This report has been produced by

Imperial College Business School | Leonardo Centre on Business for Society

In partnership with

EMERITUS

# From Sustainability to Business Strategy:

## How the Role of the Chief Sustainability Officer Is Evolving to Shape Business Strategies

# Contents

# Executive Summary

The role of Chief Sustainability Officer (CSO) is rapidly evolving. What was once a specialised communication role has become—in the most advanced companies—a position that shapes business strategy. And with this change, companies have realised that their social and environmental impact is more than just a marker of responsibility; it can also be a key competitive differentiating factor. Across product, labour, resources and financial markets, a forward-thinking CSO function contributes to economic and non-economic value creation for all the strategic stakeholders, investing in the company's financial, human, social and natural capital. While other reports have studied CSOs' changing corporate roles, there has been no substantive research on companies' maturity levels in the integration of corporate sustainability and business strategy. The evolution of this integration significantly influences how companies innovate, grow, differentiate and cooperate.

To do so, this report leverages multiple sources of data: interviews with 37 sustainability executives, mostly in large multinational companies, together with the GOLDEN Sustainability Database, the Leonardo Centre's dataset of more than 900,000 corporate sustainability initiatives created by over 9,000 public and private companies during the last 20 years.

This report also presents a unique approach to assess the level of maturity reached by a company's sustainability strategy and practice—the Business Impact Maturity (BIM) model. We define BIM as the set of capabilities, mindsets and behaviours that a company has developed at a given point in time, and that characterise the progressive integration of impact in business strategy decisions and processes. BIM is structured with 10 key dimensions, each with 5 increasing levels of maturity culminating in the strategic leadership of systemic transition (see Section 4).

This report intends to both clarify the convergence path between impact and business strategies, and to support businesses, investors and policy-makers in their decisionmaking. We see this as the launch of an evidence-based conversation about the evolution of the role of business in the transition towards a regenerative and inclusive socioeconomic system.

The study unearthed a number of interesting findings (see Sections 3 and 4 for details). Among them:

- **Structural evolution**. In most participant companies, the sustainability function is either part of, or reports to, a C-level function (strategy, innovation, finance, HR, or marketing). Alternatively, it reports directly to the CEO. In some advanced cases, sustainability and strategy work together with innovation and business development.

- **A generational shift.** About half the CSOs interviewed have been appointed within the past 12-18 months. This high turnover suggests that companies are recruiting or promoting people who have more advanced and strategically relevant skillsets and mindsets, in line with the evolution of the role.

- **Impact-related incentives.** The vast majority (86%) of companies we studied established managerial incentives tied to impact performance. These vary significantly from company to company—from 5% to 25% of managers' bonuses, for example—in terms of the types and sizes of incentives.

- **Strategy and Governance.** Companies' progression on the route towards the integration of impact and business strategy is reflected in the way they integrate stakeholders' interests and voice in their governance and strategy-making processes. This ranges from ad-hoc committees on the Board to stakeholders' representation on the Board and even sharing non-retained earnings with stakeholders.

- **Sustainability initiatives.** Companies' impact initiatives are largely heterogenous. The portfolio of efforts ranges from focusing on low impact advocacy to high impact innovation and transformational change.

- **Framing the challenge.** The way CSOs framed the challenges of environmental and social impact varied significantly across companies. Options range from compliance and stakeholder engagement for reputational risk management to collective learning and building deep, transformational change capacity and increasingly ambitious goals and targets.

- **Impact strategies.** CSOs provided insights into their impact strategies and the degree to which they connect or integrate with their business strategies. This includes impact-driven innovation, the transition from product to services, impact-driven internal change and the balancing of top-down with bottom-up strategy development processes.

- **Stakeholder-driven innovation**. Most companies are still leveraging stakeholder engagement solely for sensing external needs and expectations. More mature companies are engaging multiple classes of external stakeholders in the ideation, and some even in the selection, of solutions. We expect future evolutionary steps to include also piloting, learning and scaling evidence-based successes in strategic change or business model innovations.

- **Systemic change**. The mindsets and narratives we observed fall short of including the ambitions to lead system-level innovation and change in the company's eco-systems. This might constitute the highest levels of maturity to be achieved by even the most advanced companies today.

- **Impact Maturity and Investors' Returns.** Do these insights on the integration of impact and business strategy matter for investors' financial returns? The answer, according to our data, is a strong "yes".

  We compared the returns to the S&P500 portfolio with identical portfolios that overweight companies with high (focus on innovation) and low (focus on advocacy) maturity levels. The results are:

  - The portfolio overweighting high maturity companies outperforms the S&P 500 index by 92% over a 12 year period.
  - The portfolio overweighting low maturity companies underperforms the S&P 500 index by 70% over the same period.
  - A portfolio using ESG ratings to over/under-weight companies in the S&P500 index does not show any significant variation in returns versus the index.

### Implications

Lastly, this report discusses the implication of our findings on a systemic level for investors, NGOs, local communities, and policy makers. The special role of investors and the finance sector as potentially powerful multipliers and drivers of systemic change is highlighted. But it is also important that corporate strategies in connection with civil society and local communities move beyond pure donations towards a more integrated model that supports, for example, systemic business model innovation processes to generate novel solutions for the environment and communities. This will require evolving mindsets in businesses and investors, as well as innovations and experimentation in policy interventions to identify and scale evidence-based, high-impact, action.

# 1 The Purpose of the Study

The driving motivation behind this research was to understand how sustainability executives (commonly, though not universally, called Chief Sustainability Officers) defined their role, priorities and challenges. This report also aims to explore the convergence between their sustainability efforts and their business strategies.

Blending these findings, we propose a framework that assesses companies' maturity levels based on these strategy integration efforts and towards a leadership role in their sectors that transitions to regenerative and flourishing systems. We define a Flourishing Society as a community in which business organisations aim to build net positive impact on both People and Planet by integrating stakeholders' interests and voice in their growth strategies.

# 2 The Research

The findings in this report are based on three distinct yet interrelated data sets:

---

## 01

Semi-structured interviews with Chief Sustainability Officers (CSOs) or leading executives in comparable positions. The participating companies were invited by Emeritus, drawing on its global database of C-suite executives. Though some participants are customers of Emeritus, this was not a criterion for selection. One person was interviewed from each company. The interviews were conducted online by the research team from the Leonardo Centre at Imperial College via Zoom or MS Teams and were recorded and transcribed verbatim. The content of the interview was based on the following topics (see the interview guideline in Annex 1):

- The background and responsibilities of the interviewee
- A description of the sustainability strategy of the company
- Strengths and weaknesses of this strategy
- The connection between the sustainability strategy and the business strategy
- The engagement of stakeholders in sustainability processes
- The pain points around the implementation of the sustainability strategy
- The relationship with peers around sustainability topics

A total of 37 interviews were conducted with CSOs representing companies from nine different countries and 17 different industries. No sector is represented by more than five companies. A full list of the participating companies can be found in Annex 2. In this report the companies will be only identified by code to ensure anonymity.

**Represented Industries:**

| | | |
|---|---|---|
| 05 Banking | 03 ICT | 02 Oil and Gas |
| 05 Manufacturing | 03 Investments | 08 Other |
| 04 Insurance | 02 Consumer Discretionary | |
| 03 Consumer Staple | 02 Luxury Goods | |

## 02

Additionally, a short questionnaire was sent to each interviewee before the interview to cover structured data around the organisational set-up of the sustainability function (see questionnaire in Annex 3). The content of the questions covered the:

- existence and responsibilities of sustainability boards or committees
- existence and responsibilities of the sustainability department
- stakeholder engagement
- incentive systems, and
- sustainability reporting.

The response rate for the survey was 60%.

## 03

Finally, we leveraged the Leonardo Centre's unique digital database (the "GOLDEN Sustainability Dataset") of over 900,000 sustainability initiatives extracted from over 45,000 corporate sustainability reports published by over 9,000 companies spanning the last 30 years, and across all key sectors and countries, categorised by the UN Sustainable Development Goals and 14 types of sustainability behaviour (see Annex 4). This report organisations data on the strategic initiatives at 23 of the companies who participated in our CSO interviews who were also part of the GOLDEN dataset.

# 3 The Findings

The various sources of data have been leveraged in our analyses to generate the following results.

## 3.1. The Strategic Role of the CSO

Two out of three of the CSOs interviewed came from a business/economics and engineering educational background. Other backgrounds include law, journalism, and science. It is interesting to note that only 30% of the CSOs attended study programmes connected to sustainability topics like ecology, environmental economics, sustainability management, or corporate social responsibility. This suggests a need to invest in capacity development dedicated to sustainability science and business.

### A Dynamic Role

The average total working tenure of the participating CSOs was close to 25 years, of which about eight years were served in their current company. However, they spent only 3.3 years in their role as CSO, on average. 50% of the CSOs we interviewed were only about one year in their current position.

About half of these short-term CSOs were new hirings from outside the organisation, of which two out of three came with prior sustainability job experience. This differs from the background of CSOs who are longer than one year in their current position. Three out of four of them, in fact, do not have prior specific sustainability education.

Overall, one out of three have a background in business/ management-related positions (mostly finance and consulting), and in sustainability-related positions. The last third comprises of CSOs with backgrounds in engineering, communication, and other positions such as law and public administration.

Some CSOs with neither sustainability education nor a professional sustainability background mentioned that they were in their position because "they know the business in and out" but that they had more junior sustainability specialists on their teams.

The picture emerging from these observations is one of a rapidly evolving generational change in most large companies, where sustainability-related competencies are becoming a sought-after requirement for CSOs and their teams.

**CSOs Professional Backgrounds:**

**13** Business/ Management

**12** Sustainability

**04** Engineering

**03** Communications / Marketing

**04** Other:
- Public administration
- Legal profession

### Hierarchy Matters

Although the name—Chief Sustainability Officer—might indicate that this position is situated in the C-suite, this is not necessarily the case. The transformational power of the position is also linked to where it falls in a company's hierarchy. Although there is no guarantee of a successful integration of sustainability initiatives into business strategy, in our sample a CSO's access to top leadership correlates with their influence at the highest level. A good half of the CSOs in our sample report to the CEO or to the executive board directly.

The CSO of one company, for instance, reports to the Deputy CEO, who oversees transformation and development, including innovation and growth strategies. This allows the company to build impact-centred change capacity and "make sure we are always ready for the next transformation." (CF6)

In companies where the reporting line is two steps away from the CEO, the sustainability function reports to the heads of finance, strategy, innovation, HR, head of the brand management, or marketing. Interestingly in the few cases where CSOs were three steps away from the CEO, they reported to communications or marketing. With one exception, these companies' sustainability strategies were not very advanced.

90% of the participating companies have an existing sustainability department with an average 17 full-time and 1.6 part-time members.

The standard deviation of the size of these departments is very high, however, from 90 people to one person, a variation that relates to both company size and the organisational mandate of the sustainability function. Three of the participating companies do not have a dedicated sustainability department.

### Sustainability on Board.

Similarly, 90% of the companies have strategic sustainability boards or committees on the central level. In 50% of the cases boards are also installed on the implementation level. One company has a regional committee. On average across all levels, eight people make up these boards, and 2/3 of them conduct strategic decision making, monitoring/ steering and control. Only two companies in our sample do not have a dedicated sustainability committee.

We also asked the participants whether sustainability is integrated in the corporate mission of the organisation. The answer was a resounding Strongly Agree (45%) or Agree (55%). Only in one case slight disagreement was noted.

## 3.2 The Evolution of Stakeholder Integration

Successful stakeholder engagement and value creation depends on a close relationship with stakeholders. With one exception, every company in our sample claims to have a dedicated stakeholder engagement process. Most commonly (45%), however, the way this occurs is limited to the development of a materiality matrix which is a tool showcasing sustainability issues by contrasting internal and external stakeholders' needs:

> "We consulted our key internal and external stakeholders at the end of 2020 to update the priorities of our Corporate Social Responsibility ambition and ensure that it was aligned with risks and opportunities. This consultation gave rise to the creation of a materiality matrix. On a run basis, we have bilateral dialogue in place with each major stakeholder all along the year." (CB1)

That response highlights the need for a regular two-way communication process for it to be useful. Only ¼ of the companies, however, report regular open interaction processes in meetings.

> "Corporate stakeholders committee in-person meeting every year, to enrich our strategy." (CM3)

The materiality review is also used on a regular basis with a broad stakeholder group:
"We do this every three years to see what is relevant to our stakeholders and our stakeholders include staff, include clients, include regulators and the wider kind of civil society." (CF4)

About 1/3 of the participant companies rely on more structured surveys or interview tools which are not necessarily executed by the company itself.

**Sustainability Reporting.** Integrated reporting is not yet the standard. No matter the size, industry or sustainability ambition in our sample, 100% of the companies have introduced sustainability reporting, mostly on an annual basis. The software company SAP even operates a quarterly sustainability reporting cycle. Additionally, 60% publish integrated reports annually. Companies also work with third parties to get expertise around impact metrics:

> "We have a couple of people that work on carbon or sustainability reporting, in the team, but we also work with third parties, especially around our supply chain methodology and on the circular metrics. So we work with other people to get expertise around these impact metrics, developing this new methodology on carbon abatement." (CI2))

**Incentives**. 86% of the participating companies have incentive systems in place.

Most of the incentive systems are only connected to climate change, though. Examples include:

- A company where 5% of managers' bonuses are linked to Scope 1 and 2 decarbonisation performance. (CI2)
- A non-financial score card that captures diversity, climate change and other factors. (CF4)
- Our top 300 executives and managers have 15% of their long-term incentive plan allocated to sustainability KPIs such as $CO_2$ reduction. (CF3)
- At (CM1), 25% of managers' bonuses are connected to the achievement of social and environmental targets related to the specific function, business unit, and geography.

**Peer Comparisons.** There is a certain level of modesty around comparison with peers. 70% considered some of their peers more advanced in their sustainability strategy. The remaining 30% did not think that their peers were more advanced than them.

**Stakeholder Governance**. The great majority of companies do not share retained earnings with their stakeholders. The roughly 1/3 who do so stated that they share retained earnings with shareholders and/or employees. Only one financial sector company mentioned charitable foundations as additional beneficiaries.

## 3.3. Pain points

Our Sustainability executives identified several "pain points" that were not only relevant to their CSO role, but also to their ability to deliver on their sustainability strategy. These challenges fell into five broad areas, which are detailed below along with an analysis of how they relate to the evolution toward SDG-driven business strategy.

### 3.3.1 Moving beyond compliance

CSOs described a constant struggle with trying to satisfy regulations when what they really wanted to focus on was pursuing sustainability goals that would advance their competitiveness. As one executive noted,

> "I think the other challenge we have is not to be seen as a compliance department. With the hyperregulation, it could be a risk because we have so many regulations that are in place and so many regulations that are coming. To me, the risk would be to look at the topic as a compliance topic." (CF6)

Executives described an evolving set of internal processes needed to keep up with regulations, which for some meant fewer resources to apply to other aspects of their sustainability efforts. Some executives even stated that the amount of regulation faced by their company could derail their efforts at being innovative and using sustainability to improve their products and/or services:

> "That is one of the biggest risks we have is that the regulation becomes burdensome, so it stops you from being innovative... our reporting burden has gone up exponentially." (CF4)

In our interviews, we noticed an important distinction in the way this "pain point" is framed. Some CSOs consider compliance with increasing regulation as its own challenge, given its increasing complexity. Others see the challenge as being able to "break away" from pure regulatory compliance adaptation and to become a key partner in the internal strategy-making and transformational change processes that aim to generate competitive advantage and growth.

### 3.3.2 Involving Stakeholders

Stakeholder engagement has long been the core responsibility of CSOs. The word "engagement" has multiple meanings, though, that evolve with the development of a company's sustainability efforts and related competencies.

In our interviews, involving stakeholders most often meant gauging their expectations, although some companies worked with stakeholder groups to identify appropriate responses as well. Only a select few had reached the level of involving stakeholders in strategic decision-making and organisational transformation.

Stakeholder engagement was a challenge for this group of CSOs because they recognise the potential strategic value from differentiating vis-à-vis competition of involving stakeholders in the strategic decision-making processes and in the transformational change process toward sustainability-driven competitive, cooperative, and growth strategies. With at least half a dozen stakeholder groups that often have competing goals, CSOs struggle to bring everyone into the decision-making process.

> "Getting everybody engaged in an appropriate way; that's a challenge. I'm managing expectations for all stakeholders that we do want to do what's right, but there's a limit to what we can do." (CO3)

Most often, key stakeholders included employees, customers, peers, investors, and suppliers. Specific challenges included:

- Helping customers see the value in sustainable products:

  "Getting our customers to pay for something sustainability-related is a rather tough task." (CF7)

- Coordinating with peers:

  "Knowledge-sharing now is quite widespread...and it's very, very useful, but the challenge is to go beyond. So it's very important to share, but then to act together, it's very difficult to do that." (CO5)

- Coordinating across the value chain:

  "If we are very ambitious in terms of positive impact but our distribution partners are not, we will have an issue because we cannot act without them." (CF6)

- Quality and accuracy of data about distribution partners:

  "We are in a pilot phase right now...to better know our partners with extra financial data...It's crazy because from one provider to another one in the same company, we have totally different scorings. So it's very challenging to be able to have an analysis that is accurate." (CF6)

- Supply chain management:
  "The key challenge is that there are different ways of sourcing agricultural commodities...So what we try to do is to work with our suppliers because we are not sourcing cocoa directly. We source via suppliers...So we go through them to understand which cooperatives they are sourcing from. To understand which areas, geographical areas the cocoa comes from, to understand which communities are involved in the production of that cocoa... which has taken a lot of time for us to really get the knowledge." (CN1)

- Employees' engagement:
  "It's very difficult to embark because in fact our employees...don't want to go to school and they don't want to be in front of a teacher. And so you need to do something very different to involve them." (CO6)

- Risk Management in Community Engagement:
  "We design programmes to help community improvement, because when the community is better off ... they understand that education is important, you actually see that things start to change...We want to work with the communities, but at the same time, we expect the due diligence is going to be setting restrictions on how much risk actually a company can make and take." (CN1)

### 3.3.3 Prioritising sustainability efforts

With increasing levels, and evolving forms, of stakeholder engagement comes another challenge common across our CSOs: determining which sustainability targets and/or initiatives should receive the most attention in the face of limited funding and workforce availability. As one CSO explained,

> "It's quite challenging when you've got so many targets and we need to achieve them all. So it's how do we point the organisation in the right direction to be prioritising the major challenges that we face?" (CN3)

Another CSO noted how both internal and external stakeholders provided the basis for this challenge. Internally, it was employee enthusiasm for sustainability efforts:

> "We want our employees to be very engaged but we don't want them to run in different directions and make all kinds of commitments where they can't oversee the consequences." (CO3)

Externally, clients and partners often presented problems:

> "Sometimes client procurement departments will ask us pretty extraordinary things to commit to, and we know we can't because it's just impossible. And we don't want to go out and commit to things that we cannot." (CO3)

When the prioritisation process has the potential to impact the company's competitive standing, the challenge becomes a strategic one. Companies that are more advanced in their strategic integration will have more direction in how to prioritise.

### 3.3.4 Creating structure, governance, and incentive systems

Decision-making underlies prioritisation as an obstacle:

> "The challenge is to make sure that we have the right decision-making structure in place...Who's responsible for what in terms of accountability?" (CN3)

These issues arise as the sustainability strategy is expanded beyond the CSO's immediate span of control and into the broader organisation, where legacy structures and systems might not be adapted to sustainability goals and values.

These issues even arise in companies where sustainability and business strategies are integrated as the CSO works with other executives and the Board to execute on both:

> "We need to be organised also with the highest level of the company, which is absolutely key for the implementation to be well organised in order to collect and transfer the right information to the Governance Committees and to the Executive Committee." (CM3)

Finally, CSOs mentioned the importance of aligning sustainability targets with collective and individual performance assessments and incentive systems:

> "The other thing to add is that we do have bonus objectives. So we have long-term incentive plans that have targets attached to the sustainability strategy and similarly annual objectives for the CEO." (CN3)

Corporate structure around sustainability has evolved quickly in the past decade, with increasing preference for strategic positioning inside the organisation. Unfortunately, incentive and governance systems have not necessarily kept pace with the structural changes, leaving many CSOs without the necessary political and motivational infrastructure to effectively pursue implementation of the sustainability strategy.

As one executive bemoans,

> "People still don't get sustainability. They don't understand the complexity of the landscape and the importance to a business strategy and...even the way we've structured things is not perfect...I think they're still disconnected by not having somebody on an Executive Leadership Team level that has pure responsibility for this. It sits within corporate communications (...). You know it's a horizontal rather than a vertical because people are like here's a HR function, here's a finance function, here's a sustainability function, but actually what you need is sustainability to touch all of these different parts of the organisation." (CF4)

### 3.3.5 Developing Learning Capabilities

Another set of challenges identified by our CSOs involved the deployment of requisite knowledge, skills and mindsets across all the key functional areas and business activities to sustain the development and implementation of the sustainability strategy.

> "Everyone feels encouraged to talk about system, but there's different levels of skills and competencies in that field. And there's of course a lack of people being really experienced in that space in the business context. So building up these capabilities, these skills and competencies, that is a key aspect." (CI1)

Developing capabilities across the company becomes even more challenging across borders or at a global level:

> "So I have to find a way to train the people within the organisation, at the general management level in the countries...to make sure that they will be able to do it on their own without counting on me." (CI2)

Some of the most important capabilities are around planning and measuring performance:

> "If I want to make sure that people within the organisation understand that we have to be as focused on sustainability as on finance, we have to make sure that we're going to measure the performance with the same kind of muscle." (CI2)

In a fundamental way, building capacity throughout the company is at the core of developing an integrated sustainability strategy. While some CSOs have this as part of their remit with company resources in support, many must find extra resources and struggle against resistance to make it happen. Ultimately, the ability to build capacity throughout the company will go a long way toward successfully integrating the sustainability strategy.

### 3.3.6 Cooperating at System-level

Systemic innovation and change is fraught with complexities, especially because it requires coordination and cooperation among competitors:

> "We're a very collaborative sector... We try to, you know, make a joint effort as operators to influence suppliers, because obviously, it's a lot more impactful when we have more than (CI2) just asking a supplier to do something when we have the whole industry... That means that we speak with one voice so we don't have different requests coming from all different operators.
>
> We tried to join up so they don't get all these different requests. And I think because a lot of us have been working together for a long time...it's just something that we've naturally come to do." (CI2)

A related challenge is that cooperating and coordinating for systemic transition could verge on collusion:

> "Competition law makes it very difficult for players to come together." (CI3)

> "Deeper collaborations are constrained by competition law." (CE4)

> "We have to be careful because of competition law." (CM1)

The key to avoiding anti-trust concerns is to engage in conversations and deliberations with competitors, upstream and downstream value chain partners, regulators, and specialised institutional players:

> "At the global level there are three bodies that facilitate peer conversations: World Business Council for Sustainable Development, the Consumer Goods Forum, the World Economic Forum." (CM1)

## 3.4. Impact-driven Business Strategy

Next we asked CSOs: **"**How is your organisation's sustainability strategy integrated with your business strategy?"

A sustainability strategy has to do with how a company deploys specific impact initiatives that contribute to the SDGs and make the company competitive across product, labour, resources, and financial markets.

We want to understand whether and how CSOs articulate the way(s) in which the company's business strategies (e.g. innovation, growth, differentiation, efficiency, cooperation) are linked with, or based on, specific SDGs.

We analysed and organised the responses according to three emerging themes connecting impact strategies with business strategies. One related to *External Impact* through product, process, and business model innovation; one related to *Internal Impact* through the adaptation of organisational routines, culture and identity; and the third related to the process through which impact strategies influence and eventually integrate with business strategies.

### 3.4.1 External Impact through Innovation.

Some of the CSOs said that the link between impact strategy and business strategy is through the role of sustainable development challenges as drivers of product, process, and business model innovation. Said one CSO in a consumer goods company:

> "Our sustainability strategy is interwoven in our business strategy. Our vision big picture is to deliver winning performance by being the global leader and sustainable business and our financial framework is consistent competitive growth driving top-tier shareholder return. They are the same thing. One should be driving the other." (CM1)

Said another CSO:

> "We want to really put impact at the core of our value proposition. This is why we are reviewing the way we design our products, our services, the way we accept our clients." (CF6)

Others said customer-driven innovation is another link between impact strategy and business strategy:

> "There's lots of additional product-level innovation that comes from a sustainability strategy as well. And it's also access to customers. We do sell B to C through our own stores, but the majority of our sales are through customers. So it's also demanded and expected by them. So there's multiple levels to it from all the way from licence to operate to business advantage depending on the lens you put on it." (CM3)

Business model innovation involves a holistic and future-based approach, said one CSO:

> "We are strategic foresight and not just for ESG, but as a company holistically. So we take a futures-based approach. I would say business model innovation is just kind of one aspect of how you go to market. But we take a more holistic and inclusive look at innovation, research, all of these things, how they come together and they've always been part of who we are and how we do business. So, we always take an innovation lens to everything that we're doing everything from people hunting, manufacturing lines that come up with some of the most innovative ideas to all the way to corporate strategy and circular business models." (CM2)

Product to Service Innovation was also mentioned by another CSO as an important link:

> "It informs innovation of the use of our products because they are energy-consuming. So it's continuously driving energy efficiency, it's continuously driving new decision for optimising and also looking to develop business areas that that are not relying on selling a pump but could be more consulting and services." (CM5)

For bottom-up innovation another CSO explained that:

> "We have also in town hall meetings, for example...and we also highlight sustainability issues with the intranet. People can input sustainability related ideas via different channels." (CF7)

Innovation through stakeholder involvement had different formats. For example, CSOs mentioned that

> "there are university partnerships that are more anchored in our product development and innovation" (CM5).

And, perhaps the most complex type of innovation is systemic. One CSO stated that their aim is

> "with other institutions to set the benchmark, push the entire field forward...We have always been the global leader, which comes with the responsibility to push the entire field forward, which we've done and will continue to do. And these are the areas that I always feel like where we need to remain collaborative and not competitive because everyone wins. If we're all leaders in this area and this is why we come together, we've got consortiums, we have multiple meetings that are with our competition to push the entire field forward." (CM2)

### 3.4.2 Internal Impact through Routines, Culture and Identity Evolution.

Some CSOs stated that the strategic value of sustainability lies in influencing the evolution of the culture and identity of their organisation. This is particularly important vis-à-vis internal stakeholders, of course, but it can also influence the way in which external stakeholders are given voice and become involved in strategically relevant change processes within the company.

One CSO illustrated how impact is embedded in organisational culture:

> "Our corporate strategy is also our ESG strategy....So everything is woven together. We don't just have sustainability stories. We have (our company) stories and all of those are rooted in each of our areas of progress. Like we connect and collaborate with corporate strategy, finance and everyone. But much like finance or IT, it spans across everything, and so does ESG...It's like if you can root it into mindsets of learning, then it changes everyone's approach....It happens everywhere, but everyone needs to have the agency and the ability to speak up when they see ideas happen. And that's the culture we try to run them." (CM2)

In the same company, the impact strategy is also driving cultural change through collective, movement-building action:

> "We also have to make sure that the culture enables that change to happen. So at the same time of doing that, we're working on creating accessible narratives, making sure that we're communicating clearly about our progress and goals, making sure that we're rooting ourselves and benchmarks so we're taking active leadership in the setting of new standards and the delivery of new standards. And then most importantly, acting as a collective. So how are we democratizing ESG throughout the entire institution? That's that movement-building part, right? So, we're doing both sides like the driving progress and enabling progress and through that combination, then you can actually get it embedded within the culture and fabric of an institution." (CM2)

Another important point is that the impact strategy is connected to business identity:

> "So I think as I see it might be a little bit different than some of our executives see it. Being a company that is both renewable and relies on natural resources, so trees, I think for as long as we've been in business, sustainability has been in our nature, so, you harvest a tree, you plant two and we wouldn't have a business if we didn't have healthy forests. And of course, that healthy forest is intrinsically linked to stewards of the environment and climate change." (CM2)

Another CSO explained the importance of learning and improvement to avoid backlash on cultural change:

> "It's funny because here, at the company, I tend to avoid using the word 'culture' because people are so proud of the culture. They really don't want to change it and so if I talk about culture change, that just feels very threatening for a lot of the employees. So I just tackle it; I'll say business case a little bit differently internally, where it's more about just that embracing a culture of continuous learning and continuous improvement so that we can't make excuses for not raising the bar in whatever part of our priorities that we're focused on in a given year. You know, it's ESG, diversity, and biodiversity. But it'll be something else, 10 years from now." (CO2)

### 3.4.3 Process Focus through Structure, Governance and Incentives.

Another way in which CSOs see the role of sustainability in the development of business strategy relates to sustainability structures and incentive systems.

One CSO mentioned impact-driven governance at multiple levels

> "Our executive, the leadership executive sets out and signs off the commitments. ... So then in terms of ongoing governance and at the very most senior level, you have the board who will review once-a-year progress, but there's a committee called the Corporate Responsibility Committee who review progress quarterly. And there's a committee meeting and there's two of our executives who go to that to update on performance, discuss issues, opportunities and seek guidance and direction and counsel. Ultimately, they are also joined once a year by the Remuneration committee, because the Remuneration Committee, 25% of everyone's bonus is aligned to the performance on sustainability over the previous three years. ... Below the board level groups, you have, the (CM1) leadership executive. Now the responsibility for different commitments sit with different individuals. Almost all of them require everyone to lean in, but there is one person accountable for the delivery. ... Then below that, they all have teams that are allocated to delivering them and then they are given very specific objectives. And they are given or they are asked to develop what we call the "OKR," as "objective and key results" they need to deliver to achieve that objective, they are generally more short-term...but they can have very long implications." (CM1)

Another important structural element was the ExCom leading and CSO reporting directly to the CEO:

> "The other strength is definitely the fact that it's championed at a leadership level. ...In our case, what makes this strategy really powerful and being implemented, it's that it is really championed by the executive team in many ways and with myself being at close proximity to our CEO. ... So getting the leadership support, is really in my mind what makes or breaks the sustainability strategy." (CI3)

Another element is stakeholder voice as the impact strategy is developed through stakeholder ideation and selection. As the CSO of company CE1 says:

> "It was one year of work to involve a lot of internal stakeholders, to involve suppliers in the making up of our plan that relates to them on both social and environmental topics, of course, it's the business intelligence in terms of customer expectations. It's what we understand and the feedback we get from the financial market, the investors or their proxies, the rating agencies, for example. It's the partnerships that we have put together over the years with many NGOs who have a very different angle towards sustainability than what the it's in financial actors or the people in operations would have been. Another important piece is to embark the employees. A lot of the energy and the plans that we have are also impulse by the fact that most of (CE1) employees today are part of this time company because they believe that (CE1) is a company that can move the needle. It's very very important if you want an element for retaining people inside the company (and) it's a very strong magnet for attracting people who want to make a difference. And these people are all asking what the company is doing in terms of sustainability but they're also asking the question how can they, in their daily work or in their personal lives, contribute to the sustainability transformation." (CE1)

Another CSO emphasises the importance of integrating top-down with bottom-up processes:

> "We need to engage, at different levels of the company. ...
> We need to be organised also with the highest level of the company...in order to collect and transfer the right information to the governance, the Governance Committees and to the Executive Committee. ... (But) the governance committees are not enough. So, we decided to create a new kind of ad hoc working group for transformation." (CM3)

The CSO of company CF6 provided another illustrating example:

> "We reviewed also governance and (created) the impact and innovation team. And we also have impact ambassadors in the company in each function and each region for the business to make sure they put in place what we target with our ambition." (CF6)

## 3.5 The Quality of Impact Initiatives

Finally, we studied the impact behaviour of the companies we interviewed to see whether their reported level of strategic integration was connected with more or less mature sustainability behaviour.

Table 1 shows the relative distribution of corporate initiatives in Adaptation (pricing, modification of procedures, assets modification, organisational structuring), Upskilling (training, incentive systems, volunteerism), and Measurements (assessments, adoption of standards).

To proxy a behaviour indicator of the maturity of a company's sustainability strategy, we compared the percentage of sustainability initiatives linked to Innovation with the percentage of Advocacy initiatives in the GOLDEN Database.

A company's sustainability behaviour with a lower percentage of Advocacy initiatives (donations and other communication activities), and a higher percentage of Innovation initiatives (both R&D investments and product innovation) would be considered more mature and vice versa. The higher the value of the ratio, the more mature we would consider the company's sustainability behaviour.

Several observations are in order:

- Sector affiliation does not explain the allocation of sustainability effort across types.
- Advocacy is by far the largest type of effort produced by companies, with an average allocation above 50%.
- On the opposite extreme, the average effort dedicated to sustainability-driven innovation is about 5% of total initiatives. Several companies do not show any sustainability-innovation at all (over the last three years).
- Upskilling- and assessment-driven initiatives appear to be intermediary steps to "tool up" the organisation in preparation for the higher challenges of internal transformational change and external innovation.

**Connecting the Dots.** Interestingly, we find that the companies ranking higher according to this behavioural indicator are also those that tend to provide more sophisticated responses to the questions related to their company's sustainability strategy as well as the type of pain points they are currently struggling with.

**GOLDEN Sustainability Database:**

over **900,000** corporate sustainability initiatives

from more than **45,000** sustainability reports

around **7,800** publicly listed companies

around **1,800** private companies

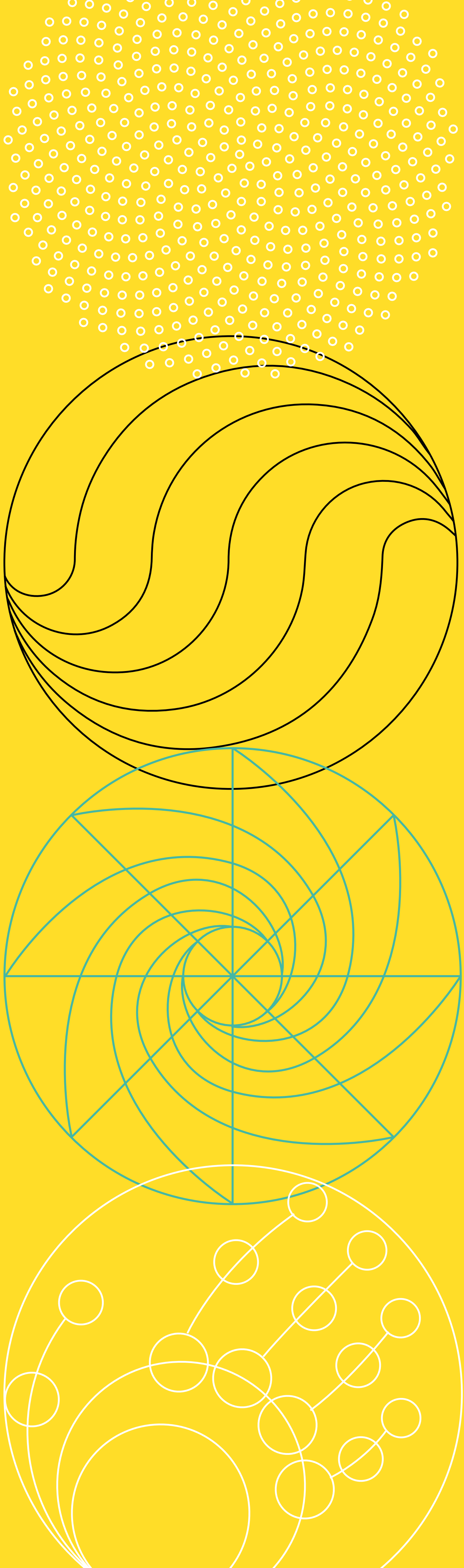
covering more than **20 years** (2000-2021)

categorised along the **17 SDGs**

assessed in **14** behavioural categories

Table 1: Relative Distribution of Sustainability Behaviour in Percentages

| Company | Industry | Innovation | Adaption | Upskilling | Measurements | Advocacy | Ratio Innovation/ Advocacy |
|---|---|---|---|---|---|---|---|
| **CM1** | Consumer Staple | 18% | 1% | 20% | 8% | 54% | 0.333 |
| **CO8** | Industrial | 14% | 5% | 23% | 7% | 50% | 0.286 |
| **CE1** | Industrial | 11% | 6% | 3% | 6% | 46% | 0.250 |
| **CB4** | Financial | 8% | 6% | 42% | 4% | 40% | 0.200 |
| **CE4** | Energy | 11% | 7% | 15% | 9% | 57% | 0.197 |
| **CB2** | Financial | 9% | 8% | 25% | 7% | 50% | 0.174 |
| **CN2** | Consumer Staple | 6% | 8% | 11% | 32% | 41% | 0.152 |
| **CI2** | ICT | 6% | 9% | 33% | 11% | 4% | 0.140 |
| **CM3** | Consumer Discretionary | 7% | 10% | 14% | 21% | 49% | 0.140 |
| **CF5** | Financial | 7% | 3% | 22% | 5% | 63% | 0.119 |
| **CM2** | Industrial | 3% | 10% | 37% | 20% | 30% | 0.111 |
| **CO6** | Consumer Staple | 5% | 21% | 18% | 13% | 44% | 0.105 |
| **CB1** | Financial | 4% | 0% | 28% | 3% | 66% | 0.056 |
| **CO5** | Consumer Discretionary | 3% | 9% | 21% | 10% | 56% | 0.045 |
| **CI1** | ICT | 2% | 9% | 33% | 16% | 41% | 0.042 |
| **CB3** | Financial | 2% | 4% | 18% | 16.% | 59% | 0.034 |
| **CO4** | Consumer Discretionary | 1% | 9% | 28% | 13.% | 48% | 0.023 |
| **CO3** | ICT | 1% | 3% | 21% | 1% | 74% | 0.019 |
| **CN3** | Consumer Staple | 0% | 1% | 31% | 24% | 43% | 0.000 |
| **CB5** | Financial | 0% | 8% | 38% | 0% | 54% | 0.000 |
| **CF1** | Financial | 0% | 11% | 29% | 5% | 55% | 0.000 |
| **CF4** | Financial | 0% | 2% | 21% | 9% | 67% | 0.000 |
| | **Average** | **5.%** | **7%** | **25%** | **11%** | **51%** | **0.110** |



# 4 A Business Impact Maturity Framework

In this section, we build on the results of the analyses shared above and on scientific literature to delineate a framework that might capture the different stages in the development of collective maturity related to the progressive integration of impact and business strategies. This includes levels of maturity development that are currently extremely rare but can be envisioned to materialise and diffuse across sectors and cultural contexts.

The framework characterises the stage of maturity of a company along the following nine dimensions (see Table 2):

1. **Impact vs business strategies.** This evolves from complete disconnection to progressive and then systemic integration.

2. **Purpose.** How does a company describe its commitment to sustainability? This can range from rhetoric that stands divorced from real commitment and organisational change to an increasingly coherent connection with business strategy, transformational learning, and change, all the way to a credible commitment to lead systemic collaborative and coordinated action. The way a company frames impact—from avoiding social and environmental harm (net zero) to generating environmental regeneration and societal flourishing (net positive)—is important here.

3. **Logic of Value.** In this key dimension, the collective maturity of a company evolves from defining value in purely economic terms (and impact as a constraint or as a means to the economic end) to a complete switch in the causal link. Economic value becomes a means to an end that is defined as organisational impact, and eventually systemic impact.

4. **Framing the Impact Challenge.** The framework proposes correspondingly more evolved ways to frame the impact challenge. The evolutionary steps here are consistent with the themes emerged in the interviews and described above in Section 3.

5. **Focus of Business Initiatives.** Similarly, the framework proposes coherent evolutionary steps in the selection of impact initiatives (actions), which focus on progressively more mature ways to tackle the impact challenges (as they evolve in their perceived salience).

6. **Stakeholder Involvement.** As it was observed above in Section 5, the way in which companies conceive of and enact stakeholder engagement is also likely to evolve—from one-way communication to sensing, ideating, selecting (and implementing) to systemic collaboration.

7. **Governance.** As stakeholder involvement becomes more strategic, their involvement in corporate governance is expected to deepen—starting from structural changes in the functioning of the Board of Directors and the key strategic decision-making committees, where the Impact themes and contribution appears, to the representation on the Board and the sharing of residuals (non-retained earnings) of stakeholder classes.

8. **Role of the CSO.** As above, the structural position of the impact function and the role of the CSO are likely to co-evolve as companies mature. For the sustainability/impact function to become more strategically important, the CSO must be a capable leader.

9. **Capability Development.** As business impact maturity evolves, what kind of capabilities do companies develop? The steps described above offer some correlation.

10. **Organisational Culture.** Finally, the implementation of sustainable principles as the guidelines for behaviour and processes needs to be addressed on all level of the organisation. This is considered the most difficult and, at the same time, most crucial aspect of a company's sustainability maturity.

Table 2: A Business Impact Maturity Framework

| | Level 1 | Level 2 | Level 3 | Level 4 | Level 5 |
|---|---|---|---|---|---|
| **Strategy Integration** | Disconnected Impact & Business Strategies | Business case: Benefits of Impact on Business Str. | Junior Partner: Impact part of Business Strategy | Integration. Impact IS Business Strategy | Elevation. Systemic Evolution Strategy |
| **Purpose** | Pure Rhetoric | Impact Targets Announced (Net Zero) | Impact strategy is part of business strategy narrative | One strategy to create net positive impact | Lead systemic change for coll. wellbeing |
| **Value Logic** | Economic: Env and Soc are constraints | Economic: Env and Soc contribute | Triple bottom line. Econ Env & Soc seen as equal | Econ is a mean to Env & Soc Impact as end | Systemic Impact as end, Econ & Partnerships as mean |
| **Framing** | Compliance | Stakeholder Engagement | Strategy Prioritisation | Learning & Change Capacity | Systemic Cooperation Capacity |
| **Focus of Impact Initiatives** | Advocacy | Impact Assessment | Up-skilling + Minor change | Innovation + Radical Change | Systemic Innovation & Change |
| **Stakeholder Involvement** | Communication (let me tell you) | Sensing (tell me what the issue is) | Ideation (help me to find solutions | Selection. Be part of the decision and implementation | Scaling. Work with me on systemic change |
| **Governance** | No change | Board Impact Committee | Impact function in Strategic Committees | Stakeholders reps on Board | Stakeholders share residuals |
| **Role of CSO** | PR function, compliance | Impact assessment expertise | Advisor for CEO, CFO, Strategy | C-Suite member | Systemic change strategist |
| **Organisational Capabilities** | Sustainability reporting | Impact assessment | Connecting Impact to Business Strategy | Impact Learning & Transformat. Change | Systemic Partnerships for Impact |
| **Culture** | Org. culture follows classical business patterns | Emergence of awareness clusters and champions | Introducing sust. values via top-down initiatives (e.g. training) | Purpose driven movements on all levels with incentives | Systemic impact focus embedded in org. culture |

This framework does not imply, and should not be used to imply, that a company will exhibit the same level of maturity across all the dimensions described above. A company might be more advanced on some dimensions than others. This can be due to several factors, including barriers to change across dimensions (e.g. the notion of value and the causal links between economic and non-economic forms of value) and the differing "speed" of evolutionary change in aspects of maturity. For instance, it is a well-known fact that changes in organisational structure are much easier to accomplish compared with changes in collective cognition (e.g. the shared view on the company's purpose) and capability development.

We do not expect, however, that a company can exhibit radically diverging levels of maturity along different dimensions at any given time. The nine dimensions defining each level are expected to correlate with a given stage of business impact maturity, and tend to converge, given time, toward the same level (presumably, the higher level of maturity reached by the same company on the most "advanced" dimensions).

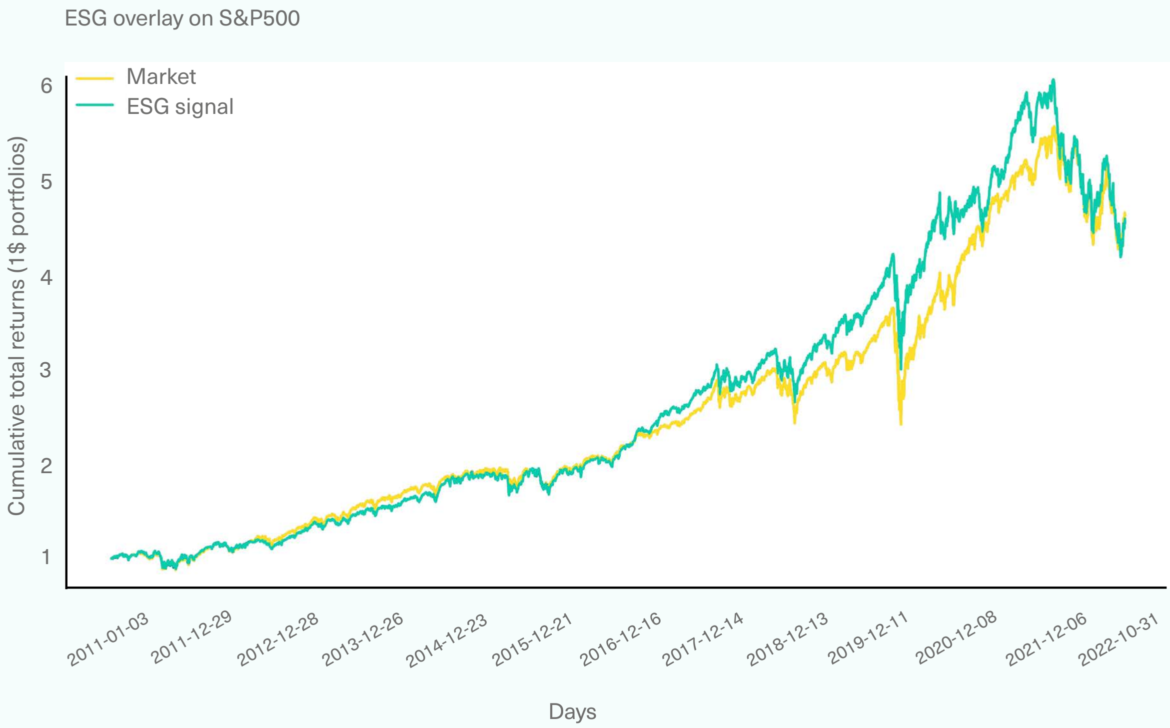
A Business Impact Maturity Framework

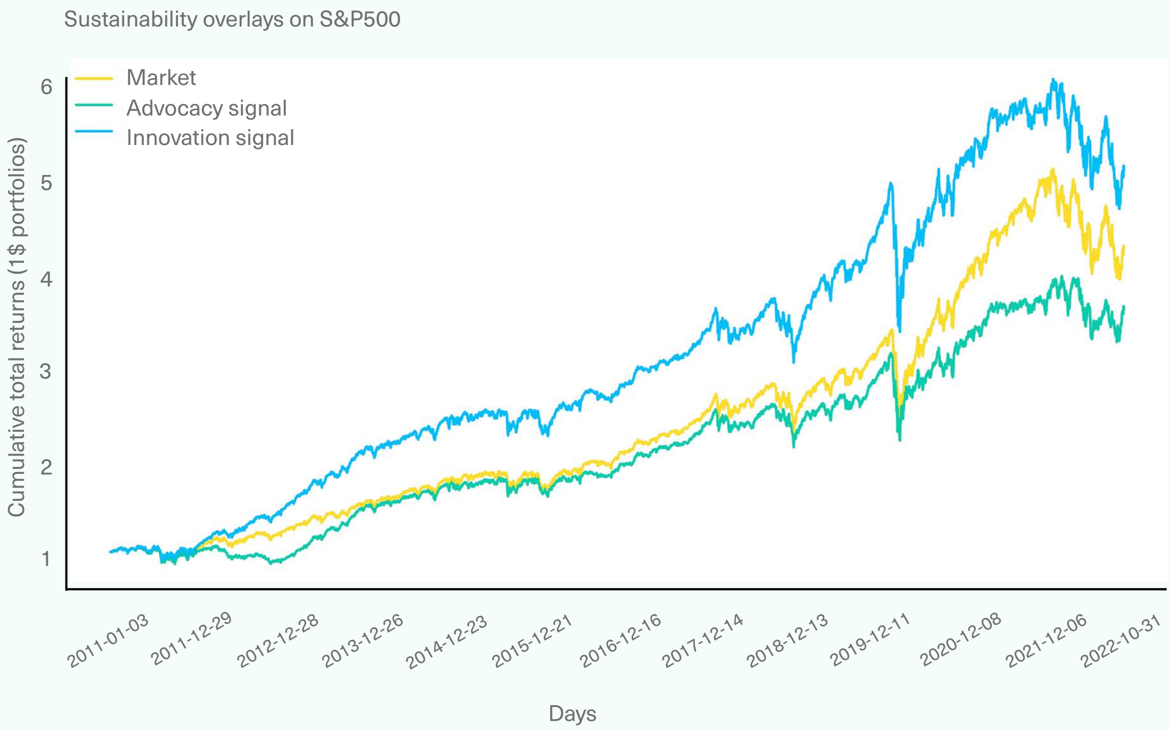
The preliminary analyses conducted by the Leonardo Centres on the global sample of companies shows that the stage of maturity, measured through the allocation of impact efforts to impact-driven innovation vs. advocacy initiatives, has a significant impact on shareholder's returns. The methodology adopted focuses on the portfolio of companies present in the S&P 500 universe, and compares the market returns given by value-weighting all companies in the index with portfolios based on maturity signals. We compared the returns generated by these differently weighted S&P 500 portfolios (+ or -10%) against both the standard S&P 500 and some of the major ESG indices over 10 years (2011-2021). Companies above average, say, in impact-driven innovation, were weighted 10% more in the "Innovation" index. Similarly, companies above average on advocacy initiatives were weighted 10% more in the "Advocacy" index. We compared the returns generated by these differently weighted S&P 500 portfolios against both the standard S&P 500 and some of the major ESG indices over 10 years (2012-2022). Further technical details on the methodology—beyond the objective of this report—are available on demand.

The analyses performed produce the following results:

- ESG ratings do not show any significant variation in returns versus the S&P 500 index.
- The portfolio that overweight companies with higher focus on impact-driven **Innovation** initiatives **outperform** the S&P 500 index by 92% over the period.
- On the other end, the portfolio that overweight companies with higher focus on **advocacy** initiatives **underperform** the S&P 500 index by 70% over the same period.
- The capacity of the portfolios to significantly over- or under-perform is consistent and coherent over the period, both in expansion and in contraction market phases.
- The capacity of the Business Impact Maturity (BIM) Framework to discriminate vs. the market index is significant even with small adjustments to the weightings of the same portfolio of companies. The Leonardo Centre is currently working on testing stronger filtering approaches for portfolio constructions based on the BIM Framework, and on the development of behavioural (BIM) indices to help investors improve their resource allocation decisions.

Behavioural signalling capacity vs ESG and market indicators (S&P500)



# 5 Conclusions and Implications

What are the implications of the evidence analysed and the ideas developed above? In this report, we focus on the insights for businesses and for investors as well as financial service providers. Regulators, policy-makers, NGOs and local communities will find these results useful for future development of this line of work.

## 5.1 Insights for Business

There are many reasons for business leaders to be pleased about some of the findings in this report. There is no doubt that the role of the CSO is evolving very rapidly to assume increasingly strategic responsibilities. What has historically been a function focused on communication with secondary (non-strategic) stakeholders, such as NGOs and media, has now matured in a significant way, beyond compliance-driven impact assessment, operating change, and related reporting. In some companies, the role of the CSO has already matured enough to provide an increasingly relevant input for business strategy. As a new member of the internal strategy development and execution process, the CSO has emerged as part of the way in which companies try to satisfy counterparts' expectations on the product, labour, financial, and resources markets faster and better than their competitors.

Other positive signals from our survey and interviews relate to the integration of social and environmental impact in governance structures. The fact that 90% of the companies have established specialised Board committees and, in more advanced cases, dedicated cross-functional strategic decision-making committees, is clear evidence of relatively rapid evolution towards maturity development. Similarly, the fact that 86% of participant companies had integrated impact in the performance assessment processes and related incentive systems at the individual and collective levels shows commitment to the alignment of employees' behaviour with the newly articulated, impact-centred purpose statements and target announcements.

CSOs' rapid evolution is in line with societal needs for the private sector to take a proactive role in tackling global challenges. The fact that most CSOs we interviewed are either aspiring to or are currently struggling with the objective of aligning or even fully integrating their company's impact strategy with its business strategy is truly positive. Strategic integration requires several intermediate steps to become fully-fledged, and thus a CSO should be part of the C-suite. These steps have to do with being positioned as "impact adviser to some of the members of the C-suite: the head of strategy, HR, finance, accounting, and definitely to the CEO." Some readings of this trend (Eccles et al., in HBR, 2023) advocate for a "final stage" in this evolutionary process where an advisor to the CFO deals with investors' expectations and relationship management. In our view, this structure can be an important intermediate stage in the evolution of CSO's roles, but it falls short of its full potential.

**The Strategic Logic of Repositioning the CSO/ Impact Function.** Whereas financial investors are certainly key stakeholders that any company (especially if publicly listed) must take into account, they do not represent the entirety of strategic investments in a company. Investors in human capital (employees and suppliers), social capital (customers, suppliers, and local communities), and natural capital (local communities) equally determine the creation, growth, and success of the company. In fact, from a strategic point of view, the "bottle necks" that prevent sustainable competitive advantage cannot be the investors that provide goods that are exchanged in the most efficient markets of all (financial products). It is the providers of human, social and, increasingly, natural capital, who can provide critical resources to create and sustain advantage. Financial capital flows to companies that are more advanced than their competitors in attracting and deploying higher quality human, social and natural capital. Hence, the development of companies' strategic integration maturity described in the framework above, is expected to legitimate a role of the CSO as member of the C-suite, working with all the other Chief Officers to onboard the strategic stakeholders for the development and execution of fully integrated business (and impact) strategies.

The evolved role of the CSO becomes even more strategically relevant when the company reaches the higher maturity level, focusing on the achievement of a (co-)leadership position: in tackling systemic impact challenges. These challenges, such as the development of consumers' impact mindset and the achievement of full circularity for final products, their components and even raw materials, require the active support not only of value chain partners (both upstream and downstream) but also of energy providers, financial service providers, regulators and public institutions, to name a few of the key actors. Taking a (co-)leadership role at the eco-system transition level requires the development of ad hoc partnering competence, building on evolved leadership mindsets, collective cultural traits, and learning/change organisational capabilities.

**Coherent Maturity Development Speed.** Needless to say, there is a (very) long way to go before companies reach the highest level of strategic maturity, as defined in the proposed framework. Importantly, the multiple dimensions in the maturity framework evolve at their own speed (cultural and cognitive dimensions, for example, are more complex and much slower to develop, compared with structural dimensions, like the role of the CSO and the impact function). This means that it is not necessarily easy to "leap-frog" more mature competitors. However, developing stakeholder integration in impact-driven learning and change capabilities will significantly accelerate the development of cultural and cognitive dimensions of impact maturity.

**Stakeholder-Centred Business Model Innovation.** One critical piece in the acceleration of the impact-business strategy integration process concerns the degree and stage of stakeholder involvement in business model innovation. Today, even the most mature companies engage stakeholder representatives only when gauging expectations on new products/business models to be developed. Rarely does this engagement reach the ideation stage and involve stakeholders in the selection, testing, and deployment of the solutions. Ditto on governance and strategy processes: It is well and good that companies create impact-related committees on the Board and dedicated cross-functional committees, but they typically do not include representatives of strategic stakeholders (customers, suppliers, and certainly not communities). The road from impact strategy integration as part of business strategy formation to stakeholder (representatives') integration in business strategy processes is still long and potentially fraught.

**Experimentation.** Experimentation is the key way to accelerate the transition towards both content and process strategy integration. The evidence-based identification of the most impactful innovations, change, learning and scaling processes can generate a significant acceleration in the impact transition, by setting up experimental designs for piloting the inclusion of relevant stakeholder reps in the process of business model innovation, strategic decision-making and governance,.

**Inside-out or Outside-in?** Another important, and often under-explored, question, has to do with how to sequence the organisational changes required in the development of impact maturity. In one approach, proposed by several global institutions (e.g. UN Global Compact) and business networks (e.g. WBCSD), the sequence starts from purpose adaptation, then proceeds with strategy, organisational change and then generating product/business model innovation (what we call an "inside-out" process). An alternative is to start from engaging the relevant stakeholders in business model innovation across product, labour, financial and resource markets, and then leverage the results of these innovations to develop evidence-based integrated business and impact strategy proposals. Those proposals then, once approved by the ExCom or Board, determine the required organisational change initiatives, including incentive and control systems, operating and cultural change initiatives, and eventually governance adaptations. In this model, the adaptation of purpose, though useful for justifying the initial innovation initiatives, is the consequence, rather than the antecedent, of increasingly mature impact and business strategy integration.

## 5.2 Insights for Investors

**Double perspective of Financial Institutions.** Financial institutions can be seen through two lenses: as business organisations driving their own impact transition while investing in, and providing service for, companies across all sectors and geographies. Or, they're businesses whose considerations are similar to the ones above, but with much more complex and intertwined implications for asset allocation strategies.

Even if the assessment of a company's maturity across all the dimensions can be extremely helpful in making investment decisions, it does not substitute for current practice. We view it as complementary to standard investment strategy approaches.

**Impact on Investment Strategies.** To this end, the report's insights for financial institutions and investors can be leveraged in multiple ways, overcoming some of the well-known limitations of existing ESG rating models (firm-level, subjective and qualitative assessment, low multi-rater reliability across different ESG ratings, etc.). Moreover, stronger focus has been given to environmental impact with significant constraints on the assessment of the social impact of corporate initiatives.

The integration of the Business Impact Maturity Framework in the development of behavioural index and rating models, based on the large-scale analysis of impact initiatives, can help discern the companies with effective transformational strategies, vs. those that are focusing mostly on Advocacy actions, with higher risks of green/white-washing behaviour.

**Enacting Active Investment Strategies.** Many financial institutions are moving beyond this initial step and are now reshaping their role to support the acceleration of their customers' sustainability transition by developing new products and services (i.e. advisory). This advanced approach requires a deep redesign of the whole organisation: the creation of new services focused on business transitions to both environmental and social impact goals, tailored for clients in each sector, each customer size class and governance type (listed, family-owned, hybrid, etc.). This unprecedented, radical product and business model innovation effort needs to be done not only for, but also with, the key stakeholders (customers, employees, suppliers and partners, local communities). The maturity development challenge needs to be tackled quickly, making repositioning and rapidly transforming the role of the CSO and the related function essential. The CSO must be a core member of the executive leadership team, with specific responsibilities connected to internal impact through operating, organisational, and cultural change, and external impact through innovation.

**Driving Systemic Change.** At higher maturity levels, financial institutions' ability to differentiate themselves will rely fundamentally on their capacity for collaboration. In each business eco-system that they serve, financial institutions need to work with the right actor to identify the societal challenges, test the co-design of collaborative, coordinated, change initiatives, and eventually scale across geographies and related eco-systems. Financial institutions, in fact, can not only support the sustainability transitions through their pricing and structuring, but they can also leverage their convening power to stimulate the acceleration of the private and public sector's coordinated, collaborative action to achieve the UN 2030 (and 2050) Agenda with the required multi-level transformational change in the socio-economic system, at the highest possible speed.

## 5.3 Insights for NGOs and Local Communities

**Moving Beyond Donations.** The evolution of the role of Business towards more sustainable and inclusive business logistics has radical consequences also for those actors that regularly interact with companies. In particular, the interaction between companies and NGOs is typically focused on the capacity of the latter to sense the needs of local communities and provide solutions. This interaction is rewarded by companies through donations and funding. This simpler mechanism is adopted by many companies in the initial phases of sustainability strategies, but it has perilous consequences, as it doesn't deeply impact the business model of the engaged companies and produces a dependence for NGOs on non-strategic, volatile funding.

**Towards Systemic Business Model Innovations.** The radical shift of companies towards innovative business models provides an unlimited opportunity for NGOs and local communities to co-shape new solutions able to generate social and environmental value to be shared, and potentially scaled, with businesses. These long-term partnerships imply a much deeper and continuous engagement and can become collaborative learning platforms with mutually beneficial, scalable impact. These new abilities to deliver systemic solutions represent a new distinctive driver of competitive advantage both for businesses as well as for NGOs.

## 5.4 Insights for Policy Makers

The present report doesn't aim at exploring in depth the implications for policy makers, which will be investigated in future research. Nevertheless, some initial considerations can be highlighted.

**A New Generation of Policy Interventions.** The Business Impact Framework provides a distinctive tool for identifying the behaviours with the strongest impact vs. those with a marginal one. The distinction between reputational initiatives, more prone to greenwashing, and initiatives focused on innovation, already advocates for the portfolios of actions to be disincentivised or incentivised. This new generation of policy interventions will emerge as a necessary enhancement of the existing legal frameworks primarily concentrated on sustainability reporting, without a clear recognition of the most impactful interventions to be incentivised or disincentivised.

**Immediate Applicability.** The immediate applicability of the Business Impact Framework offers a science-based, powerful, and comprehensive tool for a short-term implementation across all the sectors and geographies. The Business Impact Framework can also be adapted to specific sector-level interventions and tailored to the level of development of different geographies. The urgency of acceleration of the transition of businesses toward more impactful actions requires extensive experimentation in this new generation of potential policy interventions at sector and country level. Cross-disciplinary research is already exploring these frontier themes.

# 6 Annex

## ANNEX 1
## Semi-structured Interview protocol:

- What is your official title?
- What are your primary responsibilities?
- Who (what position) do you report to?
- How long has the CSO/your role existed in your organisation? How long have you been in the role?
- What is your functional background/training?
- How would you summarise your company's sustainability strategy?
- Do you engage stakeholders in the development process of your sustainability strategy?
    - How do you engage stakeholders? (Engage deeper by asking about specific areas and solutions—selecting, scaling, piloting)
    - Who is responsible for the engagement process?
- What do you believe are the strengths of your sustainability strategy?
- Where do you perceive gaps/ weaknesses in your sustainability strategy?
- What are the challenges (pain points) around implementing your sustainability strategy?
    - How do the pain points affect your organisation?
    - How do you address these pain points?
    - Do you know of any peers who have addressed these pain points successfully?
- How is your organisation's sustainability strategy integrated with your business strategy?
- How is the sustainability strategy expected to bring value to your organisation?
- How are sustainability initiatives usually developed in your organisation?
    - Do you have any examples of business models in your organisation which are directly connected to your sustainability goals?
    - How were the Business Model Innovation models connected with sustainability developed? (If they answered yes)
    - Do you develop these initiatives within the company or do you engage with other stakeholders?
- How do you assess the environmental and social impacts generated by your sustainability strategy?
- How does your sustainability strategy differ from that of your peers?
- How are you rated by external parties on your sustainability efforts?
- Who are your peers who are more advanced in their sustainability efforts? What are they doing better than you?

## Annex 2
## Participating Companies

| Company name | Industry | Country |
|---|---|---|
| Abrdn | Financial services | UK |
| Amundi | Financial services | France |
| Axa | Insurance | France |
| Baringa | Consultancy | UK |
| BASF | Chemical | Germany |
| BayWa r.e. | Energy | Germany |
| Bel Group | Consumer staples | France |
| BNP Paribas Cardif | Insurance | France |
| BT Group | ICT | UK |
| Bupa | Insurance | UK |
| Carrefour | Consumer goods retail | France |
| Chloe | Luxury goods | France |
| Danske Bank | Banking | Denmark |
| Deutsche Bank | Banking | Germany |
| Ferrero | Consumer staples | Italy |
| Grundfos | Manufacturing | Denmark |
| Hermes | Luxury goods | France |
| Hirschvogel | Manufacturing | Germany |
| Klueber Lubrication | Oil and Gas | Germany |
| LEGO | Consumer discretionary | Denmark |
| Lloyd's Bank | Banking | UK |
| Manulife | Insurance | Canada |
| Michelin | Manufacturing | France |
| Noventi | Financial services | Italy |
| Omnicom | Communications | USA |
| Pernod Ricard | Consumer discretionary | France |
| RSK | Engineering | UK |
| SAP | Software | Germany |
| Schneider Electric | Manufacturing | France |
| Shell | Oil and Gas | UK |
| Société General | Banking | France |
| Standard Chartered | Banking | UK |
| Steelcase | Manufacturing | USA |
| Unilever | Consumer staples | Netherlands |
| Virgin Media O2 | ICT | UK |
| West Fraser | Forestry | Canada |
| World Economic Forum | Other | Switzerland |

## Annex 3
## Survey Questions Overview

1. Does your organisation have a strategic sustainability board/ committee?

2. Does your organisation have a sustainability department?

3. What is the percentage (%) of Board members that represent non-shareholder interests?

4. Is there a regular process to assess stakeholder interests and needs?

5. Do you rank the stakeholders in order of importance based on your company's sustainability policy?

6. Do you share non-retained earnings with your stakeholders?

7. To what extent is sustainability embedded in your organisations' purpose or mission statement?

8. Do you use incentive systems in connection with your sustainability strategy?

9. Does your organisation publish sustainability reports?
   Does your organisation publish integrated reports?

10. Do you think some of your peers are more advanced than you in their sustainability efforts?

11. Who do you compare your company with (peers) from a sustainability perspective?

## Annex 4
## The GOLDEN Data Matrix

The matrix below shows the aggregated results of the analysis of corporate sustainability reports for the years 2020 and 2021 entire sample of the GOLDEN Sustainability Database.

| | | People | | | | | | Planet | | | | | | Prosperity | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | SDG 1: Poverty | SDG 2: Hunger | SDG 3: Health | SDG 4: Educa-tion | SDG 5: Gender | SDG 10: Inequali-ties | SDG 6: Water | SDG 7: Energy | SDG 12: Produc-tion | SDG 13: Climate | SDG14: Under Water | SDG 15: Above Land | SDG 8: Work | SDG 9: Innova-tion | SDG 11: Cities | SDG 16: Peace | SDG 17: Partner-ships | Total |
| Advocacy 47% | Communication | 0% | 0% | 3% | 1% | 1% | 1% | 0% | 0% | 2% | 0% | 0% | 1% | 2% | 0% | 0% | 1% | 0% | **12%** |
| | Donation & Funding | 0% | 2% | 8% | 7% | 1% | 1% | 1% | 1% | 1% | 0% | 0% | 2% | 2% | 0% | 2% | 0% | 0% | **29%** |
| | Association | 0% | 0% | 1% | 1% | 0% | 0% | 0% | 0% | 1% | 0% | 0% | 1% | 0% | 0% | 0% | 0% | 0% | **6%** |
| Measurement 6% | Adoption of Standards and Rules | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | **0%** |
| | Assessment and Measurement | 0% | 0% | 0% | 0% | 0% | 0% | 1% | 0% | 2% | 0% | 0% | 1% | 1% | 0% | 0% | 0% | 0% | **6%** |
| | Training | 0% | 0% | 1% | 7% | 1% | 0% | 0% | 0% | 1% | 0% | 0% | 0% | 3% | 0% | 0% | 2% | 0% | **16%** |
| | Incentives | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 1% | 0% | 0% | 0% | 0% | **1%** |
| | Volunteerism | 0% | 0% | 1% | 1% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 1% | 1% | 0% | 0% | 0% | 0% | **6%** |
| Adaption 20% | Asset Modification | 0% | 0% | 0% | 0% | 0% | 0% | 1% | 3% | 2% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | **7%** |
| | Modification of Procedures | 0% | 0% | 1% | 0% | 0% | 0% | 1% | 1% | 4% | 0% | 0% | 0% | 2% | 0% | 0% | 1% | 0% | **11%** |
| | Pricing | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | **0%** |
| | Organisational Structuring | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | **2%** |
| Innovation 4% | New Products | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 1% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | **2%** |
| | R&D Investments | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 1% | 1% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | **2%** |
| | Total | **1%** | **3%** | **16%** | **17%** | **3%** | **4%** | **4%** | **7%** | **17%** | **0%** | **0%** | **6%** | **14%** | **0%** | **4%** | **4%** | **0%** | **100%** |

## Annex 5
## Glossary

**Definitions:**

**Compliance**: stay in line/keep up with regulations, managing reputational and business risk as described by regulatory and reporting frameworks. By definition, it excludes the possibility to create distinctiveness and advantage through sustainability strategies and advanced maturity stages.

**ESG:** how corporations and investors integrate Environmental, Social, and Governance concerns into their business models.

**Impact Maturity**: this integration process evolves over time through the development of Impact-related learning and adaptation capabilities, mindsets and culture (or, "collective capacity"). In turn, the development of impact maturity requires investment of managerial attention, effort and resources to progressively identify the linkages between impact and business strategy, align and finally integrate the company's impact strategy with its business strategy. At the highest level of maturity, in fact, the two strategies are, by definition, one and the same.

**Impact Maturity framework**:
Maturity levels can be assessed through different behavioural, cognitive and structural indicators:

- Behavioural. These indicators relate to the portfolio of impact initiatives launched and executed by the company. Maturity levels are connected to the extent this portfolio increasingly prioritises organisational capacity building, structural, operating and strategic change, and product, process and business model innovation vis-a-vis advocacy and communication
- Cognitive indicators have to do with the way managers conceive of and frame in their mind:
- The challenges faced by the company in its aspirations to generate positive social and environmental impact. Increasing levels of maturity generate more complex and articulated challenges. At the highest maturity level managers frame the impact challenges in terms of leading the systemic evolution (in their relevant eco-socio-economic systems) toward environmental regeneration and societal flourishing (defined as the elevation of human potential).
- The logical linkages between the company's impact and the business strategies. At the highest maturity level, managers frame and articulate the way in which, by delivering on impact strategies, the company can accomplish its business goals and create (economic and non-economic) value for its key stakeholders and the relevant eco-socio-economic systems.

Structural arrangements that

- enable the sustainability function to influence the strategic choices by positioning it on equal status with the other functions represented in the executive committee (C-suite)
- integrate impact targets in individual and collective incentive systems (see above)
- integrate stakeholder voice in governance and strategic decision-making structures

- At the highest maturity level, companies will have structurally integrated social and economic impact in business strategies, activities, culture, and identity, so that a dedicated structure specialised in social and environmental impact strategy and delivery will not be necessary anymore.

- **Impact Strategy**: a specified set of actions aiming at achieving the company's social and environmental impact targets, in a **distinctive** way vis-à-vis competitors.

**Scope 1,2,3:** Green-house gas (GHG) emissions can be classified in 3 'scopes': Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy. Scope 3 emissions are all indirect emissions occurring in the corporate value chain, both upstream and downstream, and which are not part to scope 2.

- **Strategic integration**: go beyond compliance and develop business strategy (innovation, growth, differentiation, efficiency, etc.) through the development and execution of Impact Strategy (targets, initiatives and results). If Impact Strategy is integrated in business strategy, we talk about Impact-driven:
- Innovation
- Growth
- Differentiation
- Efficiency

**Sustainable Development Goals (SDGs):** the global milestones set by the world leaders collectively in 2015 aiming for laying a solid foundation by 2030 for achieving long-term sustainable development.

# About the Leonardo Centre

The Leonardo Centre on Business for Society (Leonardo Centre), Imperial College Business School, is a Centre of Excellence that envisions a society where companies pursue profit for societal impact. We believe that environmental destruction and social and economic injustice are not inevitable consequences of economic growth.

We bring together scholars who span engineering, social and medical science with businesses and policymakers to co-create solutions for a more sustainable future.

A unique aspect of our work is the GOLDEN for Impact dataset – an AI based dataset which features more than 900,000 corporate sustainability initiatives from over 9,000 companies, from the past 20 years.

By combining the expertise and insight brought through collaboration with data-driven quantitative assessment of the financial, environmental, and social impacts of business actions we aim to build a truly sustainable business future.

We welcome committed leaders to explore this transformational journey with us.

E: leonardo.centre@imperial.ac.uk

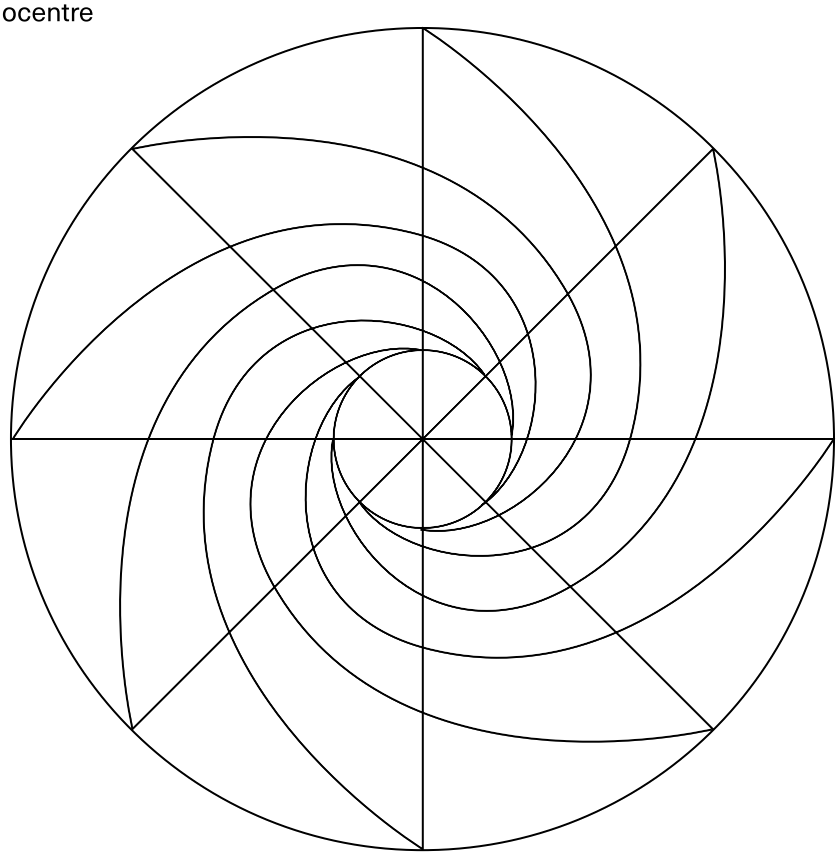
imprl.biz/leonardocentre

# About Emeritus

Emeritus is committed to teaching the skills of the future by making high-quality education accessible and affordable to individuals, companies and governments around the world. It does this by collaborating with more than 80+ top-tier universities across the United States, Europe, Latin America, Southeast Asia, India and China. Emeritus' short courses, degree programs, professional certificates and senior executive programs help individuals learn new skills and transform their lives, companies and organisations. Its unique model of state-of-the-art technology, curriculum innovation and hands-on instruction from senior faculty, mentors and coaches has educated more than 300,000 individuals across 80+ countries. Founded in 2015, Emeritus, part of Eruditus Group, has offices in Mumbai, New Delhi, Shanghai, Singapore, Palo Alto, Mexico City, New York, Boston, London and Dubai.

For more information, please visit

emeritus.org



**Authors**

Maurizio Zollo, Frank Brueck, Kevin Corley,
Esther Hennchen, Priyal Singh, Livio Scalvini

**Acknowledgments:**

Special thanks to go to Anand Chopra-McGowan, Wallis Post and Ryan Douglass from the Emeritus team and to Charlotte Kincaid, Matteo Burato and Yvonne Aftyka from the Leonardo Centre for their contributions and support in the development of this report.



E: leonardo.centre@imperial.ac.uk

**The Leonardo Centre on Business for Society**
Imperial College Business School
South Kensington Campus
London SW7 2AZ
United Kingdom

**E: leonardo.centre@imperial.ac.uk**

**imperial.ac.uk/business-school/
leonardo-centre-business-society**

**Imperial College London**