EU’s democratic deficit and its closeness to corporate lobby groups, threw in their lot with leave. Very few in the more mainstream sustainability world did too, notably Michael Liebreich of Bloomberg New Energy, who argued that EU bureaucracy could stymie innovation, and pointed to some directives – such as those favouring diesel over petrol vehicles – as being badly conceived and counter-productive.

He also drew attention to the failings of the common agricultural policy (CAP – which, along with the common fisheries policy, only applies to EU member states, and hence won’t be part of the framework of any soft Brexit deal). The CAP’s focus on area-based payments for productive land has drawn flak for doling out huge sums to large, wealthy landowners while neglecting biodiversity. For now, the government has indicated that it will maintain existing payments until at least 2020. But some environmentalists see Brexit as an opportunity to restructure farm support from scratch. Among them is the National Trust, the UK’s largest conservation group, which itself owns 250,000 hectares of land. It has called for sweeping changes, ending area-based payments and shifting support

Britain has excellent wind resources, and they’re firmly under British ownership

Planned interconnectors with Europe will boost home-grown wind
to habitat and soil protection and the provision of public goods such as flood management.

**Control of alternative power**

Meanwhile, there’s one key link to the continent that will be hard to sever post-Brexit: energy. The UK already imports around half of its energy needs, and planned new interconnectors will tie it more closely to its European neighbours. This could, ironically, boost the case for home-grown renewable energy – particularly wind power, and in the longer term, tidal as well.

Wind turbines have long been a symbol of loathing for many older, more conservative Britons, who see them as ugly impositions foisted on their beloved countryside thanks to the green obsessions of a metropolitan elite. Such views were common among many who voted leave.

But of course Britain has excellent wind resources, and unlike foreign gas, or French nuclear, they’re firmly under British ownership, as are the waves that lap its shores. Post-Brexit, canny environmentalists would do well to play the patriotic card: “Let’s take back control of our power; British energy from British wind, none of your euro-gas here.” It might just win hearts and minds among some of sustainability’s least likely constituency.

Similarly, Brexit could help boost the case for investment in other sunrise technologies that help free the UK from import dependency. The rise of 3D printing is one obvious example. It has huge advantages in terms of resource efficiency, and while still in its infancy, some of the most intriguing breakthroughs are being made by British companies.

None of this, of course, is grounds for complacency. Brexit remains a real and present danger to the prospects for a prosperous and sustainable UK. But when peering through the fog to try to work out just how those dangers might play out, it’s as well to keep an eye on possible points of light, too.
3. Climate change: the best of times, the worst of times

Rapid ratification of the Paris Agreement was the highlight of a year that brought record temperatures – and Trump, writes Martin Wright

Climate change bookended 2016 in the headlines, for two very different reasons. The year dawned in the warm afterglow of the Paris Agreement, but ended amid the looming storm clouds of a climate-sceptical Trump presidency.

In the months between, evidence of climate impact mounted, leading to some gloomy prognoses as to our ability, Paris notwithstanding, to rise to the challenge. These were offset by the rapid progress in low-carbon technologies, and by promising signs that the much-vaunted decoupling of economic growth from carbon emissions was becoming a reality.

Together, these four factors are shaping business’ response to the climate challenge. Let’s look at them each in turn.

First up: the scary stuff – otherwise known as the science. This was the year when the concentration of carbon in the atmosphere reached 400 parts per million, and stayed there. It’s unlikely to come down any time soon. The last time CO₂ was at this level over a sustained period was at least 15 million years ago, when temperatures were between 3° and 6° higher than today, and sea levels up to 40 metres higher. The rate of increase is speeding up, too. Over the last year alone, concentrations surged by over 3ppm – the biggest annual leap ever recorded.
Soaring temperatures

The effects are clear. 2016 is set to be the hottest year on record, setting a new high for the third year running. Global average temperatures are now 1.2°C above pre-industrial levels – bumping up against the 1.5°C rise targeted by the Paris Agreement. During the year, the mercury burst off the scale in locations as varied as South Africa (peaking at 43°C), India (51°C) and Kuwait (54°C). The most dramatic increases were in the Arctic. In late November, temperatures peaked at an unheard-of 20°C higher than normal. Unsurprisingly, the extent of Arctic sea ice is at a record low. The higher temperatures were also blamed for the devastating wildfire in Fort McMurray in northern Alberta, the costliest disaster in Canadian history.

In part, these extremes reflect the warming influence of the weather cycle, El Niño. But human activity remains the dominant cause, and even though El Niño is now fading, the temperature is unlikely to fall far, or for long. The impacts – in terms of droughts, coral die-off and other extreme events – are apparent.

We’ll always have Paris

But there is good news: remember Paris. Not only did the world agree to a meaningful temperature target; its governments also ratified that agreement with surprising speed, so that it entered into force less than a year after signature. (That’s a Usain Bolt-like dash for the tape rather than the more customary diplomatic amble.)

The deal is far from perfect. The agreed mechanism to reach the target, the intended nationally-determined contributions (INDCs), which allow each state to set their own goals, leaves a lot to be desired. Initial commitments fall short of what’s needed to keep temperatures within safe levels. But governments are required to report back on progress, and as the mercury rises, so laggards will face increasing criticism, and in the long run, possible sanctions, too.

Affordable renewables

An international agreement on its own might give little cause for cheer, were it not for some impressive progress on the low-carbon technology front, particularly in energy. Recent years have seen energy economy graphs go
into see-saw mode; as coal slumped (partly due to cheap shale gas), wind and solar have soared. Subsidies helped, but they’re fast losing relevance as costs continue to tumble. Wind is rapidly becoming cheaper than coal, and in some places cheaper than gas, too. Solar is in freefall; the lowest bid prices for new plants fell by 50% in the year to May, and in India, the government now sees solar as cheaper than coal, the country’s dominant power source.

India, along with China, is investing in renewables at record rates, and China is moving decisively away from coal. Other key clean tech sectors, such as battery storage, are also smashing viability barriers. The cost of batteries for electric cars has fallen by 80% in less than a decade. The market in low-carbon tech is now estimated to be worth $5.5trn – that’s more than pharma.

Meanwhile, carbon emissions (as opposed to atmospheric concentrations) are flat-lining. This is thanks to that shift away from coal, combined with energy-efficiency improvements. 2016 saw them stay more or less level for the third year running, while the global economy grew by 3%. So it would seem that decoupling has finally been grasped. That doesn’t equal problem solved, of course; carbon will continue to build up in the atmosphere for many decades to come. But it does neatly demolish the old lie that you have to choose between planet and prosperity.

**Reality check**

By the third quarter of 2016, you could be forgiven for feeling optimistic. And then came Trump. Cue a tsunami of gloom among environmentalists as details of his transition team – packed with climate sceptics and fossil fuel enthusiasts – started to emerge. But as Ethical Corporation pointed out, once safely ensconced in the Oval Office, Trump the pragmatic deal-maker may very well, er, trump, Trump the candidate. The latter’s “climate hoax” rants might in time be seen more as a sop to the home crowd than as a serious policy statement.

That would appear to be the view of the American renewables industry, which for the first time made more campaign donations to Republicans than Democrats. For all the Trumpian rhetoric some of the largest renewables installations are in Republican states such as Texas and Nevada. It’s not so surprising, then, that having stumbled in the wake of the elec-
tion, US renewable energy stocks staged a strong recovery. Even the President-elect has moderated his tone, acknowledging “some connectivity” between human activities and the climate, and keeping “an open mind” on the Paris Agreement.

So what of the business response? With a few exceptions, mainstream business has bought into the climate consensus. Their investors are helping concentrate minds. In the run-up to the Paris talks, 362 investors managing a cool $24trn in assets signed a statement that they are “acutely aware” of the risks climate change poses to their investments, and called on governments to develop an ambitious global agreement. The campaign to divest from fossil fuels is piling on the pressure. More than 430 institutions, including the world’s largest sovereign wealth fund, Norway’s government pension fund global (GPFG) and Allianz, one of the world’s largest asset managers, have now signed up.

**Opportunity for business**

Many companies now see climate as an opportunity. And one in which tighter regulations on carbon will help business, by squeezing out polluting competition. That explains the growing influence of initiatives such as the We Mean Business coalition, which is pushing for robust implementation of the Paris Agreement. It groups nearly 500 of the world’s largest companies with a combined worth of $8.1 trillion, along with 183 investors with over $20 trillion under management, giving it serious clout.

We Mean Business is fast-emerging as the prime mover of proactive business, but it’s not alone. The last few years have seen a plethora of climate...
initiatives emerge. Some are single-issue, which brings with it the virtue of simplicity. RE100 – under which corporates commit to sourcing 100% of their electricity from renewables – is one example. More than 80 companies, from BMW and BT to Facebook, Google, and even Goldman Sachs, have now signed up, although some observers are critical that there is no requirement to stipulate an early date for reaching 100%.

Other schemes are more broadly focused, such as the World Business Council for Sustainable Development-led Low Carbon Technology Partnerships Initiative (LCTPI). This helps companies take practical action to transform their businesses in areas as varied as energy, forestry, chemicals and freight. According to a study by PwC, the initiative could cut emissions by 25% by 2030.

There are growing collaborations within industries, too, such as the International Air Transport Association (effectively the trade association of the world’s airlines). Its members have committed to carbon-neutral growth from 2020, and to reduce net CO₂ emissions by 50% by 2050.

**Looking forward**

As to the future, three emerging signals stand out from.. First, there is a growing acceptance that companies should adopt science-based targets on carbon (rather than be constrained by what they imagine is achievable within their current business model). Second, there are more calls for governments to adopt carbon pricing to help incentivise business to do the right thing. And third, there is increasingly active collaboration between those businesses and governments that are strongly committed to tackling climate change. In the past, some of the most stubborn resistance to government action on carbon has come from business. In the future, we can increasingly expect leading corporates to be up there alongside governments, stiffening their sinews in climate negotiations.

It’s that enthusiasm for robust action that could be the best deterrent to any Trump-inspired softening of resolve. It doesn’t make the sky less dark, but it does boost the chances of navigating a way through the storm clouds.
4. Circular economy makes waves in global backlash against plastics

Maxine Perella

Reducing plastic waste in oceans was a key focus of innovation in 2016 as a slew of big companies joined the global resource efficiency drive.

There’s no question that the circular economy is big business. Four out of 10 of the world’s most valuable brands (Apple, Coca-Cola, Google and IBM) have signed up to the Ellen MacArthur Foundation Circular Economy 100 to accelerate this transition through global collaboration. In 2016, more big names jumped on board: Nike, eBay, Dow, ING, C&A, Heineken Mexico, Tetra Pak and SCA.

Many of these companies are investing in product innovation, which they are starting to take to market. Plastics was a big theme this year, particularly solutions targeting ocean waste. In January, EMF published the New Plastics Economy report as part of its Project MainStream work. It warned that by 2050, oceans could contain more plastics than fish by weight but said applying circular principles to global plastic packaging flows could help reverse this scenario.

Adidas is ahead of the curve with its From Threat into Thread campaign, creating high-performance sportswear such as trainers and football tops from upcycled marine plastics. While the launch products are limited editions, there are plans to scale up production. Adidas’ goal is to manufacture one million...
pairs of ocean plastic shoes by the end of 2017, and ultimately to eliminate virgin plastics from its supply chain.

Swimwear made from discarded fishing nets is also catching on. Volcom’s ocean-friendly swimwear collection, made from repurposed yarn, was another key launch, building on a similar initiative announced by Speedo USA last year. Ecover’s ocean plastic bottle project, which has quadrupled in size since 2014, continues to gather momentum. This year the company teamed up with Plastic Whale to source plastic more strategically, including from Amsterdam canals, preventing it reaching the North Sea.

One notable smaller-scale innovation is Saltwater Brewery’s edible beer pack rings. They also attracted global media coverage and caught the attention of beer brands including Carlsberg, a company that is open to collaboration as it works on its own circular packaging solutions. On a wider level, Dow pledged $2.8m to advance collective solutions to tackle ocean waste, tying in with its internal 2025 circular economy commitment. In Greenland, a scheme to explore the economic opportunities of repurposing discarded marine plastic was launched by the EU-funded Circular Ocean project.

**Tetra Pak**

This month Tetra Pak announced that it will replace half the polymers in a new range of aseptic cartons with a sugar-based bioplastic, a move that could eventually prove a significant boon to the bioplastics industry, as the packaging giant makes 184 billion aseptic cartons a year.

But the move was more to cut Tetra Pak’s carbon footprint than to improve the cartons’ recyclability. Unlike some bioplastics, the polymers aren’t degradable or compostable. They will behave just like any other plastic. Tetra Pak says this means its customers won’t have to invest in new packaging equipment. But one UK-based circular economy specialist commented that while it is good for Tetra Pak to move away from fossil-fuel based plastics, “Changing the source without designing for the fate can easily lead to solutions which claim to be renewable and have a low-carbon footprint, but just create a waste problem.”
Looking ahead into 2017, expect more collaboration with the prospect of a global plastics protocol that businesses and governments can adopt. EMF’s New Plastics Economy Initiative is a three-year project bringing together more than 40 companies, including Coca-Cola, DuPont, L’Oréal and Unilever, together with cities like London and Copenhagen (see page 26). The initiative will drive collaborative demonstration projects, initially targeting plastics packaging.

Legislation on plastics packaging is likely to become more stringent in coming years. The European Commission’s Circular Economy Package has set a prospective 55% plastics recycling and reuse target for 2025 for EU member-states. This is challenging, considering the current target (for 2008) sits at 22.5%.

**Regulatory pressures**

Meanwhile, European countries are starting to introduce national laws that could address market barriers. In September, Sweden announced proposals to introduce tax breaks on repairs for bicycles, clothes, shoes and consumer white goods. In the same month, reports emerged that France had passed a law making it the first country to ban disposable plastic cups, plates and cutlery from 2020, as part of its Energy Transition for Green Growth Act. Earlier this year, France also passed a food waste law banning supermarkets from throwing away unsold food.

Questions remain as to what the UK’s role will be in relation to the EU Circular Economy Package in light of Brexit, but given that waste policy is devolved across the UK, this is a more pressing issue for England. Both Scotland and Wales are legislating for zero waste. Scotland in particular is looking to demonstrate circular leadership through its remanufacturing focus and modelling work on national deposit return schemes.

Remanufacturing is touted as a big economic opportunity. One study suggests the European remanufacturing market is nearing €30bn a year, and could treble by 2030. Jaguar Land Rover is exploring opportunities in this field as it looks to build on recent successes with its REALCAR project. During 2015/16 the car maker fed more than 50,000 tonnes of aluminium scrap back into its own production process through a closed loop supply chain.
Meanwhile, AkzoNobel opened its second UK community paint remanufacturing hub. It is also looking to take back some of this paint into its supply chain and launch a remanufactured paint under its own brand name in the near future. In a significant move, Apple unveiled its recycling robot, Liam, which can disassemble used iPhones in a matter of seconds. Whether Apple will remanufacture used iPhones remains to be seen, but its new upgrade programme, encouraging direct lease and return, would suggest it’s an avenue being explored.

On the smartphone front, O2 is championing circular action. The company was part of a report suggesting that future growth will be built not on pushing faster upgrade cycles, but on capturing the value that exists in older devices through resale. However, moves towards designing phones with interchangeable parts suffered a setback, as reports emerged of Google pulling the plug on Project Ara, its modular smartphone.

**Digital transformation ahead**

Looking forward, digital transformation will play an increasingly influential role in building circular value chains through real-time asset tracking, as we reported in July. Examples include H&M and The North Face, which have teamed up with Stuffstr to make it easier for consumers to repurpose unwanted clothing through an app, and Arup’s circular building, which utilises digital tags to aid disassembly and reuse. EMF’s *Intelligent Assets* report gives a useful overview of how greater connectivity and big data can help extend product use cycles and optimise performance contracts in terms of predictive maintenance and upgrade.

As companies start to integrate circular thinking into core business strategy, the need for measurement, reporting, toolkits, frameworks and certification is likely to increase. Next year, look out for a new BSI circular economy standard and more open sharing of circular tools, such as the business model toolkit developed by Forum for the Future and Unilever. While businesses have yet to tap into the social value potential of the circular economy, some NGOs like...
Tearfund are investigating how the approach can lift people out of poverty, especially in emerging economies.

There are clear signs that the circular economy is now gaining traction outside of the UK and Europe, most notably in the US. EMF has launched CE100 USA, a dedicated programme for US-based organisations, providing a national pre-competitive innovation platform. First to sign up include Walmart Stores, Tarkett and SunPower. The US Chamber of Commerce Foundation also published a notable report outlining the business value of monetising waste streams for American companies. New York City is already putting in infrastructure that could enable it to become a circular city (see below) with its NYC Link project, transforming old street payphones into free, superfast WiFi hubs.

The rise of circular cities

Cities act as central infrastructure hubs for key resource flows – the close proximity of citizens, retailers, industry and service providers makes them an ideal testbed to pilot new ideas. As a result, the concept of circular cities is fast gaining traction. In the UK, EMF launched its Circular Cities Network, the Netherlands advanced its Circular City Deal, and the US is gearing up to launch a circular economy pilot in a key city next year.

Cities are now actively competing in the race to become circular. Amsterdam has developed a roadmap in a bid to become one of the world’s first circular cities, as has London. Both cities have agreed to collaborate with each other and Copenhagen on specific projects to accelerate this transition. Elsewhere in the UK, Glasgow has undertaken its own circular scan, mapping out a vision and action plan, while the smaller city of Peterborough has launched a circular commitment with key businesses as it looks to integrate circular thinking into its smart city ambitions.
5. Focus turns to energy storage

2016 was the year when the poor relation of the clean tech sector came of age as capacity issues threatened to strangle the rapid growth of renewables, writes Mike Scott

Renewables overtook coal as the biggest source of installed electricity capacity in 2016; Portugal ran entirely on renewable energy for four days in May; and almost half of the UK’s electricity came from clean sources in 2015.

At the same time, a growing roster of the world’s biggest companies – names such as Walmart, Apple, BMW, General Motors, Mars and Microsoft – have committed to procure 100% of their electricity from renewable sources, driving demand for clean energy across economies.

This abrupt advance of clean energy has caused huge dislocation in the power sector, with Germany’s two biggest utilities, RWE and Eon, both splitting in two and separating their renewable portfolios from their legacy fossil fuel and nuclear assets. Countries such as the UK, Finland, France and Canada announced this year that they will close all of their coal-fired power plants by 2030 or earlier.

Grid struggles with demand
But the renewable energy sector has expanded so rapidly that it is starting to become a victim of its own success. As we explored in our briefing on Germany’s Energiewende in September, grids are struggling to cope with the amount
of solar and wind power at peak times and with its intermittency, which means back-up sources of energy are needed. On particularly sunny or windy days, Germany has to export power to neighbouring countries such as Poland and the Czech Republic, incurring huge cost for what is known as redispatch. According to Germany’s transmission system operators, redispatch costs could rise to €4bn by 2020, when renewables are forecast to rise to a 35% share of the German grid.

In California, the phenomenon is known as the duck curve, because of the shape of the power demand graph, produced by having large amounts of solar capacity on the system at certain times of year. This happens particularly in the spring, when the weather is often cool (depressing demand for air conditioners) but intermittently sunny, while wind energy increases and the wet winter months mean hydro generation is at full capacity as well.

Large amounts of solar depress demand during the middle of the day, when the sun is at its strongest, but lead to a sharp spike in demand as the sun goes down and solar panels stop feeding energy into the grid. California has a renewable portfolio standard that calls for 50% of electricity to come from renewable sources by 2030, so the challenge is only going to increase.

It has long been known that the answer to this problem is energy storage, but for many years, storage was the poor relation of the clean energy sector. In part, this was because there simply was not enough renewable energy capacity for storage to be an issue, but it was also because storage costs were high and many people were unsure which storage technology to use. Options include batteries, flywheels, ultracapacitors, compressed air and demand-side management.

**Looking forward**

However, 2016 is the year the sector came of age. Costs are falling rapidly and companies are becoming more aware of the possibilities of different storage technologies.
technologies. Thanks to events such as the opening of Tesla’s Gigafactory lithium-ion battery factory, research firm IHS Markit said it expects the global energy storage market to more than double from 1.4GWh in 2015 to 2.9GWh in 2016, and reach 21GWh by 2025. It believes that 80% of that increased storage capacity will be from lithium-ion batteries. “Energy storage is set to grow as fast as solar photovoltaic energy has in recent years,” said Marianne Boust, principal analyst at the firm.

The World Energy Council predicts that storage costs will fall by 70% in the next 15 years, while the Carbon Trust says energy storage could create system-wide savings of £2.4bn a year by 2030. It could also unlock £5bn of savings by optimising the use of generating capacity and reducing the need for new investments.

Meanwhile, the think tank Policy Exchange, in a recent report Power 2.0: Building a Smarter, Greener, Cheaper Electricity System, says developing a smarter, more flexible power system could save up to £8bn by 2030: the equivalent of up to £90 per household.

**Storage brings value**

Storage has multiple benefits, including reducing overall demand and thus the need to build new capacity, increasing the amount of renewable energy that can be accommodated on the system, and helping to integrate large numbers of electric vehicles. It can also increase the reliability and resilience of the network, improving security of supply. However, as the World Energy Council says: “Storage is often perceived as too expensive because of the way the calculations are done, which do not fully take into account the value it brings to certain situations.”

In addition, using the standard levelised cost of energy (LCOE) model fails to take into account that storage acts as both supply, when feeding power back into the grid, and demand, as when electric vehicles help to soak up surplus power on the grid. The WEC suggests that storage projects need to be considered individually rather than on the basis of generic cost estimates,
but also that storage must be considered as a key component when planning for grid expansion or extension.

**Regulators see the light**

There are signs that this is starting to happen. In the US, the Federal Energy Regulatory Commission (FERC) has taken a major step towards making energy storage a mainstream market by calling on regional transmission operators (RTO) and independent system operators (ISO) to create frameworks to allow energy storage to be part of wholesale energy markets. Current regulations prohibit the use of energy storage unless operators explicitly make a business case for it.

The UK also appears to be seeing the benefits of storage. There has been a lot of concern in recent years at narrowing reserve margins as coal-fired power plants close, but when National Grid procured 201MW of battery storage for enhanced frequency response earlier this year, more than 1GW of capacity pre-qualified for the tender process.

UK Power Networks says its grid-scale battery system proved during a two-year trial in Bedfordshire that energy storage is commercially and technically viable and can play a key role in decarbonising the electricity system. Meanwhile, Centrica has launched a “virtual energy market” in Cornwall that will use a combination of storage and demand-side management to ease...
pressure on the grid from the county’s considerable wind and solar resources, one of a number of trials around the country. And as we reported in June, Sainsbury’s, Aggregate Industries, United Utilities and Tarmac became the first members of a new partnership led by NGO Forum for the Future called the Living Grid, which aims to build a network of 20 firms that will contribute 200MW of flexible capacity to the National Grid by 2020 by agreeing to cut their demand for electricity at peak times.

Innovative projects
There are also signs that the growth in the market is spurring innovation. Batteries are expected to make up the lion’s share of capacity in coming years, with carmakers Nissan and Daimler joining Tesla in expanding battery production. Tesla recently announced that it has powered an entire island in American Samoa with solar panels and its powerwall batteries, illustrating the potential to take entire communities off grid.

Other energy storage initiatives include plans by GE to create a project that combines wind power and pumped hydro storage; schemes to pump water or air into abandoned oil and gas wells; and initiatives that use gravity via mountain railways or ski lifts as a form of pumped storage. Then there are virtual energy storage projects run by companies such as Open Energi, which uses big data and advanced analytics to aggregate demand across thousands of facilities that can be switched on or off as the demands of the system dictates.

Chris Kimmett, commercial manager, says: “Open Energi has modelled flexibility in the UK’s energy use to reveal an estimated 6GW of flexible demand that could be invisibly shifted during peak periods to provide capacity when it is most needed.”

To those in the industry, the advantages of energy storage have been evident for years. Thanks to the advances the sector has made in 2016, companies and consumers throughout the economy should be reaping the benefits soon.
Investment

6. Green finance goes global

By Nadine Hawa

Chinese leadership in the green bond market helped make 2016 a bumper year for climate-smart investment

With the launch of the sustainable development goals (SDGs) and the adoption of the Paris Agreement on climate change, which commits signatories to making financial flows “consistent with a pathway towards low greenhouse gas emissions and climate-resilient development,” 2015 paved the way for green finance this year.

In 2016, policymakers and financial practitioners have been busy launching initiatives and working out how to mobilise the capital required to implement the new agreements.

“For us, 2016 was the year of green finance,” says Nick Robins, co-director of the UNEP inquiry into the design of a sustainable financial system. The inquiry is a two-year initiative to advance financial policy options that effectively mobilise capital for an inclusive, green economy. “The year was marked by three major developments. First, the reallocation of capital accelerated, notably through the green bond market. Second, policy makers recognised the need to set the right frameworks, highlighted by the G20’s Green Finance Study Group. And third, key financial centres such as London and Paris recognised the strategic importance of the issue.”

According to the Climate Bonds Initiative, the green bond market grew substantially this year, with green bond issuance for 2016 set to reach $80bn, more than double that of 2015.
“In 2016, we witnessed the issuance of green finance products that foster the evolution to a low-carbon economy,” says Michael Spanos, founder and managing director at London-based consultancy Global Sustain. “Government agencies and corporations issued green bonds to fund clean energy and energy efficiency projects, such as the Dutch state-owned grid operator, TenneT, which issued a $1.1bn green bond for investment in transmission cables from German offshore wind farms; or the International Bank for Reconstruction and Development, which very recently raised $500m with World Bank green bonds, to support the financing of global climate action.”

Emerging markets
China is extending its dominance of the global market for green bonds. “The world’s most-populous nation accounted for $21.9bn of the $61.1bn in global green bond sales this year,” Spanos said. Robins agrees: “China has been this year’s leader – not just through its work in the G20, but also its domestic policy agenda, which has seen it leapfrog to the top of the green bond issuance league.”

China is steadily moving away from coal and investing heavily in renewables. It is a world leader in wind power generation, with the largest installed capacity of any nation. The Asian giant is also on track to launch its national emissions trading scheme in 2017, which is likely to be more than twice the size of Europe’s Emissions Trading System – currently the world’s biggest carbon market – and is working with the UK government to make it compatible with the equivalent EU scheme.

A recent study by the International Finance Corporation (IFC) has shown that the global agreement on climate change, adopted in Paris a year ago, has helped open up nearly $23tn in opportunities for climate-smart investments in emerging markets between now and 2030.
IFC’s study, based on the national climate change commitments and underlying policies of 21 emerging-market economies, identifies sectors in each region where the potential for investment is greatest. This includes green buildings in east Asia and the Pacific, where China, Indonesia, the Philippines, and Vietnam show a climate-smart investment potential of $16trn. Latin America and the Caribbean offer the next largest opportunity, particularly in sustainable transportation, where the potential for investment in Argentina, Brazil, Colombia and Mexico is about $2.6trn.

“India is preparing to list about $746m of masala bonds in London as it seeks to fund expansion of its energy and transport infrastructure,” says Spanos. “And Egypt has agreed to buy about 400 megawatts of solar capacity, a sign that developers are slowly moving forward with clean-energy projects after a currency crisis in the country this year slowed the industry.”

**Sustainability moves mainstream**

Ten years ago, green finance was a question of investor preference. Today it is quickly moving from a niche agenda to one that shapes national ambitions for financial sector development.

Essential in helping green finance edge closer to the mainstream this year has been the development and adoption of frameworks and policies that support the transition.

The G20’s Green Finance Study Group was set up to identify institutional and market barriers to green finance. Based on country experiences and best practices, the group analyses options on how to enhance the ability of the financial system to mobilise private green investment, thereby facilitating the green transformation of the global economy.

In October, the European Commission established a High-Level Expert Group to develop a comprehensive European strategy on sustainable finance.
In the UK, a Green Finance Initiative was launched by the City of London this year, supported by both the Treasury and the Department of Energy and Climate Change, with the aim of promoting London “as a leading global centre for green financial services.”

“Our work has identified over 200 different policy measures that have been taken to promote green finance, a doubling in less than five years,” says Robins.

Spanos adds that in policy making, the COP22 held in Marrakech this November saw negotiators from almost 200 countries showcase progress and start the important process of turning the UN’s Paris Agreement into a detailed blueprint for action. Examples include Canada and Finland, which have both pledged to phase out coal-fired electricity by 2030, and the EU, which will phase out coal subsidies and cut its energy use by 30% before the end of the next decade.

Asked about the companies that are currently leading in the area of green investment and financing, Robins said: “I would cite France’s Axa for its leadership before and after the Paris COP.” One of the world’s largest insurers, Axa was the first global financial institution to shun investments in coal companies, pursuing fossil-fuel divestment. “China’s ICBC bank for its work on environmental stress testing; Kenya’s M-Kopa for enabling mobile payment for solar, which now provides energy to 400,000 customers in east Africa; and UK-based Abundance for pioneering peer-to-peer investing for renewables,” Robins adds.

Some companies are also actively working on sourcing their energy needs from renewables. Spanos names Apple, IKEA and General Motors as examples. “Apple already receives over 93% of its electricity from renewable sources, while IKEA has committed to producing as much renewable energy as it consumes by the year 2020. Also, General Motors has indicated it will generate or source all electrical power for its 350 operations in 59 countries with 100% renewable energy – wind, solar and natural gas from landfills – by 2050,” he says.

On 8 November, the election of Donald Trump as president of the US sent shock-waves across the green finance industry and beyond. The world now braces itself to see whether Trump will follow through on his ambition of pulling out of the climate deal. “While the president-elect is expected to undermine the Environmental Protection Agency’s Clean Power Plan, despite pre-election
announcements, Trump recently stated that there might exist some connectivity between humans and climate change,” says Spanos.

Shortly after the US election, more than 365 businesses and investors sent a strong message to the Trump administration, reaffirming their support for the Paris Agreement and the need to accelerate the transition to a low-carbon economy.

“Nobody, not even a US president, can stop all the movement toward the clean economy because the reason is simple: it’s now cheaper – and more business competitive – to cut carbon and use renewable energy than to keep a coal-running economy,” says Spanos.

Looking ahead to 2017, the key theme will be how to harness today’s momentum to deliver real transformation to a low-carbon economy.

Robins identifies three pathways that will support the growth of green finance over the coming year: “Putting in place the measures that take the buzz in the green bond market upstream into core bank loan books: what we call “green tagging”; shifting from a risk agenda to one focused on resilience, particularly for developing countries – an agenda championed by the G20; and harnessing the immense potential of fintech for enabling access to green finance.”

In 2017, the focus will remain on the implementation of the Paris Agreement and SDGs, especially SDG 7 (ensure access to affordable, reliable, sustainable and modern energy for all), and SDG 13 (take urgent action to combat climate change and its impacts).

This month, 18 Dutch financial institutions, which collectively manage over €2.8trn in assets, invited the Dutch government and Central Bank to continue to make a concerted effort with them in support of the SDGs. The initiative is the first in the world to bring together national pension funds, insurance firms, and banks around a shared SDG investment agenda.

The consortium believes that it is not only of societal importance, but also is in the interest of their investors and business relations, to consider the largest social and environmental challenges of our time in their work and investments. In their report, Building Highways to SDG Investing, signatories recommend priorities for maximising SDG investing at home as well as abroad.
Corporate governance

7. ‘Wealthy white men’ under the spotlight

By April Streeter

Amid high-profile scandals such as Wells Fargo and Apple’s unpaid tax, there is a counter-trend of asset managers relying on environmental social governance

Corporate governance – the very name is yawn-inducing. It’s the nitty-gritty of running companies well and putting into place systems, both accounting and cultural, that help ensure long-term, trouble-free corporate success.

This year saw a number of high-profile governance failures on both sides of the Atlantic. The most recent is the Wells Fargo imbroglio, in which it was revealed that thousands of the global bank’s employees created fake accounts in order to fleece customers with fees. Employees were spurred by an internal incentive programme created by management and with full knowledge of the CEO. The revelation has been a reputational disaster for Wells Fargo, and the company’s stock price has continued to decline despite the ‘retiring’ of the CEO, John Stumpf, in October.

The bank’s new CEO, Tim Sloan, has sought to reassure investors and employees on the company’s stability and prospects. However, in mid-November, the US Office of the Comptroller of the Currency, which regulates US banks, told Wells Fargo it was putting new restrictions on the company’s ability to hire top executives and issue ‘golden parachute’ dismissal payments. It also said it was reviewing any bank branch openings and closings – in effect, putting the company’s governance actions under a
microscope. CNN reported that Wells Fargo’s new account openings plunged 44% in October after the fake accounts scandal was revealed.

As Pamela Gockley of the Reputatus group says in a recent video, Wells Fargo’s woes are deepening. The company is now being investigated for unfair mortgage practices by the US Justice Department, among others. Gockley says Wells Fargo has lost the basic trust of the consumer and is trying, through PR efforts, to fix it without addressing the internal problems. Gockley says the bigger problem is partly the lack of diversity in the top echelons of many corporations. This means a small group of mostly “wealthy white men” value self-protection over transparency and accountability. Brett Hickey of New York-based asset management firm Star Mountain Capital LLC agrees that diversity of boardrooms and the executive suite is part of what he looks for in mid-sized companies as a company’s insurance against stress. “Good governance is protection against hyper-distressed situations and ultimately against failure,” Hickey says. “I see stress as the enemy, and avoiding stress as part of building a positive business culture. Strong corporate governance is part of having a strong corporate culture that leads, I think, to a low level of business failures.”

**Corporate tax havens**

Earlier this year, another scandal erupted when the European Commission announced that it would try to collect more than $14bn from Apple in what the Commission deemed unfair tax advantages given to the electronics giant by Ireland. After a multi-year investigation concluded in November, the Commission decided to pursue collection of the unpaid taxes from Apple. Apple vowed to fight the action, and, paradoxically, Ireland also rejected the ruling, fearing that it might hurt its ability to attract future corporate investment. Apple’s tax sleight-of-hand hasn’t unduly tarnished the company’s
brand or reputation much thus far, although its share price fell 3% in the weeks leading up to the ruling.

However, Apple’s situation does highlight US corporations’ stockpiling of billions of foreign earnings in tax havens through a process known as deferral. US president-elect Donald Trump has promised to lower the US corporate tax rate from 35% to 15% to try to keep more earnings at home and repatriate some of the foreign earnings. Analysts are sceptical that this move, or even a lower-tax “holiday”, would do much to get the $2.6trn piled overseas back into the US Treasury’s coffers.

Ric Marshall, executive director and senior corporate governance analyst for MSCI’s ESG research division, says: “Companies with lots of cash tucked away overseas aren’t hurting for investment capital. The real impact is that there is less money going into the Treasury, which means less money for the business of the US government – less money for defence, for social programmes, or for infrastructure.”

**South Africa takes lead**

One piece of positive corporate governance news this last year was the release in early November in South Africa of the King IV code. King IV is the fourth in a series of these governance codes, started in 1994, to advance good corporate citizenship among South African companies. While the King IV principles are voluntary, they will come into effect in the middle of 2017 and are expected to elevate good governance further in boardrooms. The Institute of Directors
in Southern Africa (IoDSA) says King IV’s foundation stones are: ethical leadership, corporate citizenship, sustainable development, stakeholder inclusivity, integrated thinking and integrated reporting.

King IV is an outcomes-based system: rather than letting companies simply tick boxes, it asks companies to achieve the 16 principles set out in the code and also explain how they were achieved. A recent study by the Sustainability Accounting Standards Board found that while many corporations are disclosing social and environmental risk they are using vague language and not explaining in detail exactly how they are responding to risk.

King IV addresses corporations’ profit shifting and tax avoidance head on, according to global management firm Deloitte, by asking corporate boards to strike an important balance between aggressive tax strategies (like the type Apple pursued in Ireland) and shareholders’ expectations that tax costs are kept to a reasonable amount.

Johan Erasmus, director of the Deloitte SA Audit Technical team in Johannesburg, says King IV is globally significant because it has “elevated governance principles to a higher level”. King IV’s code may even have some impact on executive pay, because it directs companies to remunerate “fairly, responsibly, and transparently”, proposing that two company shareholders have a non-binding but advisory vote on pay policies.

Theresa May moves the needle

In the UK, the Institute of Business Ethics this year went so far as to recommend that cash be the sole currency for executive pay (instead of stock shares or options), while executive directors should, IBE says, also be required to use a portion of this cash salary to buy company shares and hold them for the long term, even after leaving the company. IBE had a further novel recommendation: that when bonuses paid to executive directors exceed a given proportion, say 25% of salary, all of a company’s employees should be automatically eligible for a bonus in the same proportion of salary as paid to the chief executive.
The new prime minister, Theresa May, flagged up corporate governance and fair taxation as priorities in her very first speech in July, promising to “make Britain a country that works not for a privileged few, but for every one of us”. In November, she followed up by publishing a green paper with proposals to reform the 2006 Companies Act to address, in particular, the yawning pay gap between executives and ordinary workers, though as GoodCorporation’s Michael Littlechild argued, the reforms will likely do little to shake up the C-suite.

There was other progress this year. A large group of financial companies led by Jamie Dimon, chief executive officer of JPMorgan Chase, created the Commonsense Principles of Corporate Governance; the World Economic Forum (WEF) released its vision of a new paradigm for corporate governance, including partnerships between companies and shareholders going forward; and the Business Roundtable updated its governance principles.

Martin Lipton, a mergers lawyer and founding partner at Wachtell, Lipton, Rosen & Katz in New York, says there will be a spotlight on more responsibility for corporate boards in 2017. Lipton, who drafted the WEF’s document, says short-termism has had undue influence on companies and they should be concentrating on long-term sustainability strategies.

The MSCI’s Marshall says governance is now inescapably on the radar of asset managers and shareholders. While this has developed over years, Marshall says new communication channels have opened up between companies and shareholders that are unlikely to be shut down completely by a more freewheeling business climate under a Donald Trump administration, or as a result of the UK’s Brexit vote. “We have observed considerable progress in effective engagement in communications between shareholders and companies,” Marshall says. While the new US administration may be talking about deregulation and rolling back on the 2010 Dodd-Frank reforms of financial regulation, Marshall added that Trump may not be able to take the business and investment communities with him.
Food waste

8. Closing the door on food waste

Angeli Mehta reports on how companies such as Tesco and Marks and Spencer are helping tackle an issue that rose up the global agenda this year

Food waste is what happens when supply exceeds need. “Every day, all of us are careful not to waste what we attribute value to, and yet we waste a lot of food,” observes Guido Barilla, chairman of the world’s largest pasta maker, Barilla. “This is not only due to logistics problems. The reason should be sought in a cultural change that has relegated a primary good, as food, to the role of a generic commodity.”

When Barilla examined its pasta supply chain it found less than 2% wasted in farming and production; but consumers wasted 12% of what they cooked.

In 2016, there has been a raft of reports, commitments and supply chain investigations, as well as some innovative means of putting waste to good use. But there are no reliable figures for farm waste, and a methodology for establishing manufacturing waste levels is an evolving art.

UK consumers are Europe’s most wasteful, but they and retailers are getting the message. The annual report from Wrap, the Waste and Resources Action Programme, suggests that avoidable household waste fell 21% between 2007 and 2012. So is this because less food is being bought? There’s no data. UK households were still throwing away 4.2 million tonnes of food that could have been eaten. Many say they would throw away less if they could buy smaller quantities. This is how the US firm Blue Apron can claim to cut waste by 62% compared to grocery shopping. It provides customers with only what’s needed for each recipe.
Labelling confusion
Understanding consumer behaviour will help retailers and their customers cut waste. Research by the Food Standards Agency earlier this year showed that consumer confusion about when food can safely be frozen, or for how long, means people are needlessly throwing out edible food. It also underlined the confusion between “best before” and “use by dates”, over which environmental campaigners have long been calling for clarity. As part of legislative proposals on the circular economy, the EU is considering options to simplify date marking and extend the list of foods that are exempt from best before labelling. It has commissioned research on the use of date marking, which is expected to be released by the end of next year, and will inform policy.

This will impact on how much waste supermarkets generate. Understandably much attention has focused on back of store waste, with 800,000 people across Europe signing a petition calling on Brussels to oblige supermarkets to donate unused food to charity. They want all member states to follow the example of France, which this year became the first country to prevent supermarkets from binning edible food. Instead they must donate to charities, which will disperse it through food banks.

Courtauld Commitment 2025
Efforts to similarly legislate in the UK came to naught, when a private member’s bill failed to get its second reading in January. However, food retailers have signed up to the Courtauld Commitment 2025. This is a voluntary agreement to cut food and drink waste – and associated greenhouse gas emissions – by a fifth by 2025. It will also tackle water use in the supply chain. M&S and Tesco also committed to nationwide roll-outs of food redistribution programmes, so all their UK stores can donate excess food to charity. A few manufacturers, including Associated British Foods and Premier Foods, have also signed up to the Courtauld Commitment. Feedback founder Tristram Stuart told the Environment Select Committee, which is currently investigating food waste, that more manufacturers would come on board if there was a national target for waste.
reduction, as there is in Scotland and the US. Indeed, last month, 15 major US food manufacturers including Kellogg, Campbell Soups and Unilever, committed to taking concrete steps to halve food loss and waste in their operations by 2030.

The Scottish government’s circular economy strategy aims to cut food waste by a third by 2025. When Zero Waste Scotland published the baseline figures on which progress will be measured, it looked as if manufacturing and households produced a similar proportion of Scotland’s food waste. This was in contrast to Wrap’s latest figures, which suggest UK households generate four times the proportion of food waste compared to manufacturing. While there are differences in the food and drink industry north of the border, the contrasting figures seem to be down to methodology. But it’s important, because knowing where the waste is generated influences policy.

Preventing abuse
The EU circular economy package, which is expected to have completed legislative hurdles by early 2018, will introduce a common methodology across Europe. But getting at the true picture in the supply chain will be key. MPs on the Environment Select Committee heard last month that work done by Wrap for Tesco revealed that just 1% of the food that can be redistributed is at the retail level.

Nor is there reliable data for hospitality supply chains, or for farm waste. Supermarkets stand accused of foisting their waste onto farmers when they cancel orders at the last minute – ostensibly on cosmetic grounds – when demand for a crop is lower than forecast. The government is now consulting on whether the remit of the Groceries Code Adjudicator (GCA) should be extended beyond direct suppliers of the 10 major supermarkets, to other suppliers and farmers, to prevent abuses.
Tesco, which became the first retailer to be investigated by the GCA, seems to have gone further than any other, by committing to whole-crop purchases of potatoes and bananas. It has also been trialling guarantees for fixed percentages of orders. For the past three years it has been disclosing the extent of waste in its UK operations, which crucially allows it to identify waste “hot spots” and make plans to eliminate them. No other major supermarket has followed suit, but perhaps that will change in 2017. Tesco is using a new waste reporting standard, launched globally this year, that is being adopted by many European and US food producers, which can only aid transparency.

Other incentives
Besides wielding a stick, France offers tax breaks for charitable donations of surplus food – worth 60% of a donation and capped at 0.5% of turnover. Indeed, an EU comparative study suggested tax breaks are the most effective incentive for food donation. Those tax breaks make it cheaper for firms to send food to charity rather than to anaerobic digesters, which produce energy. In the UK, the Renewable Heat Incentive has the perverse effect of encouraging farmers to send edible food down this route rather than to cut excess production. Ironically, the UK parliament has revealed that it sends all uneaten food to anaerobic digesters.

Some manufacturers are reporting progress in cutting waste, with sustainable uses being found for potato peelings and oat hulls, for example. The EU has just launched a forum to share best practice across Europe, which it believes will be a game changer. Certainly in the UK, 2017 is likely to see many more retailers and the big discounters redistribute surplus food. Campaigners hope the public pressure, which has been so effective at retail level, will see those supermarkets in turn exert a positive influence further up the supply chain.
Supply chain management

9. Big data comes to the supply chain

From monitoring palm oil plantations to cutting energy use in data centres, Ellen R Delisio looks at how companies are using IT to get a shop-floor view of their operations

While businesses have long used big data analytics to improve marketing and sales, 2016 saw an increasing use of big data analysis to manage issues in supply chains.

Data is growing globally at a rate of about 59% a year, and arriving faster, in larger quantities and covering more topics than ever before. Aiding the data flow is an anticipated growth in the number of satellites, now that Nasa and a handful of countries are not the only ones capable of launching them.

Big data has also become less exotic. Corporations are exploring how to use it to create products and services and are developing resources they need to apply it. Walmart, for example, collects and manages 2.5 petabytes, or 10 bytes, of data within an hour of a customer’s purchases.

In 2016, more companies have been focusing on putting big data to work with practices proven to generate return on investment through gains in productivity and revenue as well as decreased risk.

A survey of almost 1,200 professionals worldwide conducted by DNV GL this year indicated that 65% see big data playing a major role in the future of their companies and 76% expect to maintain or increase investments in big data. But with these opportunities come sticky issues, such as ensuring privacy and updating regulations, including the UK’s 1998 Data Protection Act.
In October, the UK government launched the All-Party Parliamentary Group on Data Analytics, with the aim of highlighting the opportunities big data offers, and keeping MPs apprised of developments, applications and issues such as securing sensitive information. The group plans to link the public and private sectors in an effort to craft more effective big data policies and research the best ways to develop data analysis skills.

**Data sharing**

In 2016, the non-profit sector faced its own obstacles to using big data. The NGO *Every Action* reported that while 87% of non-profit professionals see data as valuable to operations at their organisation, just 6% think the data is being used effectively. Building capacity to connect research with real-time operations is a goal for organisations such as Direct Relief, which supports healthcare providers and facilities. Part of the problem is that NGOs focus on one piece of the world; they deal with a niche problem and need a much larger data set to use big data effectively, said Andrew Schroeder, Direct Relief’s director of research and analysis. “So far it has been easier to do data work and response work in separate buckets; to connect those pieces together is a continuous challenge.”

The sector’s persistent data-sharing problem makes it hard to look at a bigger picture. “More of the NGO data systems should be automatic and automatically shared, with elective privacy based on certain information,” Schroeder said. “You don’t get to a big data view until you can share as much as possible right away.”
The most unique aspect of big data is its ability to provide immediate information for decision-making. As we reported in July, the influx of timely facts and figures is expected to alter, or even eliminate, annual sustainability reports in future. John Hsu, sustainability reporting data specialist at the Carbon Trust, said: “With big data, it is potentially possible to analyse every facet of a company’s sustainability performance in real time, which gives companies the opportunity not only to react in real time, but also to predict and pre-emptively counteract potential sustainability risks across the full breadth of its business, before it even occurs.”

**Disruptive technologies**

This year we saw big data analytics begin to have a major impact on supply chain management in the palm oil industry, with the launch of Global Forest Watch’s forest tracking system, which monitors deforestation worldwide. It can pinpoint where trees and peat have been cleared and burned to make way for palm. Information is available within days, instead of in a written report a year later, allowing companies to make rapid decisions. Users include NGOs and commodities, such as palm oils, soy and cattle. Global Forest Watch’s palm oil mill database now includes 1,000 mills. Companies could be buying from multiple mills, but the real-time data allows them to identify which ones are in violation of sustainability agreements by clearing more forests or burning peat.

Another source of big data, not without controversy, is artificial intelligence (AI). In November we reported on the claim by Mustafa Suleyman, co-founder of the UK AI start-up, DeepMind, that AI’s problem-solving power could be harnessed to address sustainability issues such as climate change, food waste and water shortages. The company, which was bought by Google, used its algorithms to reduce energy usage in Google’s data centres by 15%. Days later DeepMind signed a five-year contract with the UK’s National Health Service to provide an app that will allow doctors and nurses to identify patterns in patients’ blood test data and take potentially life-saving action.

John Elkington, chief pollinator at Volans, told the same conference that disruptive new technologies such as AI, machine-learning and drones hold amazing potential for sustainability, but they also hold perils. He gave the
example of the recent denial of service attacks, using dumb devices in homes to bring down much of America’s internet. Elkington said he found it troubling that “precariously few” sustainability professionals are engaged with disruptive new technologies at this formative moment, focusing on old technologies, such as oil and gas and chemicals.

**Digital revolution**

Tara Norton, managing director of Business for Social Responsibility, said 2016 has seen numerous existing IT systems providers, along with emerging technology companies, offering services to help companies manage big data and their supply chains. As demand grows, so will the availability of programmes to analyse data more quickly. But she said challenges remain in assessing big data deep into some supply chains, because smallholders, day labourers, and other less organised or less networked participants make digitalising information difficult.

Another key trend, said Norton, is that companies are actively looking for ways to replace at least a portion of their supply chain audits with other forms of real-time data, including data on worker voices, but also looking for ways to harness other data. “This seems to be mostly conversation at the moment.”

One thing UK companies will be watching next year is the implications of the shock referendum result in June for data protection regulation. As we reported here, in May the European Commission published details of its new rules governing data protection, which will apply from May 2018, and cover issues around consent, notification, privacy by design, the right to erasure, data portability, and liability for data processors. The new EU rules will increase fines for infringement from relatively low levels to maximums of up to €20,000,000 or 4% of worldwide turnover, depending on the offence. However, with the government looking to trigger Article 50 to begin negotiations to leave the EU next year, data regulation is just one of many important areas that have been thrown into uncertainty.
Sustainability reporting

10. SDGs begin to transform corporate reporting

Claire Manuel reports on how growing momentum towards making sustainable development a common framework for companies

Earlier this year, in its fifth annual monitoring and analysis of S&P 500 Index company reporting, the Governance & Accountability Institute (GAI) found that 81% of the companies included had published a sustainability or corporate responsibility report in 2015. Sustainability reporting has been gathering speed and momentum: in 2011, GAI put the figure at under 20%.

The Global Reporting Initiative (GRI), which provides the world’s most widely used standards on sustainability reporting and disclosure, says 92% of the G250 (the world’s largest 250 corporations) now report on their sustainability performance.

A number of established organisations, initiatives and frameworks exist to support and enable effective reporting, including CDP, the UN Global Compact (UNGC), the World Business Council for Sustainable Development and the Sustainability Accounting Standards Board (SASB). However, for the private sector to be able to align itself with the 2030 Sustainable Development Agenda, an over-arching, common framework is needed.

At the start of 2016, the World Economic Forum saw the launch of the Business and Sustainable Development Commission (BSDC). Its proposition: “Businesses that join global efforts to end extreme poverty and protect
the planet’s finite natural resources can reap great rewards and protect their long-term performance.”

The BSDC’s mission is to make the case for why business leaders should seize upon sustainable development as the “greatest opportunity of a lifetime” and to demonstrate how the Sustainable Development Goals (SDGs) provide the private sector with a framework for achieving this market shift.

The SDGs are set to transform corporate reporting, but it is a transformation that is likely to develop slowly. Adopted by UN resolution in September 2015, the SDGs are radical in their scope and ambition, articulating the interrelationships between social and environmental priorities. One of the most striking aspects of the goals is their universality: they apply to all countries and segments of society, including business.

“The SDGs lay out a significant role for business,” says Eric Hespenheide, the GRI’s interim chief executive. “This is new and of critical importance because we know that without concerted effort by the private sector we will exhaust the resources that drive our economies and create prosperity for us all.”

The 17 SDGs and their 169 targets allow companies to align their business activities with the goals, in a concrete way. “The SDGs present businesses with an excellent opportunity to get a better grip on their responsibilities,” says Hespenheide. “They provide a framework for the alignment of actions that collectively can help create the conditions necessary for sustainable development.”

It is in the interests of business to adopt the SDGs as a framework for reporting. As Malcolm Preston, global sustainability leader at PwC, told Ethical Corporation back in July: “As the governments of the world attempt to implement the SDGs, they will most certainly use levers such as subsidies, fines, regulations, taxes. If you don’t understand whether you are helping a country achieve its goals or hindering that country, you have no idea what that regulatory horizon will look like.”
In his speech at the Ethical Corporation Responsible Business Summit in June, PwC’s Preston said that aligning business strategy with the SDGs was not just about reducing risk; it was also about achieving competitive advantage.

Analysis undertaken earlier this year by Ethical Corporation into 21 CSR/sustainability reports showed that Ericsson, SABMiller, ARM and IKEA Group have so far done the most in terms of integrating the SDGs into their reporting.

“The SDGs provide a framework to move toward a more equal and sustainable world,” says Camilla Ohlsson, IKEA Group’s strategic communicator in group sustainability. “[They] should guide and inspire companies, not be seen as a box-ticking exercise.” However, she points out that many businesses still struggle to know what is the most relevant data to present in relation to the SDGs in their reporting.

But things are changing. At the UN Private Sector Forum in September, GRI and the UNGC launched SDG Leadership through Reporting, a new initiative to promote and advance corporate reporting on the SDGs. The two organisations will work together to develop a list of disclosures for tracking business contributions to the SDGs and will release a publication on SDG reporting.

The collaboration is aimed, says Hespenheide, at making SDG reporting accessible to all businesses, in particular SMEs. “We currently do not have appropriate means for measuring business contributions to all of the SDGs,” he says.

Another recent development is the GRI Sustainability Reporting Standards (GRI Standards), the first-ever global standard for sustainability reporting. Rather than merely providing guidance, the progression to standard means GRI’s reporting framework will be even more appropriate for businesses to use in the context of the SDGs.
“This will support responsible business practices through disclosure for thousands of organisations around the world,” said Lise Kingo, executive director of UNGC. Paul Druckman, former CEO of the International Integrated Reporting Council, commented: “A company’s natural and social capital provide an integral indication of its future success and past performance. The GRI Standards will ensure companies are able to report on their holistic performance, including in an integrated report.”

Human rights more challenging
When it comes to the environment, sustainability reporting is fairly straightforward, but effective disclosure on thornier subjects, such as human rights, is more complicated. “Environmental data is, for the most part numbers – it’s easy,” Joe Jones, principal sustainability consultant of SustainIT, told delegates at Ethical Corporation’s CR Reporting and Communications Summit in October. “When you start talking about qualitative rather than quantitative data it’s much harder to talk about that authentically as the data doesn’t lend itself to easy analysis.”

The UK Modern Slavery Act requires any company with a financial year ending on or after 31 March 2016 to publish a report on their efforts to prevent human trafficking and forced labour, while a new EU directive on non-financial reporting comes into force in 2017 that will expand the existing reporting rules to cover a range of ESG matters, human rights included.

This month, GRI and Centro Vincular-PUCV published a report titled Shining a light on human rights disclosure, a study of 464 sustainability reports...
published in 2015. It analyses how companies in the mining, energy and financial services sectors are reporting on their human rights performances. Results were mixed. Despite 87% of the 30 companies involved identifying human rights as a material issue, just 57% have human rights policies in place.

The study also revealed low reporting levels for specific disclosures on human rights across all three sectors (29%, 34% and 35% for financial, energy and mining, respectively), and just 30% of companies report on human rights impacts in their supply chains. On the positive side, from the qualitative study, 82% of the mining sector and 76% of the energy sector report on health and safety topics.

While corporate reporting on sustainability has come a long way, investors and customers are no longer prepared to accept greenwash, meaning companies need to provide evidence that they are embedding sustainability principles into their day-to-day operations. The SASB’s first annual State of Disclosure report, published this month, reviewed and analysed current sustainability disclosures from hundreds of SEC filings across every major industry.

On the surface, the finding that 81% of all disclosures show some level of sustainability disclosure is encouraging, in that it indicates recognition of the material impact of sustainability to their business. However, fewer than 24% of these disclosures contain metrics and more than 53% use boilerplate language, demonstrating that many companies take a minimally compliant approach to sustainability disclosure.

“Companies must improve the quality of these disclosures to improve their usefulness in investment decision-making,” says the SASB.

As GRI concluded in its December study, it’s clear that the journey towards full transparency is a long one. “It’s still early days and many businesses are still integrating the SDGs into their sustainability reporting,” says Hespenheide. Nevertheless, some companies in GRI’s GOLD Community are at the vanguard: Enel, CEMEX, CLP and Banco Galicia, to name only a few. “We expect that more and more companies will begin reporting against the SDGs in the years to come,” he says.
Deliver Social Purpose and Impact

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‘We have to champion the issues people care about’

John Morrison, head of the Institute for Human Rights and Business, tells Terry Slavin that companies and civil society have to come together to show disaffected people the world over that globalisation works

“We have really all failed, those of us who have been working in business and human rights for the past 15 years, to communicate the relevance of business to wider society.”

It is an admission that John Morrison, chief executive of the Institute for Human Rights and Business, made to the UK parliamentary Joint Committee on Human Rights in July, when it was investigating the UK’s progress in implementing the UN Guiding Principles on Business and Human Rights. June’s referendum for the UK to leave the European Union and November’s election of anti-globalisation champion Donald Trump as US president has only confirmed his view.

“A lot of people around the world are perceiving that globalisation has not been in their interests,” he said in an end-of-the-year interview with Ethical Corporation. He said the wave of protest that has seen the rise of politicians claiming to champion the marginalised is similar to the anti-globalisation protests that erupted in 1999-2000, particularly in North America, and gave rise to CSR initiatives such as the UN Global Compact. People are rebelling against big business and international trade, Morrison observes, “what we’d thought were inevitable parts of the architecture of how the world is.”
This is happening not only in the UK and US, he said, but in India, China and Turkey. “It’s everywhere you look. Human rights needs to reconnect with the issues people care about, like inequality of income, lack of good jobs, environmental degradation: lack of access to fundamental services. Even in OECD countries there’s a realisation that for the first time in 200-300 years our children will be poorer than we are. That is a huge psychological shift at a time when technology is taking away jobs through big data and artificial intelligence.”

**Tackling challenges together**

IHRB publishes an annual list of the **top 10 issues** that will shape the business and human rights agenda for the coming year. Morrison said this year’s list will see inequality, discrimination and access to resources re-emerge among the key priorities. Going forward, he said, business will need to pay more attention to the threat AI and big data pose for jobs, discrimination and privacy.

“These are systemic issues, which are some of the hardest issues for business to manage because they sit in their supply chain, linked to them, but outside of their direct control,” Morrison said. “These are no longer just audit or compliance issues. They become collective action challenges. If companies want to tackle these issues they must collaborate with their competitors and other actors if they are to have any impact at all.”

This is laid out in the UN Guiding Principles and other frameworks. He said companies can create a level playing field through pre-competitive work together, in the same way that academics will share data to open up a field of research before competing for funding. “If they don’t, they risk losing their social licence. The price of failing to manage these issues will increasingly be to lose their legitimacy to do business in the first place.”

The distinction between pre-competitive and anti-competitive is a very important one for Morrison. But asked about barriers to collaboration, such as the protection of intellectual property and anti-trust laws, he said it is a misconception that cross-industry approaches break any anti-trust norms.
when the issue at question is respecting internationally recognised human rights standards.

“It is an inhibitor [to business] because governments always say to businesses that they have to compete with each other. So it is a bigger ask now for governments to say, on these issues, like human rights due diligence, we want you to be collaborative and open about your knowing and your showing [that you are a responsible company]. It’s a complete change of mind set.” Morrison cites the multi-stakeholder covenants negotiated in a number of sectors by the Dutch and German governments as examples of this. The Netherlands, instead of going down the legislation route, has begun engaging leading stakeholders (companies, NGOs, trade unions) in a range of business sectors to agree sector-wide covenants to address human rights and other CSR risks. This year, two covenants were signed, for the garment and textile sector in March, and for the banking sector in October. Germany’s garment sector also recently reached a similar agreement.

**Stricter laws for business**

“It’s not just business itself deciding what the due diligence threshold should be, and the mitigation and prevention that should be there, but business sitting with their competitors and other stakeholders. That’s really smart. Even if it results in legislation eventually, it will be better legislation,” Morrison said.
But he added that the appetite of other governments to get involved with similar agreements may be limited. The Dutch government tried hard to get other EU member states to follow this approach when it held the presidency of the European Union earlier this year but we have yet to see much evidence of this, with the important exception of Germany.

He adds: “We’ve done it on health and safety and we are currently doing it around the world on anti-corruption measures. The difference is there are stronger laws on both while the legal framework on human rights is still emerging.” However, legislation in the US and UK to address human trafficking and forced labour are evidence that harder law on business and human rights is coming within some jurisdictions. The mandatory human rights due diligence law in France might still become law early in 2017, and the 6,000 largest EU companies will soon have to report under the EU’s non-financial reporting requirement.

**China and human rights**

Asked about progress in China, Morrison said that despite some improvement in labour standards over the past 10 to 15 years, the domestic context is still challenging for human rights defenders. In third-world countries where Chinese companies operate, however, there is a growing awareness of the need to have a social licence to operate. He said this is particularly obvious among Chinese companies in countries such as Myanmar, which have seen their market dominance diminish since the country began opening up to wider investment in 2010.

“In today’s world of smartphones and social media, there are few places in the world where people won’t mobilise [against business] now,” Morrison said. “You don’t necessarily have to have western-style democracy and a completely free press. It means business and human rights are potentially relevant everywhere in a way they never were before. But we’ve talked to
ourselves in a bubble for a long time, developing standards at the UN and OECD.” While these standards are important, he said, “The challenge now is to show the world these things have value in the lives of real people. But we’re early in that journey, to be honest.”

He said that despite the strides made by the garment industry after the 2013 Rana Plaza disaster in Bangladesh, there is still a deficit of consumer trust. Some companies still struggle to shed legacy reputational issues despite their work on tackling human rights over the past five years. “There hasn’t been a statute of limitations on businesses for mistakes they’ve made, though in reality the businesses that have done the most on human rights are those that have made mistakes and learned from them.”

**Personal data and consent**

He said that was one of the reasons IHRB got involved in the Corporate Human Rights Benchmark, a multi-stakeholder initiative with Aviva, Calvert Investments, the Business and Human Rights Resource Centre, VBDO (the Dutch Association of Investors for Sustainable Development), APG, Nordea and Vigeo Eiris, which will ultimately rank the top 500 companies in a number of sectors on their human rights performance. The first pilot benchmark, for the top 100 agricultural products, apparel and extractives industries, will be published early next year.

“We wanted to assess performance across the top 500 publically listed companies of the world so we can move towards a more objective understanding of where business is on human rights. At the moment, it’s still way too subjective.”

Asked what he sees as upcoming issues for 2017, he said the issue of consent, important in the context of land rights, particularly for indigenous people, is equally relevant to the virtual terrain of the internet. He expects a big backlash in the next few years from consumers against things like store loyalty cards.
“The issue of data and consent and the little boxes we tick every time we hand over our data to companies. Is that informed consent or is it tacit consent?” he says. “There’s a sleeping time bomb for every consumer-facing company. I don’t think 99% of consumers have any idea of how their data is being used and will be used in future as machines talk to machines and algorithms shape the way we live.”

“I think there will be a real reawakening of why privacy is a human right. Most people don’t understand why privacy matters to anyone else but politicians or celebrities, but that perception will shift.”

Globalisation
More immediately, though, the implications of rising nationalist sentiment, and the backlash against globalisation, which is where we started our interview, has to be the biggest story of 2016 and will dominate 2017, Morrison said.

“I don’t think it’s good for the business or human rights movement. But ironically, defending against that means that business and NGOs have more in common than ever before,” Morrison said. This has made for some unusual bedfellows, he noted, and gave the example of Human Rights Watch and Coca-Cola, “which are used to throwing press releases at each other over many years on the issues of Fifa”. Lately, they’ve been sitting together on a platform that IHRB facilitates advocating for change in global sport.

“That is being replicated across a whole range of issues,” Morrison said. “If we are interested in an international rules-based system on human rights or trade, even rule of law, as businesses and civil society actors, we have to come together to defend them.”

Doing the right thing pays

Liam Dowd sums up the takeaways from Ethical Corporation’s Responsible Business Summits in London, New York and Singapore

For the first time in Ethical Corporation’s history, we took our Responsible Business Summit series to three separate continents, with the events – in New York, Singapore, and finally, London – taking place over the course of three months.

Throughout these three summits we hosted more than 100 expert speakers and 700 delegates from a broad spectrum of global brands, consultants and service providers, NGOs and government agencies, and leading academics from the field of corporate responsibility.

They were treated to a wealth of lessons and case studies about how business is facing up to the key global sustainability challenges of today. These range from climate change and environmental degradation, to social inequality and human rights, and are all encapsulated by the parameters of the Sustainable Development Goals (SDGs).

Our global events also crucially demonstrated that businesses no longer consider these efforts as a sideshow to maximising profit. Instead, businesses of all shapes and sizes – from the innovative and nimble start-ups to the Timberlands and Telefonicas of this world – are putting this social and environmental purpose at the very core of their business strategy, and are delivering a positive impact to a wide range of stakeholders.

They are also increasingly able to demonstrate that putting responsibility and sustainability at the heart of their business makes great business sense. The

‘Businesses that do good as part of their business strategy ultimately do better and survive longer’
former CEO of Telefonica UK O2, Ronan Dunne, expressed his belief that “businesses that do good as part of their business strategy ultimately do better, and businesses that do better survive longer.” While Bloomberg’s head of sustainable business programmes, Lee Ballin, referred to a saying often used within his team that corporate social responsibility should really be called corporate social opportunity.

Eileen Howard Boone, senior vice president for corporate social responsibility and philanthropy at CVS Health, explained that purpose was a key factor in the company dropping tobacco products from its stores, in spite of the prospect of losing out on as much as $2bn in sales per year. Meanwhile Craig Kreeger, CEO of Virgin Atlantic Airways, argued that customers now expect major brands to be making progress on sustainability, adding: “I like to think that our customers know we’re going to have their back; if they’re committed to being a better global citizen, they can trust us to do the same thing.”

**Putting responsibility first**

According to Marks and Spencer’s director of Plan A, Mike Barry, it’s important to build capacity and skills across the organisation to deal with issues that would previously have been the sole remit of the sustainability department. In a virtuous circle, a strong and demonstrable commitment to responsible business will help a company to attract and retain the best talent, especially as more millennials enter the workforce. Dunne argued: “If you can attract and retain the best talent, and align that talent to purpose, then you have the key ingredients to a successful business.”

As various executives stated across the three events, trust and reputation are essential to earning the social licence to operate. However, in today’s increasingly connected and digitalised world, reputations that take years to build up can be lost in an instant. Paul Drechsler, president of the Confederation of British Industry, warned: “It takes a long time to earn trust, and the only way you earn it is through the way you behave.”

Because of this, the behaviour and tone of senior executives is crucial to ensuring that the rest of the business plays ball. However, as Arvind Limited’s executive director, Punit Lalbhai, explained, “It’s not enough to have a top-down
directive; one needs to have bottom-up champions” in order to drive positive change throughout the organisation.

The top takeaway was that it pays to be honest and open, even if this can be painful and humbling in the short term. Bas van Abel, CEO of Fairphone, a social enterprise company that aims to develop smartphones with minimal harm to people and the planet, claimed that “one of the best things you can do to gain trust is to show your vulnerability as a company”, beginning with the acceptance that the “glossy and shiny” presentation of a product is not the full story. Customers expect companies to be honest about their failings, rather than divert attention to other successes. Patagonia’s vice president of public engagement, Rick Ridgeway, said: “Our definition of transparency with our customers and our stakeholders is to openly tell everybody what we’re doing that is good, and to ‘fess up where we’re falling short and causing harm. That creates trust.”

**Engaging with stakeholders**

Numerous speakers were keen to emphasise that businesses should cast a wide net when assessing who to engage as their stakeholders. Elizabeth Uhlhorn, sustainability project manager at the Dow Chemical Company, said that Dow has made nature a stakeholder, while The Nature Conservancy’s Ben Packard added that children should be seen as one of the most important stakeholder groups, considering that one of the top motivations for pursuing sustainability is to leave behind a better society and planet for the next generation.

When it comes to engaging with stakeholders on sustainability, Interface’s president and CEO for Asia Pacific, Rob Coombs, posed the question: “How do you get inspired by a negative message?” ICTI CARE’s CEO, Carmel Giblin, warned that there was an urgent need to make sustainability more appealing and accessible to a wider audience.

Neill Duffy, chairman of the Super Bowl 50 Host Committee, based in San Francisco, gave a fantastic case study on using a major sporting and cultural event to get as many stakeholders as possible to engage in key sustainability initiatives and become ‘ambassadors’. “People want to be engaged in sustaina-
bility, and they want to have an opportunity,” Duffy explained. “You just need to make it easy for them”. Businesses will not address global sustainability challenges by simply lecturing consumers on the merits and necessities of living more sustainably.

Betsy Henning, CEO and Founder of AHA, stressed that sustainability communications should be written as if for an audience of 13-year-olds. This is because they will make it very clear if they are bored, Henning argued. “They will give you very accurate and honest cues about your story.”

Unilever’s Sarah McDonald noted that although a 2015 study by Nielsen found that 66% of consumers are willing to pay more for sustainable products, too often this doesn’t translate into action.

If a business is stuck on how it can encourage more responsible behaviour, it should consider its own marketing department. Several speakers, including Lucy Carver, director of Sky’s Bigger Picture sustainability programme, stated that sustainability folk also need to think like marketeers in order to fulfil their roles as change agents and communicators.

Competitive collaboration
The SDGs are an all-encompassing blueprint for global development, but addressing them and other sustainability challenges will be impossible without multi-sector collaboration. Chris Librie observed: “No one person, company, organisation or government can solve all the world’s problems alone; but together we can create transformative solutions that radically accelerate human, economic and environmental progress to the benefit of all.”

Businesses should be prepared to establish partnerships with other organisations, including their own competitors. Tim Mohin used the term “collaboretition” to describe the concept of competitive collaboration, where different businesses work together on a given sustainability challenge, before one decides to break rank and “go above and beyond and lead on that issue”. There are many examples of such successful industry-wide coalitions, such as the Sustainable Apparel Coalition and the Electronic Industry Citizenship Coalition.

However, collaboration should always be about driving positive change. As Ronan Dunne warned: “Responsible business should be about working with
others collaboratively to create an ecosystem in which everybody benefits, rather than simply saying “look at me!”

Collaboration also stretches to a company’s own supply chain, and there was evidence of a welcome shift towards companies working with their suppliers and helping those that are failing to comply with social and environmental standards. HP Inc, BT and AkzoNobel were among those that shared insights as to how they are doing this and ICTI CARE’s Carmel Giblin stressed that auditing suppliers on their social and environmental responsibility performance “is absolutely pointless unless you’re going to do something with the results of the audit.”

The importance of treating suppliers as equal partners should not be underestimated. Jeremy Rowe, managing director of decorative paints at AkzoNobel, said: “Our largest footprint is with our suppliers, so how we use and work with them is of critical importance.”

Looking to the future
The rise of big data, AI and the digital economy are transforming the business landscape, and offering both opportunities and risks. Dunne of Telefonica spoke about these implications, but commented that while we are seeing “the front of the digital revolution” we have yet to embrace “the fundamental, societal and behavioural change that will be driven by it”. Furthermore, he warned that: “the early implications of going digital in most businesses has been to simply digitise an analogue activity. That’s simply not a digital revolution.”

City Development Limited’s Esther An underlined the importance of innovation, stating that if a company is unable to meet the rising demand, “you risk losing customers, and if you lose customers, you lose your competitive edge.”

One of the best demonstrations of leveraging innovative new technologies to meet key sustainability challenges is through the circular economy. There were several noteworthy examples this, from start-up Kusaga Athletic, whose CEO, Graham Ross, highlighted the importance of “an open and collaborative approach”, to HP Inc. Its CSR director, Kirstie McIntyre, explained that HP is using the circular economy to create new business models that help manage supply chain risks, such as its Instant Ink printer cartridge subscription service.
Finally, across the three events there was plenty of discussion around the legacy of the two landmark sustainability events of 2015: the signing of the new set of Sustainable Development Goals, and the historic COP21 climate summit that resulted in the Paris Agreement.

Valerie Smith, director of corporate sustainability at Citi, argued that the SDGs represent a chance for businesses to examine how their sustainability priorities align with the new goals, as well as build new partnerships. “Creating spaces to bring together different parties that aren’t used to problem-solving together could end up being one of the most important legacies of the SDGs,” she said.

However, Samantha Putt Del Pino, director of sustainable business initiatives at the World Resources Institute, emphasised that this opportunity for companies to reframe their approach calls for more than just business as usual. “If in 15 years’ time all we are able to say is that companies have taken what they were doing anyway and mapped it to the SDGs, then we won’t have made enough progress,” she argued.

PwC’s Malcolm Preston gave a detailed presentation on the business case for getting on board with the SDGs, and added that “the tools are being developed that allow companies to start engaging on this subject and deal with some of its complexity”. He also suggested that businesses should count government as a key stakeholder in their work on the SDGs, saying: “Those companies that understand whether they are helping or hindering a government achieve its goals, and therefore know where the regulation’s likely to come, will be ahead of the curve and get competitive advantage.”

While 2015 delivered two promising results for the CSR profession, 2016 could be said to have delivered two negative results in the shape of the Brexit referendum and Trump election. Next year may start with more uncertainty than 2016, but one thing is for certain: businesses can and should be the driving force to ensure the work towards the SDGs and Paris Agreement increases in momentum. As we learned from the speakers at our conferences this year, a responsible strategy that delivers purpose and impact will not only improve society and the environment, it will also help create a competitive edge and drive more business.
Nine reasons to be cheerful about 2017

Species loss, Brexit, a climate change denier on his way to the White House – 2016 has been a tough year. But Peter Knight sees some glimmers of hope.

Here are nine positive thoughts to help you escape the Sturm und Drang of 2016, the hottest year on record.

1. **Rowing in reverse.** Donald Trump started rowing back the day after his unexpected win. After hating every aspect of Obamacare while on the campaign trail, he then said he would retain certain elements. And he wouldn’t lock up Hillary because he had more important things to do. By the time you read this, there will be more examples of furious back-rowing as Trump faces the practical difficulties of meeting his many rash promises.

2. **Denial is not the new black.** It’s difficult to make things happen, especially in a complex political world. Will Trump succeed in “cancelling” the Paris Agreement? Maybe the US will withdraw from the process, but that will only allow China to hold the high moral ground. This would not do for the competitive Trump who claims that climate change is a Chinese hoax. The UN process continues, with or without the US. And most US firms have made commitments to a low-carbon future, as have some US states. Denial is not (yet) the new black.

3. **Friendly tech is on the march.** There’s real momentum behind technology, especially in artificial intelligence and data analysis. This is good...
news for habitats and biodiversity and bad news for poverty. The benefits can already be seen in satellite monitoring of forest loss in real time, which enables officials to take quick action to prevent illegal logging, forest burning and land conversion. Furthermore, data analysis can identify quickly where and when to provide short- and long-term aid that can buoy communities and prevent mass migration.

4. **Coal rehabilitation could bring unexpected benefits.** Renewed mining for coal in the US (promoted by Trump) would be bad news for the Appalachian mountains (because of mountain top removal) but it could be good news for air quality in poor countries. Ridiculous? Consider this. Coal was becoming a fuel mainly used in developing parts of the world, like China and India. That’s where the air quality is bad, and the poor, who need the electricity, suffer the most from pollution. Could the rehabilitation of coal advance clean-burn technology, making clean coal a reality rather than pure PR spin? And while the techies are perfecting the clean coal, could they solve some of the cost hurdles of carbon capture? Now there’s a geeky but positive thought.

5. **Collaborating with civil society.** To solve their own problems, big companies are starting to think creatively about how they collaborate better with that strange beast called civil society. Consider this, the chocolate industry is under enormous pressure from rocketing demand for its product and diminishing supply of high-quality cocoa beans, its main ingredient. Given that most cocoa is grown by poor smallholders in a narrow tropical belt, it’s impossible to simply crank up supply. A combination of better plants, agricultural practices and the modernisation of the social order is needed to boost production. One of the prime winners will be women who have been condemned to a life not much better than family slaves. Their enterprise is needed to boost production. That’s why the industry is collaborating with social NGOs who are working to empower women (and persuade the men that it’s in their best interest to let the women prosper).

6. **Smart green tech.** Digital technology has done nothing to promote sustainability – yet. But the potential is there to bring about collabora-
tive working and the dematerialisation of our everyday lives. We just need to replace old policies with those better tuned to exploit the potential benefits of the new technologies. Time to get political.

7. **Back-against-the-wall ingenuity.** There is nothing more positive than caring people caught in a tight squeeze. Those who have made it their life’s work to protect animals, especially big romantic ones such as elephants and rhinos, have had an especially disappointing 2016. And it is indeed very difficult to imagine a better 2017 for these majestic beasts and their protectors. But influential figures, such as the UK royal family, are getting involved while the commoners demonstrate their ingenuity. For example, rhino horns are being replaced with prosthetics to make the animals unattractive to poachers. And bees, which terrify elephants, are being used in Africa to keep plundering beasts away from smallholders’ fields, reducing the conflict between man and animal. But what’s really needed is a cut in demand for animal products and we can take hope from the shifting world order – read on.

8. **New world order.** As the US retreats behind its walls, fences and non-trade deals, China is emerging as a world leader. It has already called on the US to maintain its commitment to the Paris Agreement and – here’s a thought – could easily cut the demand for ivory and other animal products if it thought this would boost its global reputation. Such a move would end the stupid, destructive trade in ivory and rhino horn. Let’s pray.

9. **Millennials getting mad and getting off the couch.** Probably the most exciting consequence of Brexit and Trump is the politicisation of the formerly apathetic social media generation. On discovering that their futures were effectively stolen by the wily, voting oldies, millennials are now getting involved in the democratic process. Millennials are as mad as hell and look set to start swiping left and right in the ballot box.

Naïve? Perhaps. But it’s always better to live in hope. Smiley face!

There is some progress on protecting elephants

Peter Knight is chairman of The Context Group. [www.contextsustainability.com](http://www.contextsustainability.com)
@peterknight
If 2016 has taught us anything, it’s the illusionary nature of permanence. Jobs for life, lifetime guarantees, five-year plans: forget it. Tomorrow will not be like today. Business managers, it’s a topsy-turvy world out there. Best believe it, expect it, prepare for it.

Step forward resilience theorists. “Not a month goes by that we don’t see some kind of disturbance to the normal flow of life somewhere,” writes Judith Rodin, a leading light of the movement. Behind her list of immediate surprises (think cyber-attacks, Zika, Trump) lie three unsettling mega-trends: rapid urbanisation, climate change and globalisation. No doubt others could be added, but the point remains the same: the world feels out of kilter.

First proposed in the 1970s (Holling, 1973), resilience theory has enjoyed a renaissance over recent years. The social science research network boasts more than 200 academic papers on the theme over the last year alone – and that’s just in the fields of economics and sustainability.

Looking back on the year just gone, it’s little wonder. Here is a theory that focuses squarely on the “ability of a system to absorb disturbances and still retain its basic function and structure” (Walker and Salt, 2006). In short, exactly what everyone – from chief executives down to share-price dependent pensioners – wants from the corporate sector right now.

Resilience is not about reinvention or revolution, two common responses to change. It’s about systems thinking, and it’s about persistence. Firstly, systems. Resilience theory owes its origins to scholars of ecology, a fundamental tenet of which is the interdependence of the human and biophysical domains. To cite Folke and friends (2002), sensu ampolo, modern man doesn’t run the show. Natural and social systems respond of their own accord, in ways neither linear nor controllable. (Note: don’t mistake uncontrollable for uncontrolled; systems have their own logic and inter-relations; complex and difficult to decipher though these might be).
Flexibility endures

Hence, point two: the need to persist. Think of corporations as ships on the choppy waves of an ever-changing, constantly evolving socio-ecological sea. Doomed are managerial efforts to either calm the sea or battle against it. Far better to design your ship and set a course in light of the prevailing conditions. Short-term flexibility (or “absorptive capacity”, as Resistance Theory puts it) is the surest route to a long-term destination.

The greater the capacity of a corporation to self-organise (and thereby shift trajectory when required), the more likely it is to persist and succeed. Self-organisation, in turn, requires businesses to be polycentric (ie not command-and-control) and multi-layered. A second key attribute of the resilient company is its capacity to learn and adapt. The watchwords here are participation and collaboration: to be networked is to be not-caught-out.

The difference between resilient and non-resilient institutions is evident in their respective governance systems. As Umberto Pisano (2014) elucidates, the latter are characterised by, among other facets: a focus on fixed targets, model-based management plans, institutional homogeneity and multilevel governance for legitimacy’s sake alone. The resilient company, in contrast, views policies as hypotheses and management as experimentation; promotes diversity as a means to innovation; and orientates its strategies first and foremost with uncertainty and complexity.

Re-thinking behaviour

So how does resilience theory feed into corporate sustainability management? Two contributions stand out. First is its open-ended nature. Achieving resilience is a never-ending process of adaptation and transformation. To find order in a disordered world requires a constant (yet consistently managed) reordering of thinking and behaviour, policy and practice. Second is the theory’s open-armed essence. To cite a recent PwC report on the subject, “because these [non-financial] risks are difficult to predict, resilience can’t be achieved if risk is managed in silos.”
The two are not synonyms, however. John Elkington, business guru, says: sustainability is about wider system conditions; resilience is about how to cope when those conditions go awry. Put differently, resilience is less about fixing the world’s problems and more about learning to live with them. Part of that learning is around visualisation. Whether it is sophisticated data modelling or scenario planning, a resilience mindset can and should make risk management more creative and more robust.

In every crisis hides an opportunity, the saying goes. Resilience theorists have done much to show companies how to keep from sinking beneath the sea or crashing against the rocks. The next challenge is to demonstrate how to ride the crest of the waves, not just survive the storm. To do so will require some flexible thinking. But who better to ask than the prophets of adaptability?

Further reading

An unlikely alliance that is helping people and oceans

Dr Nick Hill of the Zoological Society of London looks at how the Net-Works partnership with carpet maker Interface, judged best company in Ethical Corporation’s awards this year, is empowering fishing communities to protect marine biodiversity.

It is a warm, humid afternoon in Guidacpan, a small island in the Philippines. Down by the beach, fishermen count up the day’s catch and local children kick a well-worn football around. In a wooden shelter nearby, a group of men and women are meeting. A woman called Olivia claps her hands to get attention. “Last topic for today: team t-shirts. We know a local guy who can print them, but how should we pay?” Her colleague Ricardo answers: “How about we take 2,000 pesos [£32] from the group’s savings and top this up with 200 pesos from each individual? That will give us the amount we need.” Heads nod. “Great,” says Olivia, “that’s settled.”

Olivia, Ricardo, and the rest of the group are members of the Guidacpan Savers Association, a local community bank set up as part of a programme called Net-Works – a partnership between the international conservation charity Zoological Society of London, where I work, and carpet tile manufacturer Interface. We may seem like an unlikely pair, but ZSL’s conservation expertise and community organising, together with Interface’s business acumen and global network, has proven to be a winning combination.
Net-Works empowers people in coastal communities in the developing world to collect and sell discarded nylon fishing nets, removing these nets from the ocean, where they wreak havoc with marine life. The nets are then sold into a global supply chain and recycled into yarn to make carpet tile. Net-Works has been running since 2012 in the Philippines, and in 2015 it expanded to fishing communities in Cameroon. There are now 35 communities participating in the programme and together they have gathered more than 100 tonnes of waste nets for recycling – enough to go around the world twice.

Community banks are the foundation of the Net-Works model. Run by the community, they provide access to finance in a way that is convenient and local, enabling people to save money, including their earnings from net collection, and take out small loans. The banks also manage the local net supply chain: organising beach clean-ups and facilitating sales transactions. Since 2012, more than 40 community banks have been set up, with at least 900 families gaining access to finance and 60,000 people benefiting from a cleaner environment.

The conversation about the t-shirts took place the first time I took my boss to the Philippines to see Net-Works in action. After the meeting she came over and asked whether we should offer to pay for the t-shirts outright. “Definitely not!” I said. I’m no miser but I felt it was important that the group felt a sense of ownership over their decision about how to invest their money. In my view, this small step of financial autonomy for the Net-Works community represented a giant leap for conservation and development.

Conservation has a long history of dependency on financial aid. Unsurprisingly, people in poor communities have come to expect handouts from foreigners and non-governmental organisations. This in turn has often served to reinforce the aid dependency and lock communities into a poverty trap. Ultimately, this cycle is in no one’s interests. As conservation professionals, we...
should be aiming to use donor funding wisely to create sustainable solutions that only need external funding for a finite period.

The Net-Works model, based on the infrastructure of local community banks, is one such solution. Team t-shirts will not be what enable these communities to protect their marine resources, but what the t-shirt story shows is the sense of empowerment they feel. I have seen first-hand how the confidence of Net-Works community groups grows with every decision they take.

And the decisions go far beyond t-shirts. For example, some groups have made it a requirement of their members to join a beach clean-up every other week, to tackle the problem of waste nets. They fine members who don’t turn up, and have written these fines into their own constitutions. They have also created benefit-sharing arrangements for distributing the income received from the beach clean. So they have both a carrot and a stick.

More recently I have been inspired to see groups establishing their own environment funds. Each member agrees to make a small contribution to the fund each week, used to support vital community-managed conservation activities, such as restoring and protecting mangrove forests, which absorb carbon and provide a natural defence against storm surges. It’s mechanisms like these that create the social structures and drive the behaviour change that is necessary to protect global biodiversity.

Inspired by our partner communities, we at ZSL and Interface are also thinking about bigger and bolder ambitions for Net-Works. We are looking at expanding the community-level supply chain to include other products and services. Communities would then have multiple ways to generate supplemental income and could afford to pay for technical support from trained conservation professionals to ensure optimal conservation benefits and learning.

This would remove the need for ongoing donor funding, and offer a truly scalable, financially sustainable solution. It would empower communities to take control of their own environment, and potentially change the face of marine conservation, forever. Now that would be exciting.
Corporate Social Responsibility 2016

FrieslandCampina skims over tough questions

By Frances Owen

It will take more than some problematic poo power projects to tackle the dairy industry’s environmental issues

The world just can’t get enough of dairy. By 2050, consumption of milk products is set to rise by 65%, driven by the lactose-loving, fast-expanding global middle class.

That’s good for dairy farmers, but the industry has a dark side. The agricultural sector accounts for nearly a quarter of worldwide greenhouse gas emissions, 14.5% of them from livestock. Dairy also has its detractors. The rise of veganism, while largely about health and animal welfare, is in part due to people’s desire to reduce their environmental footprint. The global market for milk alternatives such as almond, coconut, soy and pea, is projected to reach more than $10bn a year by 2019.

The dairy industry cannot skim over these challenges. Reducing environmental impacts is critical to its survival and growth in a changing climate. FrieslandCampina is one of the largest dairy co-operatives in the world, with an annual revenue of €11.3bn and 19,000 member farmers in Belgium, Germany and the Netherlands. The co-op’s main production is in Holland, where dairy products are not only staple foods but national symbols, and an engine of the economy.

But the industry’s environmental impacts leave a sour taste. Agriculture accounts for 10% of the Netherlands’ greenhouse emissions, most of it methane from its 1.7 million cows. Water pollution is a problem too. Around 74 million tonnes of manure is produced a year, containing phosphates and nitrates that leach into water. In excessive amounts, these chemicals cause algal blooms and starve aquatic life of oxygen. In 2015, the Netherlands shipped manure to Poland, Germany and Hungary but still exceeded its EU phosphate limits.

In the same year, FrieslandCampina updated its sustainability strategy, called Route2020. The cooperative identified three global challenges: a growing world population; enough farmers to grow food; and climate change, causing a scarcity of natural resources. These influenced the selection of its three CSR pillars: nutrition, farmer livelihoods and sustainable production chains.

It’s an admirable strategy and provides us with an understanding of the big issues facing the dairy industry. But does the group propose any solutions to
the challenges? Its 2016 CSR report offers limited insights, but the company’s website provides useful information.

Readers learn that FrieslandCampina launched a “poo power” project in 2016, aiming to work with a thousand Dutch farms to convert manure into biogas using anaerobic digesters. Jumpstart, a cooperative established by FrieslandCampina, helps farmers with the financing, construction and maintenance of the digesters. Farmers can use the energy themselves and sell excess production at a fixed price. The Dutch government has committed €150m worth of subsidies to ensure farmers receive a guaranteed payment for the energy they generate. As well as slashing methane emissions, the project will contribute to the Netherlands’ 2020 renewable energy target.

**Ambitious challenges**

But poo is proving problematic and the project is not paying its way. While fossil fuels are cheap, the cost of installing and running the digesters is high, providing little incentive for farmers to buy in. If FrieslandCampina is serious about cutting the crap, the scheme must become profitable. A move towards larger, centralised digesters and smarter technology on farms may be one way to do this.

Maybe the co-op will find imaginative ways to get the costs under control and inspire the farmers, as it has done with consumers. To demonstrate its commitment to sustainable production chains, FrieslandCampina gave its customers a taste of farm life without them having to set foot in a field.

The cooperative partnered with the largest Dutch supermarket chain, Albert Heijn, to show shoppers the world of a dairy farmer through virtual reality (VR). Using VR glasses, customers could experience the entire production process from grass to glass by means of a 360° film, helping them understand where their milk comes from.

The co-op’s CSR strategy is straightforward, and its ambition to help solve three huge global challenges is commendable. Mapping their strategy to the global challenges shows commitment and clarity. But there are some big cows in the room. FrieslandCampina’s 2016 update fails to address key questions. How does it plan to tackle climate change while meeting growing dairy demands? What is its position on sustainable consumption? How will it ensure a good living for farmers if the price of milk continues to drop?

The cooperative’s glossy but vague update makes its CSR efforts seem tokenistic. Take poo power: while the project will help to reduce emissions, it does not deal explicitly with pollution from manure.

In general, FrieslandCampina’s update deals with a handful of cherry-picked sustainability issues while ignoring other more pressing problems. This leaves the reader wondering – perhaps unnecessarily – how seriously the co-op takes its commitment to tackling global challenges at home.
Appointments of the month: Timothy J. Mohin

Timothy J. Mohin will become the new chief executive of the Global Reporting Initiative (GRI) in January. Mohin, a well-known sustainability practitioner, advocate and author, succeeds Eric Hespenheide, who has led GRI for the last six months on an interim basis.

Mohin has extensive experience with global sustainability, having held leadership positions at several of the world’s largest companies (Advanced Micro Devices, Intel and Apple). He has also worked in the sustainability field at both the US Environmental Protection Agency and the United States Senate.

On the appointment, Christianna Wood, chairman of the GRI board of directors, said: “Tim Mohin is the perfect person to lead GRI into the future. His extensive background in corporate sustainability reporting, commitment to our multi-stakeholder process and his understanding of GRI’s Global Sustainability Reporting Standards (GRI Standards) makes him an ideal fit.”

“Sustainability is my cause,” said Mohin, “and I firmly believe that GRI Standards will help improve the world around us. I am eager to work with, and learn from, all stakeholders to help lead GRI’s future.”

Katharine Tapley is the new head of sustainable finance solutions, loans & specialised finance at Australia and New Zealand Banking Group (ANZ). Tapley joined ANZ in 2001 and has been a senior member of the sustainable finance solutions team since its formation in 2014.

New York Mayor Bill de Blasio has appointed Mark Chambers as director of the Mayor’s Office of Sustainability. Chambers most recently served as the director of sustainability and energy for the government of the District of Columbia.

Jan Gooding joins insurance firm Aviva in January, as global inclusion director. She was previously with British Gas.

The African Development Bank Group has hired Jennifer Blanke as vice-president agriculture, human and social development. Blanke, a renowned development economist, is currently chief economist and member of the executive committee of the World Economic Forum.

UK investment trust Impax Environmental Markets has appointed Aine Kelly as a director. Kelly is an independent consultant specialising in impact investing.

Australian ESG research house CAER has named Julia Leske as CEO. Leske has worked with CAER for almost a decade, most recently as business development manager.
**People on the move**

**Mahesh Ramanujam** is the new president and CEO of the US Green Building Council (USGBC) and Green Business Certification Inc. (GBCI). Ramanujam, who started out as a senior software engineer, joined USGBC in 2009 and served as chief information officer before becoming chief operating officer. In 2012, he was also named president of GBCI. Prior to joining USGBC, Ramanujam was COO of Emergys, a business technology-consulting firm in North Carolina.

“My passion for sustainability is a reflection of the culture in which I was raised growing up in India,” says Ramanujam, a native of Chennai. “We had to do more with less and I saw first-hand how communities can be transformed through meaningful investments and true sustainability.”

Ramanujam believes that the USGBC was established to make a difference. “That’s why it’s not just a job for me, it’s a commitment to both making the world a better place and influencing others to do better,” he explains. “In my new role, I will continue to foster that mindset as we enter a new era by implementing technologies and strategies that will continue to revolutionise the built environment.”

**Paul Druckman** has been appointed to the board of the Financial Reporting Council. He led the International Integrated Reporting Council as CEO for five years and is chairman of The Clear Group, an independent UK insurance broker.

**The International Tropical Timber Organization** has appointed **Gerhard Dieterle** as its new executive director. Dieterle, who is currently with the World Bank, has 35 years of experience in national and international forest policies, environmental and development policies, sustainable forest management, landscape management and conservation.

**Emma Hunt** has joined the advisory board of Anglo-German ESG quant fund Arabesque. Hunt, who is co-head of EOS at Hermes Investment Management, becomes the tenth member of Arabesque’s advisory board of world-leading figures in sustainable development, and quantitative and behavioural finance.

**The Rocky Mountain Institute** (RMI), a US clean energy think tank, has announced the newest members to join its board of trustees: **Todd Stern**, former US special envoy on climate change; **Mary Powell**, president and CEO of Green Mountain Power; and **Elizabeth Sall**, founder and president of Urban Labs LLC.

**Aris Prepoudis** will become the new CEO of RobecoSAM, the sustainable investment specialist, in January. A Swiss national, Prepoudis was most recently CEO of Vescore, an asset manager specialising in sustainable and quantitative investments.

**The UN Principles for Responsible Investment** (PRI) has elected three new members to its board: **Eva Halvarsson**, CEO, Second Swedish National Pension Fund; **Hiromichi Mizuno**, executive managing director and chief investment officer, Government Pension Investment Fund (Japan); and **Peter Webster**, director of international affairs, Vigeo Eiris. **Anna Georgieva** has also joined PRI as manager, investment practices – fixed income. She was previously with Trucost.
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