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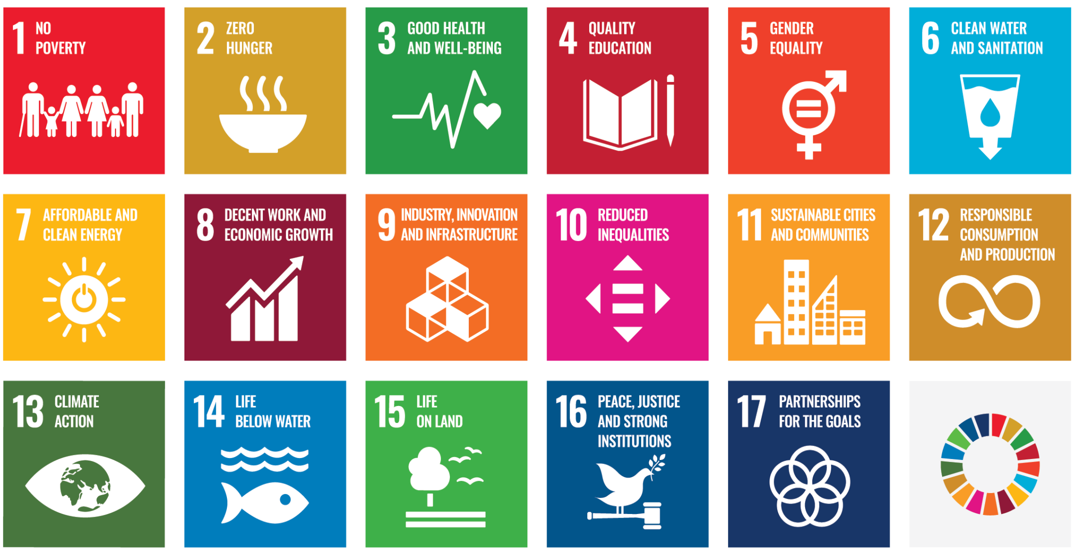
Paper

Sustainable Development Goals (SDGs) - Added value for companies?

by Lola Nacke, intern



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Sustainable development goals (SDGs) - added value for companies?

INTRODUCTION

Sustainability strategies and reporting have become common practice among businesses, not only to fulfil legal requirements, but also to address sustainability-related risks, unlock business opportunities and address stakeholders' concerns and interests.

As the Sustainable Development Goals (SDGs) are well-known across stakeholder groups including customers, investors, employees and government organisations, should companies incorporate them in their strategies and reporting?

Is there added value for companies in aligning with the SDGs, and if so, how should they go about it?

Drawing on online publications, best-practice examples and interviews with sustainability professionals from Sweden (AP7, Trelleborg AB), Germany (Aareal Bank) and England (Hermes Investment Management), this report finds that, while there are several challenges to overcome, the SDGs can help companies communicate their sustainability practices more effectively, and fulfil stakeholders' constantly evolving expectations.

KEY FINDINGS

→ There are several arguments in favor of including the SDGs in sustainability strategies and reporting:
- open business opportunities
- manage risks
- fulfil information needs of investors
- facilitate communication with stakeholders across countries and organizational types

→ There are several challenges linked to businesses' making use of the SDGs:
- Many organizations have already invested in reporting frameworks such as GRI or IR and the SDGs can be difficult to use in parallell or as replacement for such reporting frameworks.
- The SDGs are complex by nature, often adressing global policy isssues, thus making it less easy for corporations to align with their current sustainability frameworks

→ The use of the SDGs consequently have different levels of integration with the strategy of corporations:
- Linking the SDGs to existing strategy and targets through a mapping exercise
- Including the SDGs in an already existing business strategy
- Use the SDGs to develop a new SDG-aligned sustainability strategy

About the SDGs

In 2015, the United Nations formulated 17 Sustainable Development Goals (SDGs) and 169 underlying targets, which are globally and universally applicable, i.e. across all countries and sectors. The SDGs include social, environmental and governance-related areas. Governments, industry and civil society all have a role to play in reaching the SDGs. When they were formulated, it was envisaged to reach these goals by 2030. However, there are still significant gaps towards reaching these goals, which reinforces the need for all organizations to collaborate and engage in action to make these goals a reality. Another challenge is the interconnectedness of the different SDGs: while addressing one goal can reinforce progress towards another goal, it may undermine progress towards a third one. To assess and track progress towards the SDGs, target-setting and reporting is essential.

Non-financial reporting and including sustainability criteria in companies' strategies and roadmaps has become a mainstream practice in recent years, across sectors and countries. They help companies innovate, tap into new opportunities for innovative products and services, and manage risks related to social and environmental developments. There are many established frameworks and methods to set environmental, social and governance (ESG-) targets and indicators, and how to report on them.

Most companies already have a strategy or system, and adopting a new framework guided by the SDGs, or incorporating the SDGs into the already existing system means investing time and resources. Is the added value of including the SDGs worth this investment? Do stakeholders expect active reporting on the SDGs?

THERE IS A CASE TO REPORT ON THE SDGs

Meeting stakeholder information needs

The interviews conducted indicate that investors, employees and partner companies **expect or would like to see targets related to the SDGs.** Investors of the "Principles for Responsible Investment" (PRI) perceive the SDGs as an "unavoidable consideration for 'universal owners'" (PRI SDG investment case), i.e. those investors with a particularly diversified portfolio, who have an interest in the positive development of the global market. However, **ESG-factors have also started to affect individual companies' valuations in the stock market**, which is why investors have started to increasingly track this information.

Some companies start to expect SDG-related reporting from their suppliers (e.g. Axfood). Finally, the SDGs are well known and easily communicable – which might facilitate not only external but also internal communication on sustainability-targets, for instance towards employees. Rosman Jahja, Vice President Corporate Responsibility at Trelleborg AB, states that "The SDGs are better known than other frameworks, such as GRI, will ever be." This is why **the SDGs can become a common language** not only across sustainability reporting in different countries and sectors, but also across organisational types: governments and other public agencies understand the SDGs and can thus communicate better with businesses.

At the same time, **the SDGs can help address other audiences within the company**: CEOs and boards of directors might be more open to the language of business opportunities, employees can be motivated though addressing global challenges. Companies' efforts can be more easily communicated to their customers. This can thus facilitate stakeholder dialogues on sustainability issues.

It is thus also possible that some stakeholders, e.g. investors, prefer SDG-related reporting. In fact, investors increasingly focus on the SDGs, as Flora Gabor from Swedish pension fund AP7 states. She emphasizes that AP7 currently looks at SDG-related reporting, but that **"we need better and more standardized reporting, especially on social indicators, on human rights and working conditions."**

Unlocking potential

Forming a strategy around the SDGs can alleviate potential for innovation through the creation of new products and services which support the achievement of the SDGs. Adjusting business strategies can make existing products or processes more sustainable, while simultaneously facilitate growth. At Trelleborg, the SDGs are for instance used for inspiration for product development and innovation. Companies could even **move into new markets through innovative and problem-solving products and services** that are inspired by the SDGs: If a business model successfully addresses an SDG-related challenge in one country, it is worth assessing whether the same challenge exists in other places. **The same strategy can be applied to companies' internal processes** – if, for instance, a challenge related to gender equality was successfully addressed in one branch of a company, it would be worth expanding this solution to other facilities.

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Using the SDGs to understand the risk landscape

As social and environmental circumstances are changing, the SDGs can help manage new risks arising through these developments. For instance, governments might adopt stricter regulations regarding corporate activities and their consequences for the environment. Consumers, employees and shareholders might become more aware of the effects of corporate activities on the environment and adjust their behavior accordingly. Investors, as mentioned above, are starting to adjust their strategies to the SDGs. Consumers might start choosing companies according to their consideration of their social and environmental impact. Finally, the changing climate and social inequalities themselves are risks to business operations.

Challenges to overcome

However, there are certainly also challenges connected to involving the SDGs in an already existing sustainability strategy and reporting framework, as suggested by a study released by PwC. While out of over 700 companies, 50% identified priority SDGs, only 23% had KPIs or targets related to those SDGs, and only 27% mentioned them in their business strategy.

To some extent the applicability of the SDGs to business has been questioned since many of the targets are more directed towards governments. In a report, Hermes Investment Management concluded that less than 40% of the underlying SDG targets (total of 169) are “engageable and investable” for private businesses. German Aareal Bank directly reports on the SDGs only through the UN Global Compact and is not planning on systematically focusing on the SDGs in their upcoming sustainability strategy:

“We address many SDG-related themes in our object-valuation, or in our sustainability strategy. But we do not see the necessity to specifically track this through an SDG-lens besides through the UN Global Compact”,

said the sustainability managers of the bank. They find that individual investors sometimes ask for SDG-related information, and some rating agencies ask SDG-related questions, but this information can be supplied on a case-by-case basis.

Using the SDGs – Yes or no, and how?
Having reviewed both the advantages and challenges of SDG-related reporting and target-setting, the question remains whether the added value of integrating the SDGs outweighs these challenges. Deciding whether to include the SDGs into the current framework might be sector- and company-specific:

- Could the SDGs add new perspectives to your previous understanding of your business' sustainability context and add new insights into risks?

- If most peers in your sector are already reporting on the SDGs, this might be a reason to consider doing the same, in order not to be left behind and to find common ground within the industry.

- You might want to start asking specifically about the SDGs in stakeholder dialogues, for instance with investors and shareholders, suppliers, employees and customers to remain aware of their perspectives on the SDGs. It is possible that they are not currently interested in the SDGs but might become more aware if governments or other businesses increasingly start to act on the SDGs.

If a decision is made to incorporate the SDGs into business strategy, there are several ways to realise this. Generally, it is important to note that it is not always necessary to include all 17 SDGs. **In fact, investors may even see reporting on all SDGs as negative.** According to one interviewed ESG-professional from an asset management firm this is one of the biggest mistakes companies do with the SDGs. This as it is virtually impossible to substantially positively impact all 17 SDGs. Focusing on those goals most material to a business can make reporting more efficient and focused. It is also important to not only acknowledge that there are 17 SDGs, but also underlying targets. **These targets can help companies understand the relevance of their own operations to the SDGs and provide guidance on how to set their own targets.**

The SDGs can be linked to existing goals
If company goals, targets or KPIs are already identified, it might be a good start to conduct a mapping exercise and understand which company goal matches which SDG, or even SDG target. The relevant SDGs can then be added to the sustainability or integrated report in relation to the already relevant goals. Example: Iberdrola

The SDGs can become part of an already existing business strategy
One further step could be to review the existing business strategy and add relevant SDGs and SDG-targets to this document or framework. This might further embed the SDGs into the company's governance. Example: Heineken, Axfood, Danone

The SDGs can set the framework for developing a new strategy and targets
If it is time for a new roadmap or strategy, the SDGs can work as a framework to develop goals and targets that should be met. Example: Pernod Ricard

Matching the SDGs with other frameworks
It is likely that a company has already adopted a framework or method for target-setting and reporting on social and environmental criteria. Some of the most common ones are the GRI, the IR framework and ISO 26000. In the full report, there is more in-depth information on how to link reporting on the SDGs with each of these frameworks and describe some best-practice examples.

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On the horizon ...

As this report has shown, a lot is happening regarding the involvement of ESG and SDG-related information in investment and business strategies – and even more seems to be coming up in the future:

- Target-setting, impact assessments and reporting: The Corporate Reporting Dialogue is working on aligning different reporting frameworks and the Science-based Targets Initiative is looking to expand science-based targets beyond carbon emissions.

- Sustainable finance: Stock exchanges become more actively involved in sustainable finance, for instance through forming the Sustainable Stock Exchanges Initiative, or through launching "green exchange" platforms (LGX), "a dedicated platform for green, social and sustainable securities", as the Luxemburg Stock Exchange has done.

- Stakeholder involvement: Seems to become even more essential as awareness of sustainability-related issues is rising. Aareal Bank, for instance, received an information request recently regarding their work on the "fair and just transition" to a more sustainable society, providing one example of how stakeholders' expectations are constantly changing.

Want to read the full report?

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anamaria@tomorrowtoday.se

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