

# From Tactical to Strategic

How Australian businesses create  
value from sustainability

Global Reporting Initiative Focal Point Australia

## Executive Summary

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# Foreword

CPA Australia is proud of its support and longstanding relationship with the Global Reporting Initiative (GRI). Our two organisations have a shared view on the transformational power of business and the pivotal role played by decision-relevant information.



Our business environment is changing. We now operate in a more complex, uncertain and interconnected world than we have at any time in the past – and this trend will continue.

Unless our information metrics and systems continue to evolve and adapt as our environment changes, businesses and their decision-makers will continue to miss competitive opportunities and fail to effectively manage their risks. It is therefore vital that both business leaders and managers are equipped to make the best decisions, and that these decisions are agile and grounded in notions of ethics and transparency.

One of the significant contributions made by the GRI, over and above its creation of the world's most widely accepted standard for non-financial and sustainability reporting, is the role played in promoting thought leadership. Again, CPA Australia and the GRI share the view that effective thought leadership is an essential underpinning to sound public policy.

This highly innovative research from the GRI's Focal Point Australia illustrates the dynamics of our global business environment in way that is both compelling and accessible and allows us to clearly see both the challenges and opportunities that businesses face.

**Alex Malley, FCPA, Chief Executive,  
CPA Australia**

The impacts of megaforces on organisations have been written about by many including my own firm for some time now. They address long term global shifts that challenge businesses and governments' ability to prosper and function under changed conditions. But how are businesses reflecting these changes in strategies and risk management? How are they internalising these scenarios?



Momentum for the internalisation of sustainability costs and benefits is growing, and the disconnect between corporate value and societal value creation is dissolving. Corporates that understand these merging dynamics, are those who consider sustainability as core to corporate strategy and see megaforces beyond the tactical and can identify the value creation story for their organisation. However, our research uncovers opportunities for improvement by many ASX50.

There is still a need to explore megaforces through an integrated lens –scenarios that consider multiple forces such as urbanisation, ecosystems decline and food security simultaneously, and approaches that drive a far better understanding of value drivers.

Businesses are increasingly scrutinised and their societal role and value challenged. A company's impact on societal value increasingly has a direct impact on its corporate value, and this reports provides strong evidence that companies have work to do to drive value from sustainability.

**Adrian King, Global Head, Climate Change &  
Sustainability Services, KPMG Australia**

Governments and stock exchanges are – demanding corporate accountability and transparency on sustainability risks. In response, more Australian companies than ever before are being accountable for their sustainability impacts and identifying value creation opportunities through these challenges. But do companies really understand the scale of these issues and their potential impacts? Is the information packed within their market disclosures really informing strategy and the considerations of the Board? Are they really leveraging the value creation opportunities that exist, transforming their business for the sustainable economy?

*From Tactical to Strategic: How Australian businesses create value from sustainability* explores some of these questions.

We found that for many ASX50 companies, the big issues are on the radar, which is promising. But there is still a long way to go for most to be fully prepared for the risks and maximise the value creation opportunities that sustainability presents. Companies need to understand the issues more holistically and systemically and Australian businesses need to better articulate value creation opportunities that will ensure sustainability sits at the heart of the business.

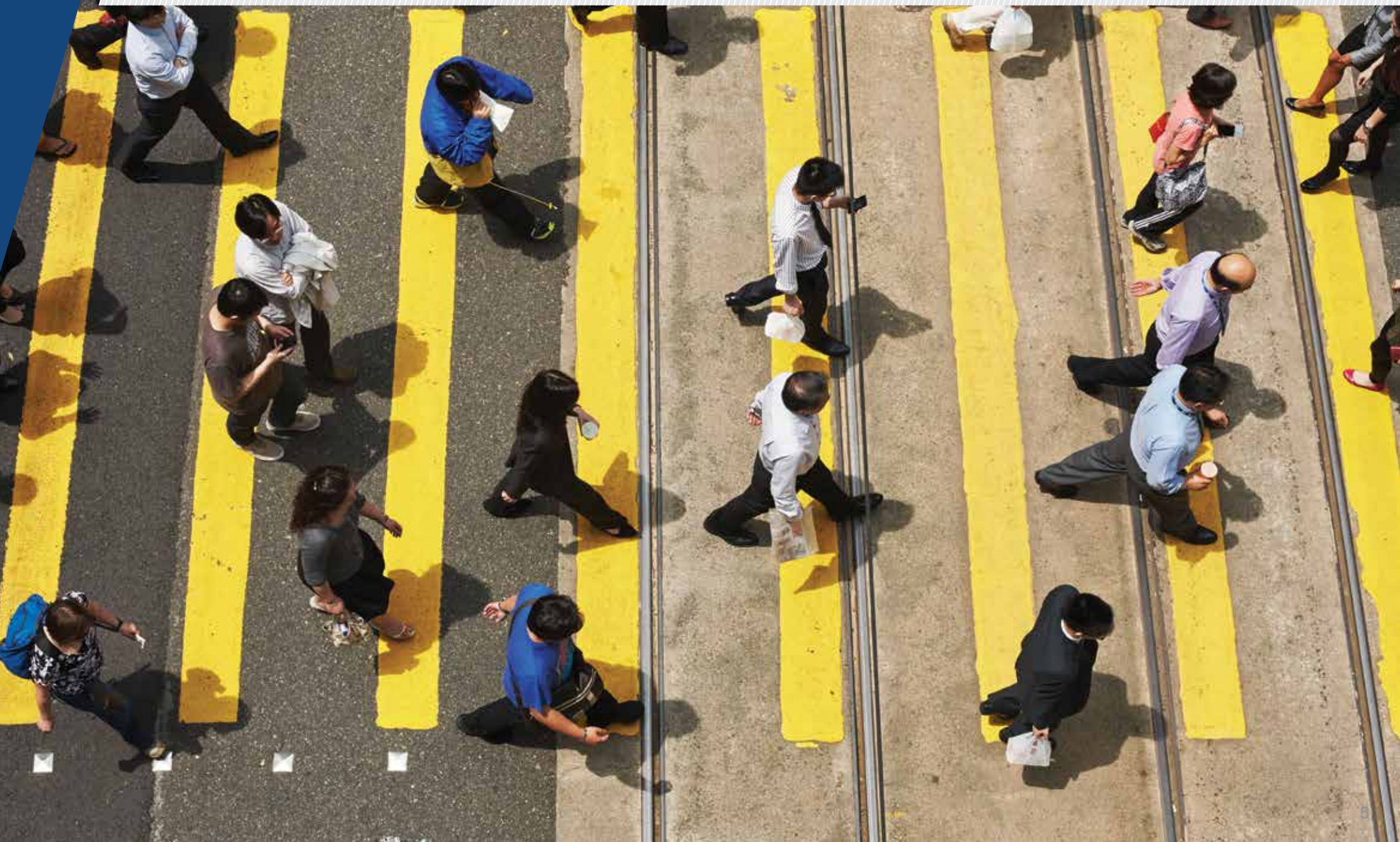
This publication provides an important marker in the sand to express where we are at, and where we need to go.



**Victoria Whitaker, Head of Australia,  
Global Reporting Initiative**



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Elements of global megafactors are recognised by the majority of the ASX50 companies in their primary disclosures to the market. However, the complexity of the social and environmental challenges that ASX50 companies will face in the next 20 years, or how these link to strategy and create value for the company, is not well articulated.

Global demographic and environmental changes are redefining the ways in which we do business in an increasingly complex world. These global challenges are compounded by unprecedented uncertainty, imperfect information and rapid rates of change [1]. A model of growth is surfacing where addressing local and global challenges presents an opportunity for business. A future global market place will emerge that accounts for the impacts of business on society and prices them into measures of value.

Businesses that are embracing this sustainability paradigm are seeing benefits from their efforts. Evidence is emerging that these businesses are beginning to outperform their peers on the financial markets. Research shows that profitability and cash flow correlate with a high level of sustainability performance and disclosure [2] [3], and companies that pay attention to sustainability enjoy a lower cost of capital, and recover quicker when a sustainability-related crisis occurs [4].

## **Sustainability Risks**

This year's World Economic Forum's *Global Risks 2014* report [5] found that seven of the ten global risks of highest concern during 2014 were sustainability-related, presenting new challenges for business as they come

to understand and embed sustainability within their organisations. Investors are beginning to see the need for a different approach to managing these changing risks. They are considering the risks companies face, and seek to understand how businesses are responding to the changing business environment.

In Australia, the disclosure of sustainability risks were introduced in both the Australian Securities Investment Commission's *Regulatory Guide 247 – Operating and Financial Review* [6] and the Australian Securities Exchange's *Corporate Governance Principles and Disclosures* [7] in 2013-2014.

Sustainability risk has traditionally not been factored into corporate risk registers for a number of reasons. ACCA et al. [8] argue that the primary challenge in determining sustainability risks relates to the definition of materiality used to identify risk. The traditional approach to identifying risk is no longer adequate as it is aligned with a financial definition of materiality, which means that the scope is narrowed to the operational boundary, its time horizon is short and stakeholder concerns are limited to the shareholder [8].

A robust materiality process within the sustainability paradigm provides the opportunity to understand the broader sustainability context in which a company operates over the short, medium and long term; and asks companies to listen to, and respond to stakeholder expectations [9]. In doing so, risks and opportunities that may not have been traditionally considered can be exposed.

## **Sustainability as a growth strategy**

Corporate sustainability for leading companies is more than just good risk management. In fact, companies that have the most ambitious actions for sustainability are also the most likely to be realistic about the sustainability context within which they operate, and the scale of the challenge – they have a deep understanding of the sustainability context [10].

These companies focus on growth and differentiation, and go beyond reduction and mitigation strategies. They have transcended the commonly cited brand reputational driver to address sustainability risks, and explore sustainability innovations as a growth strategy [11]. Globally, this small group of leading companies are securing business advantage through innovative research and development, and the deployment of technologies [10]. They quantify the value of their sustainability initiatives, adopt business models that deliver sustainability outcomes, and track their impact on the communities in which they operate.

## **Driving value from sustainability**

Creating a strong business case for sustainability ensures that sustainability is considered strategic to the organisation, rather than a tactical side-issue, and will ensure that a company addresses its most significant impacts. As companies pursue sustainability as part of their growth strategies, investors in particular want to know *why* resources are being allocated to create value for the business in the short, medium and long term.

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## Methodology and limitations

This report seeks to understand how ASX50 companies are identifying with – and understanding – the sustainability context within which they operate, and how this is creating business value. This research explores three key questions:

- To what extent are Australian companies expressing their understanding of, and response to, global megaforces?
- For those that do, how do companies create value by responding to global megaforces?
- What are the enablers for companies that consistently create value by responding to global megaforces?

To understand how ASX50 companies are articulating their sustainability context, the research draws upon KPMG's *Expect the Unexpected: Building Business Value in a Changing World* [1]. The report reviews 22 publications released by international agencies and bodies, to establish ten global megaforces that are likely to affect all businesses globally over the next 20 years:

- Population Growth
- Climate Change
- Energy & Fuel
- Wealth
- Water Scarcity

- Urbanisation
- Material Resource Scarcity
- Ecosystem Decline
- Deforestation
- Food Security.

*Megaforces are “quality numerical projections [based on] key pressures causing environmental and social problems and the most significant consequences of those pressures for natural and human security.”*

*KPMG 2012: p14 [1]*

This research has sought to determine the extent to which ASX50 identified with these megaforces. To do this, an analysis of ASX50 companies' annual reports, annual reviews, integrated reports and sustainability reports (both PDF and web-based) for FY13, which were published before 31 December 2013, was undertaken.

With this in mind, it is evident that some megaforces are more important, or material, to one sector than another. To try to understand if these megaforces are material to sectors within the ASX50, they were analysed against *Sustainability Topics for Sectors: What do stakeholders want to know?* [12] (hereafter GRI 2013 STFS). Our research has compared KPMG's megaforces and GRI 2013 STFS to provide an

indication of whether an issue might be material to a certain sector, and to identify how ASX50 companies' approach to materiality compares with stakeholders' interests at an international level.

Following this, research was undertaken to understand how businesses are driving value from the consideration of these megaforces, and the level of alignment with corporate strategy. *The Business Case for a Green Economy* [13] identifies six value drivers. These include: Productivity (including Human Capital); Licence to Operate; Attracting Customers; Risk Profile; Securing Investment; and Brand Value & Reputation. These drivers help connect action on issues of sustainability to the creation of value. The ASX50 company disclosures were analysed against these six value drivers to see how the companies are attributing the megaforces to the creation of value.

While it is outside the scope of this research to understand the *why* of the findings, the enablers for companies which have identified with multiple characteristics of the megaforces and multiple value drivers, have been investigated. Interviews were conducted with those companies who demonstrated a sophisticated understanding of megaforces and attributed multiple value drivers per megaforce.

i This publication, released in 2013, was developed by GRI through extensive consultation with a broad range of stakeholders. The material issues identified are at a generic industry level.

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## Limitations

Limitations of this study are as follows:

- We have focused on global megaforces as a proxy for understanding how companies address and understand their sustainability context. We acknowledge that a thorough materiality assessment will reveal different sustainability issues for different companies, and that some companies will argue that the issues and characteristics identified within the global megaforces do not fall within their materiality threshold.
- This research has been limited to the disclosures contained within the annual report, annual review, integrated report and sustainability report. These documents contain sustainability-related information, and are subject to the Principle Four of the *ASX Corporate Governance Principles and Recommendations* [7]. Public information outside of these documents, for example, sustainability strategies, CDP reports etc. fall outside the scope of this research. It is acknowledged that some companies may identify megaforces or value drivers in sources other than these primary publications.

## Findings

ASX50 companies broadly identified with the megaforces. On average eight out of the ten megaforces (Figure i) were identified in the disclosures of the ASX50, demonstrating that companies are embracing a range of sustainability issues. Eight of the 50 companies publically identified with all ten megaforces, while one company identified with just three megaforces.

Still, many companies understanding of the megaforces was limited. For these companies, actions to address megaforces are tactical – focused on efficiency and compliance – rather than strategic, with few companies demonstrating a sophisticated understanding of megaforces, particularly in relation to how a megaforce might impact upon the company. There were also many companies who did not demonstrate an understanding of the complex, systemic and compounding nature of megaforces.

Climate Change, Energy & Fuel, and Population Growth were the only three megaforces with which all ASX50 companies identified. This was closely followed by the

Wealth and Water Scarcity megaforces. Food Security was the megaforce least discussed, with only 15 companies discussing this trend, less than half of any other megaforce.

On a sectoral basis, the Forest & Paper Products industry identified with all ten megaforces. The Mining & Metals, Healthcare & Pharmaceuticals, Telecommunications, and Materials sectors each identified with nine megaforces on average per company. The Media sector on average addressed the fewest number of megaforces, with an average of three, despite five megaforces being material to this sector.



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It was also identified that companies are failing to link the sustainability context to their value creation story (Figure i) – a factor critical to sustainability being truly integrated into corporate decision-making. Eighty percent of companies identify with each of the megaforces, but less than 40 percent identify a single value driver with each associated megaforce. Twenty-two companies identified with less than one value driver per megaforce. For example, while all ASX50 companies identified with Climate Change, 17 failed to identify any value driver associated with this issue. Similarly, while companies identified with Energy & Fuel, more than half failed to identify any value driver.

Productivity (including Human Capital) was the most utilised value driver overall. This value driver was particularly dominant within the Population Growth megaforce. Brand Value & Reputation was the most common value driver used within each of the megaforces, followed by (in order) Productivity (including Human Capital), Risk Profile, Licence to Operate, and Attracting Customers. Despite a primary audience of sustainability reporting being the investor, Securing Investment was the least utilised value driver.

While all but one sector identified value drivers for Population Growth, only two sectors identified a value driver for Deforestation, and only three sectors identified value drivers for Ecosystem Services, four for Food Security. Even for a megaforce with seemingly obvious connections with value drivers, Energy & Fuel, four sectors failed to identify any value drivers.

## Population Growth

- Population Growth is concerned with a globally growing population, particularly in Asia and Africa, and its implications for resources, infrastructure and employment. It is also concerned with the ageing of the population and growing urbanisation.
- All ASX50 companies identified with characteristics of the Population Growth megaforce. This is because labour practices are a characteristic of the Population Growth megaforce, and is a required disclosure of listed companies. Some companies identified with ageing workforces, but few identified the broader ramifications of Population Growth outside the workforce, such as the impacts on resources or urbanisation.
- The primary driver for Population Growth was unequivocally Productivity (including Human Capital), with 48 companies identifying with this value driver. The next most common value driver articulated was Risk Profile and Licence to Operate (13 companies each).

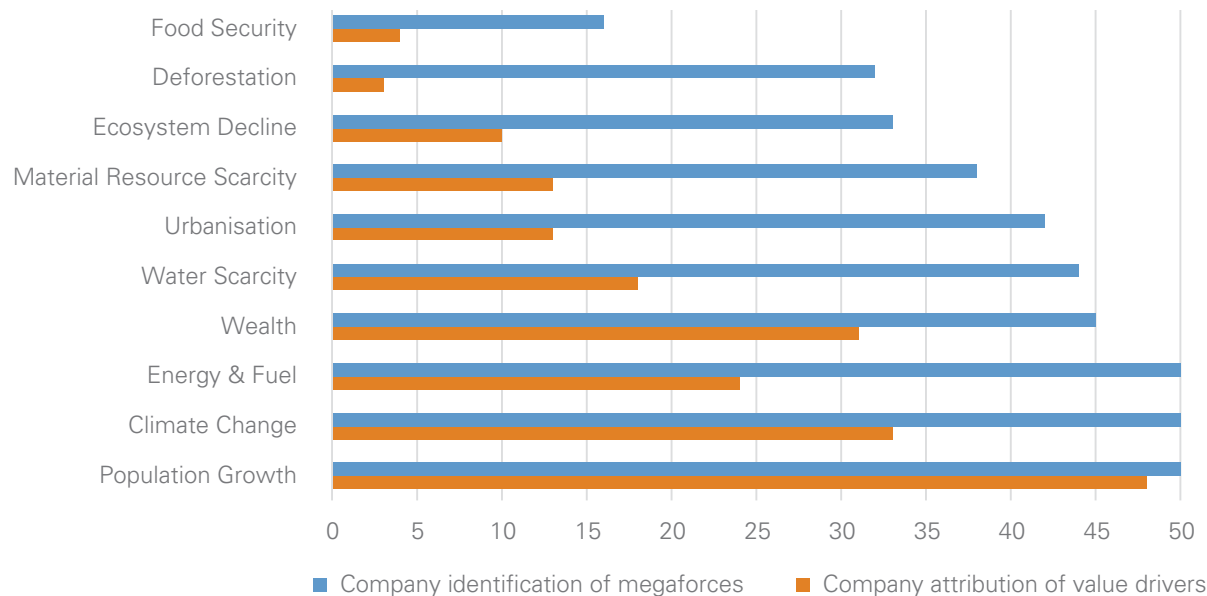


Figure i: ASX50 company identification of megaforces, and attribution of value drivers to each megaforce

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## Climate Change

- Climate Change is the one megaforce that impacts directly on the other megaforces. Climate Change presents multiple risks to business, including physical, regulatory, reputational, competitive, social and litigation risks. Considerations of Climate Change for business includes greenhouse gas mitigation and compliance, adaptation of operations, services, products and business models to the impacts of Climate Change, and responding to adverse weather events.
- All ASX50 companies identified with the Climate Change megaforce; largely from a mitigation and compliance perspective. Less than half considered the need to adapt to Climate Change impacts, despite 19 companies identifying with adverse weather events.
- Seventeen companies failed to identify any value driver associated with Climate Change. Risk Profile was the primary value driver identified, followed by Productivity (including Human Capital), and Licence to Operate.

The Banks, Diverse Financials & Insurance sector engagement in sustainability often focuses on the appropriate management of investment risk. And the likelihood of Climate Change occurring is now almost certain [14]. Yet only three companies from the Banks, Diverse Financials & Insurance sector identified Climate Change as a risk to their business in the reports reviewed. One company from this sector explicitly ruled out Climate Change as being a risk to its business. In fact, five of the 11 Banks, Diverse Financials & Insurance companies failed to identify a single value driver for Climate Change, despite all identifying with this issue.

## Energy & Fuel

- Energy & Fuel is concerned with the global shift in energy consumption from fossil fuels to renewable energy; changing energy consumption patterns as global demographics change and energy efficiency increases; uncertain production and supply of energy; and changing regulation regarding energy.
- All ASX50 companies identified with the Energy & Fuel megaforce. Discourse by companies surrounded either energy and fuel consumption and efficiency initiatives, or energy and fuel markets uncertainty and risk.
- More than half of ASX50 companies failed to identify any value driver for Energy & Fuel. The leading value drivers utilised within this megaforce were Productivity (including Human Capital), and Licence to Operate. Only five companies identified Securing Investment as a value driver within Energy & Fuel, however this was the megaforce in which this value driver was most utilised.

## Wealth

- Wealth is concerned with the rising middle class and the alleviation of poverty. As global populations grow and emerge from poverty, expectations of the citizen consumer will change, consumption globally will grow dramatically, and access to cheap labour will diminish. Increased attention will also be given to labour and human rights.
- Forty-eight companies identified with the Wealth megaforce. This megaforce's central concept surrounds the increased purchasing power of the emerging middle class, yet only half of companies identified with this concept. Rather, all companies reported upon community investment and philanthropy, another important characteristic of this megaforce.

- Thirty-one companies identified a value driver for this megaforce. The primary value drivers were Attracting Customers, and Licence to Operate. The Telecommunications, Mining & Metals, and Consumer Services sectors generally attributed multiple value drivers to this megaforce; however, the majority of companies within the Transportation, Construction & Real Estate, and Banks, Diverse Financials & Insurance failed to identify any value drivers for Wealth.

## Water Scarcity

- Water Scarcity is concerned with potential water shortages, and declines in water quality; particularly as demand for fresh water will exceed supply by 40 percent by 2030. Water conflict and price rises are expected as demand continues to grow both domestically and internationally.
- Forty-four companies identified with the Water Scarcity megaforce, the vast majority of which were concerned with water efficiencies measures. Few extended this connection to water security risks and water-related conflict, either domestically or internationally.
- Only two-fifths of companies that identified with this megaforce identified an associated value driver. Risk Profile was the leading value driver, followed by Licence to Operate, and Productivity (including Human Capital). The Mining & Metals sector was the only sector in which every company identified a value driver. The Consumer Services, Forest & Paper Products, Healthcare & Pharmaceuticals, Media, and Telecommunications sectors all failed to identify any value drivers for Water Scarcity.

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## Urbanisation

- Nearly all projected population growth for the next 30 years will occur in urban areas, placing strain on infrastructure, including health, waste and sanitation, telecommunications, education, utilities, transportation, safety and green space.
- Forty-two of ASX50 companies identified with characteristics of the Urbanisation megaforce, spanning the majority of industries, however was least recognised by the Energy sector. Most companies' discourse surrounded waste management strategies, rather than more complex aspects of the megaforce, such as the impact of population growth on city infrastructure or urban fringe social isolation.
- Less than a third of the companies that identified with this megaforce captured an associated value driver. Brand Value & Reputation, and Licence to Operate were utilised most predominately within this megaforce. Interestingly, despite waste management being a significant characteristic of this megaforce, only five companies attributed Productivity (including Human Capital) to this megaforce.

Urbanisation is of obvious significance to the Construction & Real Estate sector, yet less than two-fifths of companies within this sector identified with characteristics of Urbanisation beyond waste management. Sustainable urban development is critical to Risk Profile and Securing Investment for this sector, yet no Construction & Real Estate company identified with these value drivers within this megaforce.

## Material Resource Scarcity

- Global demand for natural resources will significantly increase as populations increase and industrialisation progresses worldwide. Competition for access to both renewable and non-renewable resources will continue to increase, driving businesses to find alternative materials or methods of production.
- Thirty-six of the ASX50 identified with Material Resource Scarcity, with the majority focusing on energy, water and paper reduction targets and recovery initiatives. The Mining & Metals Sector was the only sector where declining rates of discovery of minerals was a concern. A few companies articulated innovation in material substitutions.
- Just over a third of companies that identified with this megaforce articulated an associated value driver; predominately Productivity (including Human Capital), and Risk Profile. Within this megaforce there were rarely two companies from the same sector that identified with the same value drivers.

## Ecosystem Decline

- Ecosystems Decline relates to the decline of essential ecosystems services internationally. In 2005, the Millennium Ecosystem Assessment found that 60 percent of ecosystems had degraded or were being used unsustainably [15]. Ecosystems services for which businesses currently rely upon include the supply of food and water, the provision of essential nutrients, materials and fibres, the production of medicinal products, and the capture and storage of carbon emissions. Loss of these services will have significant implications for businesses globally.

- Thirty-four of the ASX50 identified with this megaforce. The leading issues discussed within this megaforce included biodiversity, avoiding contamination of land and rehabilitation of disturbed land. Very few companies associated Ecosystem Decline with the future availability of ecosystem services and its impacts upon operations.
- Less than one-third of those companies that identified with this megaforce, articulated an associated value driver. In fact, eight of the eleven sectors identified no value driver at all for this megaforce. Licence to Operate, and Brand Value & Reputation were the most frequently cited value drivers.

## Deforestation

- Global forest areas are expected to decrease by 13 percent between 2005 and 2030. Land clearing for timber and agricultural production is occurring at unprecedented rates, resulting in the loss of key ecosystem services.
- Deforestation was one of the least recognised megaforces, with just 30 companies identifying with this megaforce. Discourse by companies was almost exclusively focused on paper recycling and procurement trade initiatives, such a Forest Stewardship Council (FSC) and Programme for the Endorsement of Forest Certification (PEFC), rather than upstream activities such as the destruction of forests for land. Companies that did not have a direct impact on deforestation tended to have procurement policies that ensured chains of custody to safeguard forests (although these were



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heavily paper focused); while those with a direct impact generally were found to engage in global initiatives and had accountability frameworks in place to ensure they avoided destructing virgin forests. Aside from some leading companies, there was a noticeable absence of Mining & Metals companies identifying with Deforestation.

- Of the 30 companies that identified with this megaforce, only three companies articulated any value drivers. All three identified with Licence to Operate as a primary driver for this megaforce. Given the bleak outlook for forests, it was surprising that no company identified Risk Profile as a value driver for Deforestation.

## Food Security

- Access to sufficient, affordable food will come under threat over the next 20 years, as Population Growth, Water Scarcity, Climate Change and Deforestation dramatically impact global food prices. Regulatory intervention will be needed to avoid food shortages and overfishing.
- Food Security was the least identified megaforce, with only 15 companies identifying with this megaforce. Discourse by companies related to food production focused upon extending

food life, minimising food waste, and advancing farming innovation; whereas for those operating in environments with low food security, the focus was more on land remediation and improved agricultural outputs.

- Only four companies identified any value driver for this megaforce – all from different sectors. Each of these companies articulated Brand Value & Reputation as a primary driver for this megaforce. One company, from the Food & Consumer Staples Retailing sector, stood out in identifying with five of the six value drivers, excluding Licence to Operate.

## Observations of companies across sector and ASX position

This research found that those companies who identified with fewer characteristics within the megaforces also identified with fewer value drivers within each megaforce (Figure ii). For those companies that identified more characteristics of the megaforces, also identified with more value drivers per megaforce. Some companies might argue that they focus on just a few material megaforces and drive value at multiple points across this issue, but this is not evident in the findings. Rather, those businesses that consistently use multiple value drivers, do so across a larger number of megaforces.

From a sectoral perspective, the Mining & Metals sector broadly identified with many megaforces and many value drivers per megaforce. The Materials, Food & Consumer Staples Retailing, and Energy sectors also tended to fall broadly into this quadrant. The Transportation, Media, and Consumer Services sectors tended to fall into the quadrant that identified fewer megaforces and fewer value drivers. The Banks, Diverse Financials & Insurance, and Construction & Real Estate sectors were more evenly spread, but the majority did fall below average regarding the attribution of multiple value drivers.

From a market capitalisation perspective, the ASX20 tended to identify with many megaforces, but their articulation of value drivers is spread. While the ASX40-50 tended to identify with fewer megaforces and fewer value drivers. Interestingly, a noticeable number of companies within the ASX21-30 both identified with many value drivers and megaforces.

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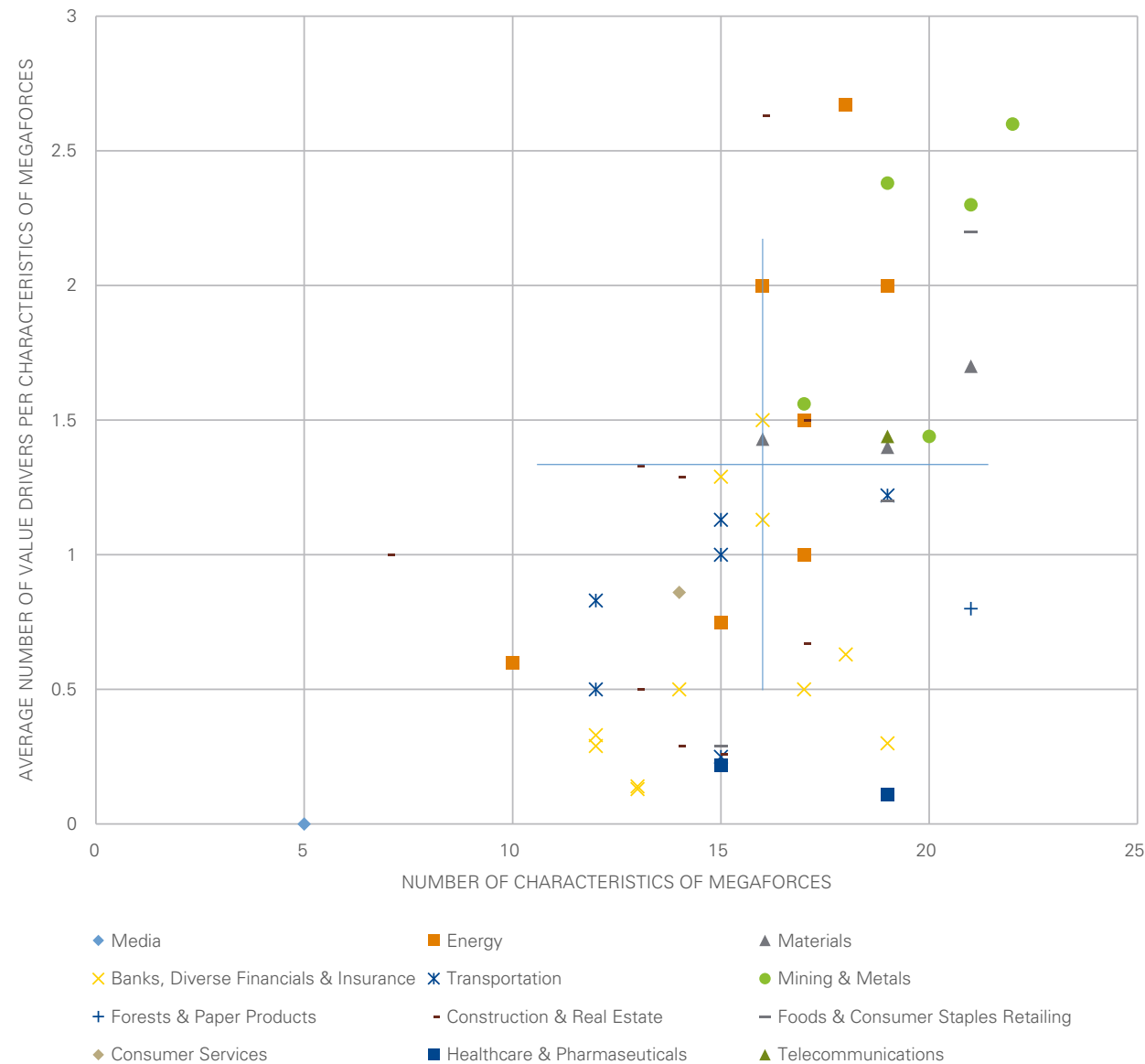


Figure ii: Companies by sector, total megaforce characteristic by the average number of value drivers per megaforce

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## Enablers for driving value from megaforges

Some companies have a better oversight of the sustainability context within which they operate and are better able to justify to their investors and other stakeholders why they invest in this area. What are the common enabling organisational processes [2], which allow some companies to act in this way but prevent others? The analysis revealed the following:

- **Corporate governance of sustainability was a key factor.** Companies that strongly articulated the value created from sustainability, positioned sustainability as a core responsibility of the board; executive remuneration was tied to sustainability; and multi-layered sustainability committees helped drive sustainability throughout the organisation. Sustainability was evident within the company values and culture, and was supported by clear and robust policies, standard, procedures and protocols.
- **Stakeholder engagement was a key enabler for these companies.** Stakeholder engagement was more strategic, proactive, transparent and accountable than their peers. Stakeholder engagement is seen by these companies as competitive advantage, providing opportunities for building trust and cooperation, and building a robust image of the complexity of these systemic issues. In this sense, collaboration and partnership will play an increasingly important role in navigating these issues. Furthermore, external stakeholders are seen as important allies in maintaining the focus on sustainability.

- **Accountability and transparency is a common enabling factor for companies that are seeking to develop and maintain buy-in across internal and external stakeholders.** Adherence to international standards and guidelines facilitated trust in reporting, along with the assurance of sustainability reports. Finding a balance that enabled transparency and accountability, without creating an undue burden was a common challenge among those interviewed. Reporting was seen not only as a management tool, but also as a tool for complex decision making, and communication tool for stakeholders.
- **A long term perspective was also common amongst interviewees.** Creating the governance structure, stakeholder engagement processes and accountability mechanisms around sustainability are all medium to long term strategies that provide benefit over the same time horizon. A long term company vision and strategy that encompass critical and complex issues of sustainability was also evident.

## Conclusion

The transition to a sustainable economy is inevitable as global populations and consumption grows, societies rise out of poverty, environments degrade and scarce resources are stretched. The successful navigation through this transition is dependent upon business being able to identify and respond to the sustainability context in the short, medium and long term, whilst also understanding the perspectives of internal and external stakeholders regarding the impacts that the business creates. It is this nexus between these factors that enables a corporation to be well prepared for sustainability risks.

This research demonstrates that a handful of leading companies consider sustainability as core to corporate strategy. Despite the threat of the strategic sustainability risks, the majority of ASX50 companies have room to improve in communicating their understanding of the sustainability context. Most ASX50 companies are focusing on compliance and short term mitigation and efficiency gains, rather than the complex and systemic megaforce whose impacts are over the short, medium and long term. Company identification with most of the megaforges tends to be narrowly focused on one characteristic of each megaforce, and often did not deal with the holistic complex nature of individual megaforges, or their impacts compounding upon one another. For example:

- Within Water Scarcity, companies were more likely to focus on water efficiency strategies than investigating the risks associated with future water scarcity issues.
- Within Urbanisation and Food Security, companies related almost entirely with waste management strategies. Few were able to draw a link to other features of Urbanisation such as infrastructure and amenities required in a growing urban population; or Food Security associated with Population Growth, the growing middle class and its associated shifts to increased meat consumption.
- In Material Resource Scarcity and Deforestation, ASX50 companies related almost entirely to the efficient consumption of energy, water and paper, as well as the introduction of recycling initiatives. Few explored the deeper challenges within each of these themes, such as the impacts of changing land use practices on Deforestation and its associated systemic impacts on Ecosystem Decline.



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Companies are not only falling short of demonstrating a sophisticated understanding of the megaforces, they are also failing to draw upon the significant value creation opportunities that these megaforces present. Those companies that identified with fewer megaforces were also more likely to identify less value drivers per megaforce to drive value from sustainability.

The use of value drivers is key to maintaining cross-organisation ownership of sustainability issues and ensuring action to address stakeholder concerns. Investors are increasingly demanding to understand how companies drive value from sustainability, therefore it is concerning to see that there is such little use of value drivers, and particularly multiple value drivers across each megaforce. Broadly, most ASX50 companies are simply not connecting the sustainability context and stakeholder concerns to their core business.

However, a small handful of companies are thinking through the various angles and impacts that each megaforce creates across the organisation, and are using this understanding to break down traditional silos and inform strategy – deeply embedding sustainability within their corporate strategy. These companies drive sustainability from the top and have it cascade through the organisation, and have a culture which focuses on the long term. They also have excellent stakeholder relations, which bring the stakeholder voice within the organisation to inform decisions, and they are transparent and accountable to these stakeholders.

It is the companies with these enabling factors that are better positioned to understand the sustainability context within which they operate. Their stakeholder relationships help them to understand and mitigate the sustainability risks to which they are exposed.

Through this, these companies will be better able to recognise and drive value from sustainability for their business.

## Recommendations

- Organisations should seek to understand the sustainability context within which they operate. They should draw from objective and available information, peers and experts to understand the conditions and goals that may affect the business locally, regionally and globally over the short, medium and long term. They should think about the complexities and systemic impacts inherent within these issues, how they create compounding impacts upon one another, and factor these conditions into their decision making and engagement with stakeholders. Detailed and systemic scenario mapping should inform decisions about the future.
- Lack of certainty surrounding complex issues of sustainability should not prevent company action. Where a company has sought to be reasonably informed on the sustainability context and stakeholder concerns, the board should be supported to act on sustainability.
- Investors and regulators need to create the right incentives to enable the board to take a longer-term view.
- Companies should seek to understand where the sustainability impact occurs, within the businesses sphere of control or their sphere of influence. Companies should then treat these impacts appropriately.
- Companies should seek to create the conditions that enable sustainability to be embedded within the organisation. Sustainability-related risks should be held as a responsibility of the board and executive management team (as is emerging with the changes to the ASX Principles & Recommendations) – with risk treatment aligned to broader organisational enterprise risk management.
- CFOs, risk managers and actuaries should seek to better understand the limitation of traditional approaches to risk identification when considering sustainability risks. They should seek to understand the sustainability context and the views of their stakeholders to understand sustainability risk.
- Boards and executives should inform company decisions with the concerns of their stakeholders. The stakeholder voice should be brought into the organisation. Companies should develop deep and long-lasting relationships with their stakeholders. Engagements should be strategic and proactive, and insights from the engagement should cascade through the organisation informing decisions across the organisation and amongst the board and executive.
- To maximise opportunities presented in managing sustainability issues and in driving value, companies should think across business functions regarding material sustainability issues and common stakeholder concerns. This will guide a company to not only understand how they can develop innovative solutions to broad stakeholder concerns, but will assist the business in addressing these issues systemically.
- Relationships with stakeholders should inform a robust sustainability approach, with transparency and accountability underpinning the company's commitment to sustainability.

## Citation

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