Fourth Quarter 2021
Profitably improving the world:
Get set for environmental and social impact

How to Lift ESG Data Quality to Investment-Grade

Does Your Organization Need a Chief Sustainability Officer?

3 Tactics From Bayer to Set Up Suppliers for Sustainability Success

ESG Measures That Matter: A Q&A With Deutsche Post DHL Group’s CFO Melanie Kreis

Accountability Fuels a Sustainable Investment Strategy: A Q&A with CalPERS’ Anne Simpson

Innovating With Big Tech to Solve Social Problems: A Q&A With the Asian Development Bank’s Ozzeir Khan
Profitably Improving the World

Letter From the Editor

It’s time to treat social-impact performance with a level of rigor and oversight that’s long been applied to financial and operational performance. That’s the only way to keep eyes on the prize and to drive and measure progress.

With Earth’s climate changing, a pandemic continuing, inequality widening and trust eroding, investors and regulators are now firmly fixed on how companies contribute to, or damage, the world at large. Improvement can widen access to the swelling coffers of ESG funds and exchanges, and to sustainability-linked loans.1 If you get employees and customers involved in your efforts, you’ll get an extra shot of loyalty (we’ll tell you how). And of course, your initiatives can help affect the balance of nature, the fairness of the global economy and the health and safety of nearly 8 billion people. Executives in every corner of the C-suite tell us they aren’t sure where to start. This edition of Gartner Business Quarterly offers a compass to help you set off in the right direction.

Figuring out which issues are crucial to your business, collecting and verifying consistent data sets, setting clear lines of responsibility and accountability — the typical organization isn’t set up to tackle these challenges. Only 29% of internal audit executives say they are highly confident in their ability to offer assurance over environmental and social commitments and reporting.2

In the short articles inside, you’ll find real-world experience from an international group of organizations — large and midsize, private and public — including DHL, Bayer, the Asian Development Bank, Verizon, Suncor and Schneider Electric.

GBQ helps you align with others and reach peak effectiveness so your enterprise can achieve its goals; be bold and principled; and bring employees, investors and the public along for the ride. Our standing departments keep you up to speed — Cutting Edge, cool new data points; and Briefs, short takes about the latest move: linking social impact goals to 30% of the bonuses for top executive leaders.


2 2022 Audit Key Priorities and Risks Survey, n = 152

Feature Articles

10 How to Lift ESG Data Quality to Investment-Grade

Bringing the rigor of enterprise financial reporting to ESG requires investment in education and training to develop consistency and appropriate controls for data collection — basics such as standard emissions factors, units of measure and system boundaries. Executives must also use this information differently. And it all takes time. So take the long view and get started now.

14 ESG Measures That Matter: A Q&A With Deutsche Post DHL Group’s CFO Melanie Kreis

CFO Melanie Kreis explains how Deutsche Post DHL Group is creating metrics, tracking progress and reporting results for social and environmental objectives in ways that mirror financial performance monitoring. The latest move: linking social impact goals to 30% of the bonuses for top executive leaders.

17 Does Your Organization Need a Chief Sustainability Officer?

Crucial to your organization’s credibility on sustainability and social issues is the way the enterprise sets up management and oversight. Each decision — reporting lines, cross-functional partnerships, accountability — is a signal of how executive leaders view the path to progress. Don’t look for an established blueprint; there is none. Here’s a look at benchmarks and examples from Schneider Electric, Suncor and Verizon.
Emerging Risks: Where Attention Must Be Paid

Where are executives investing attention disproportionally in risks their organization can handle if they materialize? And where are leaders missing potential threats they should prepare for? The chart below reveals misalignments in areas such as the commercial real estate surplus and health-related privacy — and blind spots such as material shortages and inflationary pressures.

**Note:** Level of Attention was assessed on a scale from 1 (our organization is not at all prepared for this risk’s potential impact, e.g., hasn’t come up in formal conversations, no actions taken yet) to 5 (our organization is thoroughly prepared for this risk’s potential impact, e.g., actively discussed, steps put in place to prepare).

**Risk Score = SQRT (Impact x Inverse Timeframe) x Frequency Selected as a Top-10 Emerging Risk**

<table>
<thead>
<tr>
<th>Misalignment Indicated</th>
<th>Balance Indicated</th>
<th>Blind Spots Indicated</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Commercial Real Estate Surplus</td>
<td>• Diversity, Equity and Inclusion Responsiveness</td>
<td>• Key Material Shortages</td>
</tr>
<tr>
<td>• Health-Related Privacy</td>
<td>• ESG Implementation Challenges</td>
<td>• Inflationary Pressures</td>
</tr>
<tr>
<td>• Intellectual Property Protection</td>
<td>• Critical Infrastructure Failure</td>
<td>• Evolving Socio-Political Expectations</td>
</tr>
<tr>
<td>• Climate Activism</td>
<td>• Supply Chain Disruptions</td>
<td>• Hybrid Workforce Disparities</td>
</tr>
</tbody>
</table>

**Average Level of Attention**

<table>
<thead>
<tr>
<th>Average Risk Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>n = 294</td>
</tr>
</tbody>
</table>

Source: 2021 Gartner Q3 Emerging Risks Survey

Feature Articles

23 4 Ways Leaders Must Change the Board’s ESG Oversight

The general counsel, corporate secretaries and other C-suite leaders must use the corporate mission statement to focus directors on core ESG values, recruit members with ESG skills and experience, update committee assignments to reflect the importance of ESG and validate ESG strategy and goals.

28 Accountability Fuels a Sustainable Investment Strategy: A Q&A with CalPERS’ Anne Simpson

Anne Simpson is the managing investment director for board governance and sustainability at CalPERS, the largest public pension fund in the U.S. She has been hailed as one of the 100 “most influential women in U.S. finance” by Barron’s, and one of the 100 “most influential leaders in the boardroom” by the National Association of Corporate Directors. Simpson discussed how CalPERS puts a premium on accountability; the board, reporting lines and compensation structure. She explains why she believes activism is more effective than divestment — with a backstage glimpse at the successful push for new directors at Exxon.

31 3 Tactics From Bayer to Set Up Suppliers for Sustainability Success

Bayer’s chief of procurement explains how the company uses specific standards, concrete examples of best practices and data sharing — even with industry rivals — to make sure vendors meet expectations on issues as disparate as environmental impact and forced labor.

34 Revamp How You Decide Which ESG Issues Matter Most

ESG issues previously deemed irrelevant to financial performance can quickly become relevant; in the last two years, the pandemic, natural disasters and social upheaval provided proof. To avoid surprises and stay competitive, the exercise known as the materiality assessment must get more strategic.

42 The Whiteboard: Big Questions About Responding to Social Fractures

If you aren’t connected to the rest of society, you don’t have a business. But when society is fragmented or polarized, how do you build that bond? At such times, organizations should work harder to add their voice to the discourse in a way that improves collective outcomes. It’s time to head to the whiteboard …

50 Innovating With Big Tech to Solve Social Problems: A Q&A With the Asian Development Bank’s Ozzeir Khan

ADB needed help on ESG issues from digital giants such as Microsoft, Google and Amazon — companies with patient investors, deep pockets and talent benches, and a mastery of monetizing data. Khan told us about his lessons learned.

54 Give Stakeholders Credit for Company ESG Efforts and They’ll Repay You With Loyalty

Commitments to socially conscious activities aren’t enough to drive brand loyalty and advocacy. Executive leaders must go a step further: show stakeholders how they contribute to and benefit from sustainable business efforts. Let them share in your success.
The Trust Deficit

To get honest feedback about the effectiveness of new ways of working and win support for strategic direction, executives must close the gap in the level of faith in the organization — significantly lower percentages of individual contributors believe in their organizations’ honesty in communications, fairness when it comes to recognition of contributions and the confidence that leaders place in them.

Considerable Disparity Between Executives’ and Individual Contributors’ Views

<table>
<thead>
<tr>
<th>Perception</th>
<th>Executive</th>
<th>Individual Contributor</th>
</tr>
</thead>
<tbody>
<tr>
<td>I Trust the Communications That Come From My Organization</td>
<td>76%</td>
<td>55%</td>
</tr>
<tr>
<td>Senior Leadership Acts in My Best Interests</td>
<td>69%</td>
<td>41%</td>
</tr>
<tr>
<td>Leadership Demonstrates High Levels of Trust Towards Employees</td>
<td>74%</td>
<td>53%</td>
</tr>
<tr>
<td>My Organization Trusts in Employees to Not Abuse Work Flexibility</td>
<td>70%</td>
<td>58%</td>
</tr>
<tr>
<td>I Feel Welcome to Express My True Feelings at Work</td>
<td>74%</td>
<td>56%</td>
</tr>
<tr>
<td>Employees at My Organization Are Fairly Rewarded and Recognized</td>
<td>73%</td>
<td>47%</td>
</tr>
</tbody>
</table>

Bridge this chasm by:

1. Including diverse groups in crafting and testing communications to maximize resonance.
2. Being as explicit as possible to reduce confusion. Clearly articulating what you know and don’t know, or what you’ll do and won’t do, will reduce the risk of inconsistent messages.
3. Tracking differences in sentiment across different employee segments — such as age, tenure, level in the organization, function — over time. This will reveal any issues you might miss by simply looking at averages.

96% of Executives Expect Vaccine Mandate-Driven Turnover

Global HR, finance, legal, operations and marketing and public relations executives told us they expect that, on average, 6.4% of the workforce will leave — voluntarily or involuntarily — because of vaccine and testing requirements. They expect the hardest-hit functions to be operations and IT.

Percentage of Workforce Expected to Quit or Be Terminated Because of Mandatory Vaccine/Testing Requirements

<table>
<thead>
<tr>
<th>Percentage of Executives Selecting</th>
<th>Percentage of Workforce to Be Terminated</th>
</tr>
</thead>
<tbody>
<tr>
<td>0%</td>
<td>4%</td>
</tr>
<tr>
<td>1-2%</td>
<td>23%</td>
</tr>
<tr>
<td>3-5%</td>
<td>32%</td>
</tr>
<tr>
<td>6-10%</td>
<td>24%</td>
</tr>
<tr>
<td>11-15%</td>
<td>10%</td>
</tr>
<tr>
<td>16% or More</td>
<td>7%</td>
</tr>
</tbody>
</table>

n = 181

Functions With Highest Perceived Attrition Risk

Percentage of Executives Leaders (Up to Three Responses Allowed)

<table>
<thead>
<tr>
<th>Function</th>
<th>October</th>
<th>September</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations</td>
<td>64%</td>
<td>72%</td>
</tr>
<tr>
<td>IT</td>
<td>36%</td>
<td>44%</td>
</tr>
<tr>
<td>Sales and Marketing</td>
<td>25%</td>
<td>32%</td>
</tr>
<tr>
<td>Finance and Accounting</td>
<td>19%</td>
<td>22%</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>16%</td>
<td>16%</td>
</tr>
<tr>
<td>HR</td>
<td>12%</td>
<td>15%</td>
</tr>
<tr>
<td>Admin</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>Other</td>
<td>8%</td>
<td>11%</td>
</tr>
<tr>
<td>None</td>
<td>3%</td>
<td>3%</td>
</tr>
</tbody>
</table>

n = 197 (September); 154 (October)
Source: Gartner “Managing Employee Vaccination and Workplace Reopening” Webinar Poll, September & October 2021
Workforce and ESG Emerge as Priorities for Higher Percentage of Board Members

Corporate directors’ top strategic business priority over the next two years continues to be digital technology initiatives. But talent has moved up a slot from last year’s ranking and ESG catapulted into third place — both are ahead of growth and financials.

<table>
<thead>
<tr>
<th>Strategic Business Priorities for 2022/2023</th>
<th>2021</th>
<th>2022</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital Tech Initiatives (Including Technologies/IT)</td>
<td>66%</td>
<td>58%</td>
<td>-12%</td>
</tr>
<tr>
<td>Workforce (e.g., Retention, Training, Hiring, etc.)</td>
<td>28%</td>
<td>52%</td>
<td>+86%</td>
</tr>
<tr>
<td>ESG, Health and Sustainability</td>
<td>16%</td>
<td>32%</td>
<td>+100%</td>
</tr>
<tr>
<td>Growth</td>
<td>21%</td>
<td>26%</td>
<td>+24%</td>
</tr>
<tr>
<td>Financial (Other Than Revenue or Profit)</td>
<td>18%</td>
<td>25%</td>
<td>+39%</td>
</tr>
<tr>
<td>Risk Management</td>
<td>7%</td>
<td>22%</td>
<td>+214%</td>
</tr>
<tr>
<td>Business Expansion/Diversification</td>
<td>27%</td>
<td>22%</td>
<td>-19%</td>
</tr>
<tr>
<td>Customer Engagement</td>
<td>29%</td>
<td>21%</td>
<td>-28%</td>
</tr>
<tr>
<td>Mergers and Acquisition</td>
<td>18%</td>
<td>21%</td>
<td>+17%</td>
</tr>
<tr>
<td>Profit Improvement</td>
<td>21%</td>
<td>26%</td>
<td>+19%</td>
</tr>
<tr>
<td>Leadership Development</td>
<td>6%</td>
<td>16%</td>
<td>+167%</td>
</tr>
<tr>
<td>Product/Service Improvements</td>
<td>10%</td>
<td>15%</td>
<td>+50%</td>
</tr>
<tr>
<td>Efficiency and Productivity</td>
<td>15%</td>
<td>26%</td>
<td>-42%</td>
</tr>
<tr>
<td>Effective Business Management</td>
<td>12%</td>
<td>14%</td>
<td>+17%</td>
</tr>
<tr>
<td>Cost Efficiency</td>
<td>16%</td>
<td>11%</td>
<td>-31%</td>
</tr>
</tbody>
</table>

n = 272 All Respondents, Excluding “Cannot Disclose”
Source: 2022 Gartner View From the Board of Directors’ Survey

Build a Better Strategic Plan for Your Function

Only 8% of strategy leaders report a success rate of 90% or more on long-term strategic initiatives. Why? Because strategic plans are often WORN: written once, read never.

Use our one-page strategic planning template to clearly communicate your function’s priorities and create a clear roadmap to meet your strategic business goals.

Download the 2021-2022 strategic planning template for your function.

gartner.com/en/insights/strategic-planning
How to Lift ESG Data Quality to Investment-Grade

by Simon Mingay

At too many organizations, executive leaders have been managing their environmental, social and governance (ESG) and sustainability reporting with one person, a dog and a spreadsheet. And they have treated it as a once-a-year, best-efforts activity. The result is low cost, low quality and a low-value outcome. That may have been sufficient at one time, but ESG and sustainability are no longer just a marketing and brand exercise; they are now central to enterprise strategy, execution and investment decisions by external stakeholders. In combination with the expanding regulatory landscape for nonfinancial reporting, this means ESG and sustainability data needs to be “investment grade.”

Bringing the rigor of enterprise financial reporting to ESG requires investment in education and training to develop consistency and appropriate controls for data collection — basics such as standard emissions factors, units of measure and system boundaries. Executives must also use this information differently. And it all takes time. CIOs and the IT organization have a critical role in designing and implementing an ESG data architecture and incorporating ESG into their data strategy. But while technology is critical, IT should also work on quality and governance with internal stakeholders, such as sustainability leaders, finance, internal audit, investor relations and the data owners.

So take the long view rather than repeatedly only meeting a short-term requirement — such as rushing to accommodate investor relations because those executives happen to be the ones with a budget and are banging the drum at the moment. Requirements for sustainability data quantity, quality and analytics will increase over time from more internal stakeholders, with more demands for visibility on social and environmental impacts across the value chain.

Get started now in these areas:

• Collecting data — ESG data is diverse and highly distributed across every corner and activity of the enterprise. Most of the investment and resources for ESG data will go into the identification, collection and quality assurance process.

• Going beyond hindsight — The main value of the data is not the historical reporting for the annual sustainability report or CDP submission. The main value is in operationalizing the data to drive performance improvement in the major sustainability/ESG areas and inform business planning. A forward-looking view enables strategic action to meet sustainability goals and objectives (see Figure 1).

• Making it a team game — Fragmented efforts to collect data, create architecture and manage the information will keep the right information from getting to the right people at the right time — causing unnecessary friction and, in the end, reducing the value of sustainability/ESG initiatives.

Don’t make the same mistakes you’ve made previously in other data-rich domains. Every lesson you’ve learned and every best practice you’ve established previously related to data quality, accessibility and governance applies here too.

And do not underestimate the difficulty of getting the right data — particularly when you go into your supply chain or product greenhouse gas (GHG) emissions (also referred to as “Scope 3”).

Collecting Data

The focus and priority of what data is required must be led by its importance (materiality) to the business and goals the enterprise has set. But every part of the organization will likely be contributing data. After all, sustainability and ESG data covers a wide spectrum of issues, from energy and water consumption to emissions; from diversity, equity and inclusion to employee and community engagement; from cybersecurity to supply chain management and forced labor; and all points in between.
Where the needed data exists — and much of it does — it might be scattered through a number of different systems: the enterprise resource planning software, building management systems, supply chain management applications, operational technology and of course, the ubiquitous spreadsheets. What’s available may also fall short of the usable level of granularity or fidelity to meet both the reporting needs of the investor relations team and external auditors of the annual report — as well as the needs of operational roles such as process, product or energy managers. A lot of the data may also be in the hands of other legal entities, ecosystem partners and suppliers.

So one of the biggest challenges is motivating multiple parts of the organization or ecosystem to provide that data regularly and in a timely fashion. An executive committee overseeing the ESG program is a big help for identifying and engaging internal stakeholders. Where such a committee does not exist, the respective heads of HR, real estate, supply chain, logistics, procurement, production and IT are all going to be the starting point for building the necessary relationships and teams.

Be practical in balancing short-term versus long-term needs. A ballpark baseline number may well be good enough for internal purposes to start with. But even seemingly easy data like volumes of waste can be difficult to establish because the numbers may not be gathered at all or inconsistently for different waste streams or sites. When you get to the GHG emissions of purchased goods, services and capital assets, life gets really complicated. Even where the data exists, actually gathering it and ensuring its quality and appropriateness will involve getting multiple data owners and users together and everyone understanding the limitations of the data. Recognize you will need to invest more to get the required level of precision, fidelity and granularity.

To get things moving on the technology side, you may rely on the workflow engine and basic electronic forms built into ESG tools you buy or create to semiautomate data gathering. But that’s not going to scale and comes with limitations on quality. The IT organization will need the resources to fully automate wherever possible: extracting data from core systems, reading meters and using APIs.

Particularly in supply chain, you may need to be creative in identifying alternative sources or ways to achieve the required insight. For example, instead of training farmers to calculate a crop’s GHG emissions, food manufacturers are now using geospatial data sources; oil and gas producers are exploring similar options.

The CIO must design and build a data architecture that will serve many needs in the longer term because many internal stakeholders will (or should be) using it for purposes extending well beyond the annual sustainability/ESG report. The value of simply speeding up, automating and improving data quality for that kind of report is obvious. But it’s just a first step.

**Going Beyond Hindsight**

Hindsight reporting is important to meet the needs of a growing set of external stakeholders, such as investors, customers, ESG ratings agencies, regulators, banks and insurers. But to make meaningful progress on ESG/sustainability goals, the business needs data to inform and track operations.

Executive leaders and operational managers in most domains — including R&D, production, supply chain, real estate, HR, finance, IT, legal and audit — will need to baseline and benchmark performance on energy, water, waste, emissions, DEI and so forth. Enable them to compare one site, process, product and supplier to others, and compare themselves against best-practice enterprises.

This requires integrating ESG/sustainability data into decision-making tools and processes, such as capital allocation tools, investment criteria, project assessments and plans. As a bonus, making information operational enables more frequent updates for the external stakeholder too.

Similarly, the ability to model changes to the business and conduct scenario planning, forecasting and “what ifs” to provide foresight becomes a critical capability. For instance, a rapidly growing number of enterprises are setting GHG emission reduction goals:

1. **The Science Based Targets initiative** now has over 1,750 enterprises having set science-based targets.

2. More than half (54%) of our surveyed respondents with a sustainability program in place have set a GHG emissions reduction goal, such as net zero, carbon neutral, climate positive/negative and climate neutral. To deliver on these objectives and provide the necessary assurance to the board of directors and investors, enterprises will need planning and modeling tools.

**It’s a Team Game**

Each function or business unit often works independently to meet its own ESG performance management needs. When that happens, important shared learning opportunities are missed, and you’ll see lots of reinventing of the wheel. Inevitably, data quality suffers, which usually slows the enterprise effort down.

We strongly recommend establishing an executive sustainability/ESG committee that provides coordination, governance and oversight. Membership should center on leaders with the greatest influence over the most material issues (for instance, GHG emissions or circular economy practices).

This group should usually include investor relations and the general counsel, but take care that the committee does not default to risk and compliance, missing the commercial opportunity at hand.

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1. Scope 1 includes direct emissions under your control. Scope 2 includes indirect emissions such as from the electricity or other energy sources your company uses and Scope 3 includes emissions from your suppliers and from use of your product. Briefing: What Are Scope 3 Emissions? The Carbon Trust.

2. 2020 Gartner Sustainability Survey. This study was conducted to understand how stakeholder (customers, employees, investors, regulators and partners) pressure for more aggressive economic, social and environmental sustainability action is growing and identify best practices from early adopters to provide sustainability advice to Gartner clients. The study explored different sustainability goals and targets set by organizations and how the level of investment in sustainability programs has changed over time. It also focused on the value and benefits derived from sustainability programs.

The research was conducted online during November and December 2020 among 183 respondents from North America, Europe and APAC across all industries except energy and utilities, with $250 million or more in annual revenue.

Respondents were screened for job titles at the director level or higher and their level of involvement in their organization’s sustainability. Any respondents whose organization did not engage in sustainability activities at all or who were limited to achieving compliance were screened out. The survey was developed collaboratively by a team of Gartner analysts and was reviewed, tested and administered by Gartner’s Research Data and Analytics team.
Deutsche Post DHL Group is driving toward absolute net-zero emissions by 2050. How can a company that ships goods around the world meet that difficult goal? Melanie Kreis explains how she helped elevate the importance of that initiative and other social impact efforts by creating meaningful KPIs that will be linked to top management bonuses starting in 2022. Absolute carbon footprint, diversity, safety and employee engagement are among the considerations tied to 30% of the annual short-term incentive for senior leaders, including herself. This interview has been edited for length and clarity.

What has changed at DHL after making big sustainability commitments?
We actually set ourselves our first sustainability targets way back in 2008, when we made a commitment to improve our CO2 efficiency. And at that time, we gave all of the goals for 2020. We weren’t entirely sure how we would achieve those goals. But I think that was the first time we really focused the organization on a sustainability goal that had multiple implications. For example, if we commit to a hard target, how do we measure it? So, we started more than a decade ago to capture CO2 emissions through our finance systems. Because obviously, if you have hard targets, you want to have the same level of confidence and accuracy like you’re used to in your financial numbers. Also, if you want to do it across the globe — and we are operating in 220 countries and territories — you also need a way to capture it and somehow consolidate it on group levels.

About four years ago, when 2020 was approaching, we had actually achieved our efficiency goals ahead of the plan, and we started talking about the next time horizon. By then, it was already clear that the whole criticality of the global warming trajectory was even more severe than anticipated a decade ago and that we had to go for absolute net-zero targets. We made the commitment as the first logistics company that by 2050, we really wanted to achieve the green zero.

Today, our commitment to sustainability is a part of our holistic ESG roadmap and an integral part of our corporate strategy and culture, and we are now committed to an absolute reduction target. This is, of course, much more difficult to achieve if you are in a growing business, which we are fortunately in. And we have also said that 2050 is so far away that we really need concrete interim targets for the next decade. So we have set ourselves a clear reduction commitment by 2030 based on intense debates because that is not a no-brainer. There are significant challenges to deliver on that target. We know it is very aspirational, but we all felt — starting from the corporate board, but also with the broad group of subject matter expert colleagues who were involved in developing this initiative — that this was the right aspiration level.

Why do you think the commitment to the absolute CO2 reduction will move past the small pilot projects?
One of the challenges we have also encountered multiple times is that technologies were available, but they were economically so unattractive that you could not sell it to your investors as a publicly listed company like us, spending so much extra money on green stuff. This is now fundamentally changing. A very nice concrete example is so many years ago, we wanted to start decarbonizing our last-mile delivery, so we screened the market and talked to the large OEMs [original equipment manufacturers] — in this case, automakers] about electric delivery vehicles. And there were no options out there because there was not enough demand. So the OEMs, not surprisingly, said to us, “If you commit to a very large number of vehicles, we will start building it for you, but if not, there’s no market.”

In the end, we started building our own electric delivery vehicles. For doing so, I received regular bashings from investors because it was, of course, economically totally not attractive, and it was loss making and so on. But now we are at a point where we have said we are going to phase out our internal production of electric delivery vehicles. We don’t need to be a car producer anymore because all the big OEMs have realized there is a market. We can now buy electric delivery vehicles externally, which makes more sense economically.

For us, the biggest problem in our CO2 footprint is aviation. Two-thirds of our CO2 emissions are from aviation. Our total CO2 emissions in 2020 were 33 million tons of CO2. That’s roughly the CO2 footprint of Denmark. And at the moment, there is no technological solution out there in terms of long-distance planes that can go with an alternative technology.

How important is creating compensation-based KPIs for hitting sustainability goals?
The first important thing is to derive your focus topics in your sustainability agenda based on who you are, your industry and your company profile. And that has to be clearly linked to your group’s strategy. For us, it’s relatively simple. We are the largest logistics company in the world, which is great, but this also results in a large CO2 footprint. Hence, we carry a huge responsibility. So clearly, we defined the absolute CO2 footprint reduction as one target because we are convinced market leaders need to act as role models to make a green transition happen.

You then have to translate those sustainability priorities into clear KPIs. In our case, we defined ESG KPIs such as absolute CO2 footprint reduction, employee engagement, lost time injury frequency rate (LTIFR) [health and safety], share of women in management (diversity) and coverage of the broad group of subject matter expert colleagues who were involved in developing this initiative — that this was the right aspiration level.

We now buy electric delivery vehicles externally, so the OEMs have realized there is a market. We can now buy electric delivery vehicles externally, which makes more sense economically. You can then measure and capture those KPIs with accuracy. For me, the only logical choice is to do that with the financial systems. That way, you may also get your auditor on board, and make sure the auditor testifies that those KPIs are not fictitious numbers but have real substance with real processes behind them.

Melanie Kreis Chief Financial Officer, Deutsche Post DHL Group
Melanie Kreis is the chief financial officer and a member of the management board at Deutsche Post DHL Group, the world’s biggest logistics company. She has been with DHL since 2004, working her way to the top in finance, and has played a pivotal role in tracking progress of ESG goals. She holds master’s degrees in business administration and physics.
That’s the foundation — because only then can you also get the credibility internally. If you want people’s bonuses to be linked to the topics, people want to be sure there is a solid foundation and those numbers are grounded.

Did you create your own systems of measuring results in the finance department?

Yes. The fundamental idea goes back to 2008, where we set our first CO2 efficiency goals. The idea was to leverage the finance system we use to consistently, and with high quality, capture KPIs across multiple countries and all the different business divisions. So we decided very early on that we have to establish a link to the way we capture financial and nonfinancial KPIs. We intended to use the same consolidation mechanism. And that was something at that time we had to build ourselves.

Why is it important that the top management, the board management or other C-level executives be measured by hitting these targets?

We truly believe that as a company, the impact on those sustainability targets is as relevant, as good, as delivering on our financial targets. This thinking also needs to be reflected in management compensation. That is also something investors are increasingly demanding. We have agreed to change our corporate board compensation: 30% of our annual bonus as corporate board members is linked to ESG targets as of next year, with a 10% “E” component, 10% “S” component and 10% “G” component. I personally wouldn’t be less motivated if that wasn’t the case because I’m deeply convinced it’s the right thing to do. But I think that has a very important signaling effect.

Do you have suggestions for leaders and other companies about how to track progress?

If you’re serious about something, you have to focus on it. Also, you have to look, review and discuss it regularly. Now we are aiming to integrate the whole nonfinancial reporting seamlessly into our financial reporting. With the monthly financial report to the corporate board, the ESG section is also in there. And we’re getting ready for next year’s target setting and budget season as part of our planning councils. There, we will talk about the EBIT and cash targets for the next year, but we will also discuss the nonfinancial targets. I think you have to try and really incorporate ESG into all your standard controlling, steering and budgeting processes.

Are there benefits to shifting to cleaner energy beyond just the ESG?

In an ideal situation, a green solution should also be economically attractive. For example, one of the important elements for us in our aviation de-carbonization strategy has been reflecting to get greener aircrafts. When you switch from an old 747 to a modern 777, you can improve the fuel efficiency by 18%. Of course, this is good for the environment, but you also save on kerosene costs. So, those are the ideal situations whereby doing the right stuff on your sustainability agenda also creates a positive impact in your P&L. Currently in many cases, investing in sustainability is unfortunately a trade-off. And that is naturally the situation where organizations are struggling more. That is why it is so important to also have those targets on the nonfinancials — to find the right balance.

How do you align an entire company around sustainability?

Like many things, it starts with the tone from the top. We now have communications from our CEO and the corporate board, and apart from talking about our financial targets, we always talk about our ESG aspirations. But I think it is also super important to do it in a positive way. You really have to position it as an opportunity to do the right stuff for the future of the planet and your company. It is a fantastic opportunity to create a competitive advantage in a market. Our customers are demanding sustainable logistics more and more. So look at the opportunity side of being an early mover here, not only at the extra work and the complexities it brings.

Do you have any advice about how to start approaching a real ESG effort?

I have three pieces of advice. The first is to base your sustainability agenda and focus topics on who you are, to your specific company DNA. Building on this, make sure you define clear KPIs and give yourself clear, aspirational targets. But of course, you should also have an idea of how you want to get there. I’m not a big fan of saying, “Hey, in 2040, we will be net zero,” while absolutely not having a clue how to do it. So, develop measures and track impact via your KPIs. Third and lastly, position it from the top. We now have communications from our CEO and the corporate board, and apart from talking about our financial targets, we always talk about our ESG aspirations. But I think it is also super important to do it in a positive way.

Most often, a stand-alone sustainability or ESG reporting department leads the corporate program, but HR, risk, strategy, operations, internal audit, communications and legal are among the many functions that run point at their companies. A very few businesses have not put anyone in charge (see Figure 1). Oversight responsibility often rests with more than one board entity. The majority of executives (58%) indicated that at least two have full oversight responsibility over their organization’s ESG program. The most common mentioned in our survey are:

- The board of directors (52%)
- The executive committee (40%)
- The ESG-specific committees (e.g., ESG committee [50%] and sustainability committee [24%])

Crucial to your organization’s credibility on sustainability and social issues is the way the enterprise sets up management and oversight. Each decision — reporting lines, cross-functional partnerships, accountability — is a signal of how executive leaders view the path to progress. Don’t look for an established blueprint; there is none.

Does Your Organization Need a Chief Sustainability Officer?

by Laura Cohn

with contributions from Eva Neykova and Fahim Talmeez

Most often, a stand-alone sustainability or ESG reporting department leads the corporate program, but HR, risk, strategy, operations, internal audit, communications and legal are among the many functions that run point at their companies. A very few businesses have not put anyone in charge (see Figure 1). Oversight responsibility often rests with more than one board entity. The majority of executives (58%) indicated that at least two have full oversight responsibility over their organization’s ESG program. The most common mentioned in our survey are:

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Crucial to your organization’s credibility on sustainability and social issues is the way the enterprise sets up management and oversight. Each decision — reporting lines, cross-functional partnerships, accountability — is a signal of how executive leaders view the path to progress. Don’t look for an established blueprint; there is none.
“There’s not, in my mind, a ‘right’ model,” said Helle Bank Jorgensen, the CEO and founder of Competent Boards, a Toronto-based executive training and advisory firm. Organizations, she said, need a structure that yields “the insights in order to make informed decisions” and “accountability within management.”

A team that reports to the general counsel shows you consider it a legal and compliance issue,” Lowe said. One that reports to finance means you’re putting a premium on what your investors want. If you establish a reporting line to communications, that means you’re making it part of your narrative, though communications rarely has the budget or clout that might be needed to engage the business. Sustainability teams can be lean by design. In the U.S., for instance, chief sustainability officers on average have six direct reports, and roughly six other staffers are tasked with the issue in other departments. These functions include environment, health and safety; supply chain; communications; and corporate social responsibility, according to a survey by the recruiter Weinreb Group. Four percent of U.S. chief sustainability officers also oversee ESG reporting.

Three sustainability and ESG leaders explain where they sit in the organization — and why

Three sustainability and ESG leaders at companies in France, Canada and the U.S. explained in interviews with us how they operate within their companies. Two report to the CEO, and the third reports to the chief administrative officer. All three have one thing in common: They work with multiple departments to make sure everyone stays aligned.

Schneider Electric: A strategy officer takes charge

Olivier Blum serves as Schneider Electric’s chief strategy and sustainability officer, reporting directly to the CEO. The company combines sustainability and strategy into one position on the executive committee to make sure the two are “always fully integrated,” Blum told us in an interview.

He acts like the conductor of an orchestra. He and his sustainability team lead the overall effort but also direct and support other departments to implement the initiatives that will help Schneider meet its goals. In the first quarter of 2021, the company explained this ambition to suppliers in a webinar, followed by a training course in the second quarter. While the sustainability team is involved in setting the big-picture vision, the supply chain leader sees the program to fruition. That supply chain leader also serves on the Group Sustainability Committee, along with executives from governance, HR and communications, while Blum serves as chair. This setup involves executives in projects they will later implement. According to Blum, they’ll have stronger engagement that way.

Together with the CEO, Blum even seeks counsel from a group of academics, policy experts and tech leaders. This external perspective challenges the company’s efforts, and the membership serves — as Blum put it — as a “sparring partner” to push internal stakeholders out of their comfort zone and set more ambitious goals to increase the company’s positive impact.

Blum prods, too. He spends time analyzing other companies’ initiatives — and then tries to raise the bar. For example, in formulating the company’s gender diversity goals in hiring, the HR team told Blum (its former chief human resources officer) that it wanted to increase its goal of having 40% of the company’s new hires be women by 2025. The team proposed a new target of 45%. Blum got the team to agree to a different objective: 50%, full gender parity.

Suncor Energy: A seat at top management’s table means industrywide clout

With the influence that comes from her role at Suncor’s apex, Findlay was a critical driver of a June 2021 alliance with four other Canadian oil sands producers to coordinate on a carbon sequestration hub and other measures. Their goal: net-zero emissions from operations by 2050. She worked on the initial concept, coordinated the initiative with the other companies and also helped map out the plan for the program’s three phases.

As sustainability leader, Findlay must focus on other imperatives, too — including strengthening Suncor’s relationship with Indigenous peoples, whose land is the site of many company facilities and operations.

Verizon: Collaborate with your internal and external stakeholders

In 2019, Verizon’s board of directors asked CEO Hans Vestberg to build out a new function dedicated to improving the company’s reporting and stakeholder engagement on ESG — and coordinate the company’s efforts to meet its ESG goals. The cross-functional department was put under lawyer Beth Sasfai, who at the time was vice president of corporate governance. She got the nod because of her experience...
as liaison to the Corporate Governance and Policy Committee, which oversees sustainability and reputational risk.

Sasfai is now chief ESG officer. The leader of the supply chain function is the chief sustainability officer. They both report to the chief administrative officer, who is also the company’s legal and public policy officer.

The two — ESG and sustainability leaders — work closely together. Sasfai heads a cross-functional team that oversees the company’s sustainability reporting, environmental issues, human rights, and digital trust and safety efforts. The chief sustainability officer, James Gowen, oversees initiatives aimed at reducing the company’s environmental footprint.

An example of how this principle plays out in practice is Verizon’s goal of achieving net-zero emissions in its operations by 2035. To figure out how to get there, Sasfai put together a working group composed of members from the sustainability, finance and real estate teams. The group meets quarterly to track progress on its assigned activities. The real estate team manages energy usage across the company and partners with the sustainability team on developing on-site renewable energy at company facilities. These teams work with the finance function to invest in renewable energy. As part of its net-zero goal, the company wants to source or generate 50% of its annual electricity consumption from renewable sources by 2025. To meet that target, Verizon has entered into 14 long-term virtual power purchase agreements that will support new wind and solar power facilities for the U.S. electrical grids. In addition, the company added more than eight megawatts of solar power at eight of its facilities in 2020.

Given the cross-functional nature of sustainability initiatives, Sasfai emphasized that one leader must coordinate strategy. “You absolutely need someone who is responsible for looking across your organization and making sure you know what commitments are being adopted, how they’re being measured and how they’re being reported,” she said. Consistent messaging across the company is crucial, too, she added.

Increasing Stakeholder Pressure

“It’s impossible to sit on the fence,” Korn Ferry’s Lowe told us. “You’re either part of the solution or part of the problem.” Given the rising societal demands and the regulatory risk, you need to decide how you’re going to do this. Major constituencies — and prospective employees — all care about this issue (see Figure 2). Failing to act risks alienating one or more of these groups.

Globally, the volume of conversations on social media using the term “chief sustainability officer” has more than doubled over the past two years (see Figure 3). And 73% of CEOs say over the next three years, the pressure to act on the issue will only intensify.²

Top countries where the conversation is taking place: the U.S., the U.K., Germany, India, Canada and France (see Figure 4).

Photo courtesy of Verizon

Part of Sasfai’s mission when she assumed her new role was to shift from a corporate responsibility report to investor-focused ESG reporting. So she met with the top 15 U.S. and European shareholders to determine the crucial issues for the company, what it should disclose and which frameworks it should follow.

The result: Verizon used the Sustainability Accounting Standards Board’s telecommunications services standard in its inaugural 2019 ESG report and published a stand-alone report aligned with the recommendations of the Task Force on Climate-Related Financial Disclosures. It was what investors “overwhelmingly” asked for, said Sasfai.

Sasfai collaborates internally, too. “My team is responsible for making sure we are aligned and making integrated decisions; that’s half the battle,” she told us. “Otherwise, you’ve got people working in their silos on issues that should be informed from multiple perspectives and areas of expertise.”

Figure 2. Top Three Stakeholder Groups Creating Pressure to Invest in Sustainability Initiatives

<table>
<thead>
<tr>
<th>Stakeholder Group</th>
<th>First Choice</th>
<th>Sum of Top Three</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>20%</td>
<td>63%</td>
</tr>
<tr>
<td>Investors</td>
<td>23%</td>
<td>48%</td>
</tr>
<tr>
<td>Regulators</td>
<td>19%</td>
<td>46%</td>
</tr>
<tr>
<td>Employees</td>
<td>15%</td>
<td>45%</td>
</tr>
<tr>
<td>Public</td>
<td>10%</td>
<td>42%</td>
</tr>
<tr>
<td>NGOs and Environmental Activists</td>
<td>8%</td>
<td>21%</td>
</tr>
<tr>
<td>Politicians</td>
<td>2%</td>
<td>14%</td>
</tr>
<tr>
<td>Supply Chain</td>
<td>3%</td>
<td>13%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
<td>7%</td>
</tr>
</tbody>
</table>

n = 183; all respondents

Q: What are the top three stakeholder groups your organization to act on/invest in sustainability initiatives?

Source: 2020 Gartner Sustainability Survey

Note: First choice totals may not equal 100% due to rounding.

Figure 3. Volume of Social Media Conversations About Chief Sustainability Officers

<table>
<thead>
<tr>
<th>Time Period</th>
<th>Tech to Aid Decarbonization Programs</th>
<th>ESG-Focused Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 2019</td>
<td>114</td>
<td>181</td>
</tr>
<tr>
<td>June 2020</td>
<td>104</td>
<td>181</td>
</tr>
<tr>
<td>August 2021</td>
<td>102</td>
<td>181</td>
</tr>
</tbody>
</table>

74.4
Median Value

Source: Social media analytics tool (26 April 2019 to 31 August 2021)
SMA Methodology: Gartner conducts social listening analysis leveraging third-party data tools to complement or supplement the other fact bases presented in this document. Due to their qualitative and organic nature, the results should not be used separately from the rest of this research. No conclusions should be drawn from this data alone. Social media data in reference is from 26 April 2019 to 31 August 2021 in all geographies (except China) and recognized languages.

1 2021 Gartner ESG Benchmarking Panel Survey; n = 175 executives. The total exceeds 100% because respondents could choose more than one option.
2 The Rise of the Chief Sustainability Officer, Korn Ferry.
3 The Chief Sustainability Officer: 10 Years Later — The Rise of ESG in the C-Suite, Weinreb Group.
4 Schneider Electric has been recognized for sustainability by Corporate Knights. Top Company Profile: Schneider Electric Leads Decarbonizing Megatrend, Corporate Knights.
5 Canada’s Oil Sands Producers Form Alliance to Achieve Net-Zero Emissions by 2050, Reuters.
6 Testimony of Gary Gensler Before the United States Senate Committee on Banking, Housing, and Urban Affairs, Senate Banking Committee.
7 Employees Take a Stand, Axios.
8 Leadership Briefing From the UN Global Compact, United Nations Global Compact.

4 Ways Leaders Must Change the Board’s ESG Oversight

by Abbott Martin

Boards have a critical role to play in the shift from shareholder primacy to a focus on creating value for all the company’s stakeholders. The board must understand new standards of acceptable corporate behavior, help the company define its mission and integrate its strategy with environmental, social and governance (ESG) goals (see Figure 1).

Expectations of corporate stakeholders have changed. Fifty-nine percent of Gen Z and millennial audiences believe companies have a responsibility to address social issues, even if it hurts profits.1 Ninety-eight percent of shareholders in the U.S.-based utilities company General Electric approved a 2021 resolution asking how it intends to achieve net-zero emissions in accordance with the Paris Agreement.2,3 And the percentage of CEOs in supply chain industries mentioning social responsibility as a top five priority quadrupled in the last year.4

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Figure 1. How the Business Transformation Wave Is Shifting Focus From Digital to Societal

Source: Gartner Maverick Research: The Future of Business — Second Profit

First Wave of Business Transformation

Second Wave of Business Transformation

Sustainability

Safety and Security

Digital Ethics

D&I

Societal Transformation

Stakeholder Impact

Purpose and Values

Source: Gartner Maverick Research: The Future of Business — Second Profit

From Product/Service-Based Focus ... (2010 to 2020)

2020’s

… To Societal Focus (2020 to 2030)

Price

Selection

Digital Transformation

Availabiliry

Convenience

Ease of Use

Service

Source: Gartner Maverick Research: The Future of Business — Second Profit

First Wave of Business Transformation

Second Wave of Business Transformation

Societal Transformation

Stakeholder Impact

Purpose and Values
To enable effective board oversight over ESG, general counsel (GC), corporate secretaries and other C-suite leaders must make the following four changes:

1. Use the mission statement to focus the board on core ESG values.
2. Recruit board members with ESG skills and experience.
3. Update board committee assignments to reflect the importance of ESG.
4. Validate ESG strategy and goals.

Use the Mission Statement to Focus the Board on Core ESG Values

A corporate mission statement — or statement of purpose — defines why a company exists and what it views as its chief goal. A company will often document how it aims to create value by fulfilling societal needs. Sometimes the business will even acknowledge the negative impacts it must mitigate to retain its social license to operate. The statement, which the full board should sign, is an important part of committing the board to a standard, setting stakeholder expectations and defining the meaning of long-term value.

For example, Unilever, a multinational consumer goods company, expresses its mission statement as a “vision” and a “purpose.” The company defines the vision as a goal “…to be the global leader in sustainable living” and the purpose as a “mission” and a “strategy.” While director recruitment focused on creating a board diversity over the past three years, the next phase will target hires that have ESG backgrounds most important to a company’s strategy and stakeholders. As part of this process, the Board must consider the company’s mission statement and vision to ensure that they align with the company’s ESG goals.

Update Board Committee Assignments to Reflect the Importance of ESG

The GC and corporate secretaries should update board committee assignments and charter language to reflect the importance of ESG in board deliberations. Multiple structures for board oversight of ESG are emerging. Many organizations use existing ESG committees divided in the following way:

• Full board — Weigh in on ESG strategy and narrative, focusing on alignment between corporate strategy and stakeholder interests.
• Audit committee — Oversee the ESG audit process and ensure that internal and external audit processes incorporate ESG risks. As part of this effort, audit oversees controls to verify the accuracy and reliability of disclosed statements to comply with existing EU and proposed U.S. mandates.
• Compensation committee — Focus on alignment between executive compensation philosophies and ESG priorities. This committee also oversees human capital management practices, including those directed at diversity, equity and inclusion.
• Nominating and governance committee — Oversee governance issues, such as director elections and evaluation, deemed a priority by the business and take ownership of director life cycle management. The latter is to make sure the board has directors with the skills necessary to oversee ESG risks, opportunities and strategy.

While the majority of executives (58%) indicated their companies have at least two board entities overseeing ESG, a stand-alone committee may become more common in the future as investor pressure and oversight expectations intensify. Institutional Shareholder Services (ISS), an influential corporate governance and proxy advisory firm, suggests that a stand-alone committee should oversee ESG. The GC can ask a few core questions to determine the need for a stand-alone ESG committee:

• Would a stand-alone committee have a charter with clearly defined goals?
• Are there issues in ESG oversight or difficult coordination tasks that stem from current board structure?

The important elements of effective oversight are clear responsibilities, expectations and the free flow of critical information tied to defined goals.

Validate ESG Strategy and Goals

Boards are responsible for making sure the company actually integrates ESG risks and commitments into strategic planning and operational decision making. This requires board validation of both strategy and goals.

Typically, ESG goals start as some form of directional commitment: Improve diversity, reduce waste in production, increase community engagement and so on. The target is a specific manifestation of that goal with associated objectives and time frames. Goals might include reaching net zero by 2040 or considering historically marginalized candidates for at least 50% of job openings by 2025.

Boards must pressure-test management thinking about the operational requirements of achieving a goal and the potential reputational costs of not hitting a public commitment. Determining how best to meet goals often requires running scenarios against different targets to determine what’s feasible for your organization. It also means embedding ESG considerations into strategic planning discussions and operational decision points.

The board needs to make sure ESG goals don’t outstrip corporate capabilities or otherwise impede strategy. Directors should ask questions to test the objectives’ practicality and compatibility, such as:

• Is the required investment to achieve these results acceptable given our strategy?
• Can we actually shrink delivery time by 20% while cutting emissions by 50%?
• Do external market conditions, such as the availability of carbon offset credits, allow us to achieve our goal?
• Does this acquisition make sense in light of ESG commitments?

Making sure ESG considerations, such as climate change realities, are built into decision-making processes, such as investment criteria, scenario planning exercises and supplier contracting, also falls into the board’s purview. ESG can’t be a bolt-on program; it’s the ongoing process of transforming stakeholders’ expectations into strategy.
The GC and corporate secretaries can provide the board with the following questions to improve its oversight of ESG (see Figure 2).

<table>
<thead>
<tr>
<th>Areas for Board Oversight</th>
<th>Questions</th>
</tr>
</thead>
</table>
| Corporate Strategy        | • Are ESG risks and opportunities integrated into long-term strategy?  
                           | • Has the company identified and prioritized the ESG issues that most impact strategy and stakeholders?  
                           | • Do our ESG efforts and investments offer the potential for meaningful corporate differentiation?  
                           | • How are we tracking toward our stated ESG goals and commitments? |
| Risk Management           | • Are environmental and social scenarios built into our strategic planning?  
                           | • Do we have a process for tracking and operationalizing emerging ESG laws, regulations and expectations?  
                           | • Do we have a consistent, accepted framework for reporting ESG risks and metrics?  
                           | • How do we execute on our ESG commitments through our supply chain? |
| Disclosures and           | • Do ESG messaging and activities align with our corporate purpose and ESG goals?  
                           | Communications          | • Do important stakeholders rely on the company’s communications and disclosures? How does our corporate purpose resonate with important stakeholder groups?  
                           |                           | • Are ESG disclosures and metrics verifiable and reliable? Are documented processes and controls in place to make sure disclosures are accurate, comparable and consistent? |
| Executive Compensation    | • What percentage of executive compensation is tied to ESG goals?  
                           | How does our compensation compare to industry peers?  
                           | • Is there any tension between corporate (revenue growth, market share) and ESG goals?  
                           | • Will achieving executive compensation plans actually lead to long-term ESG goals and commitment? |
| ESG Program Governance    | • Does the company provide adequate funding for the ESG program and initiatives?  
                           | • Does the company possess the necessary people and skills to execute ESG strategy?  
                           | • Does the ESG program or committee have the necessary internal authority to influence strategic and operational decisions? |

Source: Gartner

In your role as a leader, you’ve now spent months adapting to change and delivering new solutions at speed. You and your team may be burning out, and it’s never been more important to prioritize your time and energy. To help with that, Gartner Leadership Vision provides top-level guidance to leaders and their teams on where to focus — based on our data-driven research. Incorporate three actions into your 2022 strategic plan to ensure you and your function stay focused on driving enterprise ambitions.

Download your role-specific 2022 Leadership Vision

3 Strategic Actions for Success

1 2020 Gartner Consumer Brand Engagement and Sentiment Survey; n = 2,448 consumers.
2 Record-Breaking Year for Environmental, Social, and Sustainable Governance Shareholder Resolutions, As You Sow.
4 2021 Gartner CEO and Senior Business Executive Survey; n = 305 supply chain executives.
5 The Board’s Role in Sustainability, Harvard Business Review.
6 The Unilever Compass, Unilever.
7 SEC Staff Questions Quality of Climate Disclosures, KPMG.
8 U.S. Boards Suffer Inadequate Expertise in Material ESG Matters, NYU Stern.
9 2021 Gartner ESG Benchmarking Panel Survey; n = 175.

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Accountability Fuels A Sustainable Investment Strategy: A Q&A with CalPERS’ Anne Simpson

by Laura Cohn and Dennis Gannon

Anne Simpson
Managing Investment Director for Board Governance and Sustainability, CalPERS

Anne Simpson has been described as one of the 15 women in the world “leading the fight against climate change” by TIME magazine and one of the 100 “most influential women in U.S. finance” by Barron’s. She is the managing investment director for board governance and sustainability at CalPERS, the largest U.S. public pension fund, with $469 billion in assets under management. Oxford-educated, Simpson chairs the steering committee and Asia Advisory Group for Climate Action 100+, a group of global investors pushing the world’s biggest greenhouse gas emitters on board oversight of climate risk, steps toward net zero by 2050 and better disclosure.

In a video interview from her home in Sacramento, California, Anne Simpson discussed why CalPERS puts a premium on a company’s board, reporting and compensation structure, a big lesson from the campaign that replaced three members of Exxon’s board with others who have renewable energy experience, and her views on third-party rating agencies. The interview has been edited for length and clarity.

In the last few years, there’s obviously been a huge explosion of interest in ESG. What, from your perspective, are the markers of a strong ESG program, in terms of disclosure, accountability and oversight?

I completely agree with you. ESG is the new gold rush. It’s like the Wild West of the original gold rush because we don’t have reporting standards and we don’t have an integration of what’s being reported into the financials. So we’ve got as much noise as signal at the moment on the investor side.

I’d just like to say that, just calling this ESG, for us, is a bit problematic. We understand that that acronym is popular and it captures a ridiculously wide range of different topics.

But when we talk about ESG, it sounds somewhat detached from the finances, which is why we don’t really find that acronym suits the way we think about this as a fiduciary. Our traditional daily job is deploying financial capital.

So how do you think about it?

In our investment beliefs, we say long-term sustainable value creation requires the effects of management of financial, human and physical capital. In other words, we have an investment model of these three forms of capital, which puts the financials at the heart of the model. It’s not ESG over here, and let’s look for the letter “F,” and see if we can connect these bits of the alphabet up. We went through a very extensive research exercise to identify, of the many topics and issues out there, what matters to CalPERS?

What matters to you, as an investor?

Our engagement will start with the board. Our idea of a high-quality board is, first of all, it has to be accountable. So we’re looking for majority voting, and if we don’t have that, then we are still taking 50 companies a year in the United States and engaging to get the right to vote against board members, not just to rubber stamp the management slate.

Our view of a high-quality board is that it is independent, of course, but diverse, obviously, and competent. And the question of competence really underlines why we supported these board changes at Exxon because they didn’t have anyone on the board with energy-sector experience. We saw that as a fundamental weakness, in terms of developing a new strategy in the energy sector with climate change in mind.

What else is critical?

The second thing is reporting. There’s been a proliferation of sustainability reports and there’s an important audience for that: the stakeholder community, the workforce suppliers, people who want or don’t want to do business with you. But for investors, it’s got to be integrated into the financials.

There’s an interesting paper from Harvard a couple of years ago by George Serafeim showing 90% of what companies report on sustainability is ignored by investors, and that’s because it’s not been tied into the strategy on risk and return for these companies.

What other aspects do you look at?

The third piece I’d flag is incentives. It’s extremely important that companies are rewarding their people in line with these strategies, goals and targets. So if you come back to Climate Action 100+, we’ve made compensation or remuneration, as it gets called in Europe, one of the elements in our net zero company benchmark. We’re looking at emissions reduction progress, alignment of capex, political lobbying. It’s making sure that what you say lines up with what you do with shareholder money.

How important is tying compensation to sustainability strategy?

The question of compensation being aligned with these strategic goals is really important. You can take a look at BP, an example of a company that’s responded. So if you follow that simple model of the board, the reporting and the incentives, that really would set the stage for a very constructive dialogue with your shareholders, certainly from CalPERS’ point of view.

From an investor’s perspective, what do good incentives look like?

There are two dimensions to this. One is the time horizon over which performance is measured. You need to get these incentives more closely aligned with the long term. And it has to be designed really carefully, because we’ve seen situations where companies say, “no bonus if there’s a single reported accident,” and then people don’t report accidents.

We also need to be looking at issues around work-life balance, commitments to diversity, equity and inclusion, and a sense of purpose in the company. These are incredibly important in motivating employees. It’s sort of a sad fact that when we’re talking about incentives, we tend to just talk about “Oh, how much money are you dangling in front of people and over what time period, and what do they have to do to get it?”

As an investor, how do you handle the third-party information, such as ESG scores, on companies?

We only go to the source. I mean, we’re interested in opinion commentary, broad market views, different market reviews, certainly views that are different to ours.
We talk directly to 2,000 companies a year. If we’re talking to 2,000 companies a year, we have very free and open dialogue. And you know, even on the fixed-income side, we don’t rely on credit rating agencies. That’s been the case for a very long time, and it means we’ll take non-investment grade debt, for example, because we do our own due diligence.

There is all this input of information, but it’s time for the company community, the CFOs, particularly, to step up and get to the regulators and say, “Hey, we agree with our investors, we need standardized reporting integrated into the financials, which goes through the internal audit cycle which is signed off by the auditors.” Then the effort that companies are putting into reporting is actually going to really get us to the regulators who will be very important.

You’ve compared ESG funds to snake oil. Can we draw you out on that?

We have to be a little bit careful about ESG snake oil. Snake oil was this wonderful remedy sold by traveling salesmen at the turn of the 20th century and the properties were extraordinary. It will cure baldness. It will produce a love interest. There will be a cure for TB. But there’s no snake in the snake oil, so that was the first complaint. Then this snake oil was duly applied and the hair on the gentleman’s head didn’t grow back. So it didn’t work. So the snake, or a problem with ESG, is as old as the hills. There’s a human demand and market opportunity. People go and sell into that.

But the question of, does it do what it says it can do? And has it got the content it claims to have? That is now a big issue in the investment management world, otherwise known as ESG greenwashing. The SEC issued a risk alert on this. Now it doesn’t really affect CalPERS because we are an asset owner and we only use external managers for about 20% of the fund. But for those retail investors and for those pension funds which are having to use external managers, this question of the accountability of the intermediaries and the service providers is rightly under scrutiny.

What would you like to see from regulators?

We’re supporting the creation of this new International Sustainability Standards Board, which really is going to provide this integrated approach with international accounting standards. It will cover 140 countries worldwide. Then on the U.S. side, through the SEC investor advisory committee, where I most recently have been representing CalPERS, we’ve worked on a framework for human capital management reporting. It was endorsed under the previous leadership at the SEC, Chair Clayton, as a set of principles for human capital management reporting. Then the pandemic hit. Principles are fine but we need standards. So now, there’s a commitment to start the standard-setting process. We’ve had several meetings with [SEC Chairman Gary] Gensler to say that coordination with the international side is going to be very important.

Turning to the proxy voting agencies, another point where we need more accountability, we could have, and should have had, four [new directors], because the biggest, ISS, did not have any reason for not supporting the fourth director, because the biggest, ISS, did not have any reason for not supporting the fourth director, because the biggest, ISS, did not have any reason for not supporting the fourth director, because the biggest, ISS, did not have any reason for not supporting the fourth director, because the biggest, ISS, did not have any reason for not supporting the fourth director, because the biggest, ISS, did not have any reason for not supporting the fourth director, because the biggest, ISS, did not have any reason for not supporting the fourth director, because the biggest, ISS, did not have any reason for not supporting the fourth director, because the biggest, ISS, did not have any reason for not supporting the fourth director, because the biggest, ISS, did not have any reason for not supporting the fourth director, because the biggest, ISS, did not have any reason for not supporting the fourth director, because the biggest, ISS, did not have any reason for not supporting the fourth director, because the biggest, ISS, did not have any reason for not supporting the fourth director, because the biggest, ISS, did not have any reason for not supporting the fourth director, because the biggest, ISS, did not have any reason for not supporting the fourth director, because the biggest, ISS, did not have any reason for not supporting the fourth director, because the biggest, ISS, did not have any reason for not supporting the fourth director, because the biggest, ISS, did not have any reason for not supporting the fourth director.

Bayer has been getting lots of recognition for environmental and social impact in the last few years. The life sciences company is included in the 20-month-old DAX 50 ESG index, the Bloomberg Gender-Equality Index, a 2020 Wall Street Journal ranking of the 100 most sustainable companies in the world and the “A List” issued by CDP, a disclosure nonprofit with a focus on climate, water and forests. These disparate issues play out in the supply chain too, as do others such as forced labor, a company’s reputation can rise or fall on actions taken by its vendors.

Thomas Udesen, the company’s procurement officer, has used three unconventional tactics for improving conditions at scale among the more than 97,000 businesses that hold contracts with Bayer as part of its extended enterprise:

• His team crafted a supplier code of conduct that is more detailed than typical corporate guidance and sets out examples of behavior that exceeds expectations.
• Bayer encourages sharing data related to supplier sustainability performance between functions and business units — and outside the company as well. Bayer holds leading roles in chemical and pharmaceutical industry initiatives in which supplier audits are respectively shared.
• Rather than creating standards that meet the minimum regulatory requirements, Bayer challenges itself to go above and beyond in environmental, social and governance (ESG) compliance. The company recognizes that corporate funding of sustainability initiatives is critical. That commitment to sustainability is visible in the overall business strategy (see Figure 1).

These steps add up to great expectations for suppliers, backed by a flow of information that is designed to encourage and enforce the company’s aspirations for its network.
Bayer found that 357 of its suppliers evaluated in 2020 improved their sustainability performance versus a supplier’s perspective. "We believe that driving ethical behavior up and down the supply chain ensures we are creating real, long-term value and resiliency," Udesen said. Data Sharing Drives Auditing at Scale Bayer is sharing data between not just its functions but also different companies within its industry. Bayer is a leader in two initiatives that aim for transparency among (1) pharmaceuticals, the Pharmaceutical Supply Chain Initiative (PSCI) and (2) chemical companies, Together for Sustainability (TfS). Both aim to have companies embed their principles in their supply chain operations, including their supplier codes of conduct. They provide audit and assessment templates for companies to use. Such anonymized industrywide data sharing is becoming a wider trend. For example, five large companies in the cosmetics industry are teaming up to create a scorecard that discloses the environmental impact of their products. The hope is that an industrywide standard of environmental sustainability will take hold. Both initiatives aim to reduce resources spent on expensive audits and instead provide organizations flexibility to invest those resources in other sustainability or business initiatives. External data sharing is a powerful tool for achieving that goal. According to PSCI, organizations that share their data more effectively allocate their own resources and improve sustainability standards across global supply chains. That corresponds with our findings that 31% of companies showing others their data are seeing economic benefits from it. Additionally, the coalitions’ data sharing amplifies the urgency of improving suppliers that fall short. If suppliers begin proactively complying with these widely held standards, organizations might need to do less auditing in the future. "We believe that creating this singular voice makes it easier for suppliers to identify and prioritize improvement opportunities and make effective changes," Udesen said. He doesn’t believe this information needs to be closely held. "We are not competing on our supply chain; we are collaborating." Those with concerns can limit how much they share. The agreement filled out by members of the pharmaceutical initiative asks what audit documents they feel comfortable distributing. Once done, create an action plan to begin creating and applying proactive standards to meet and exceed those goals. Identify opportunities to improve data sharing within and outside the organization. Together with data and analytics partners, identify opportunities for building digital hubs that can serve multiple functional needs. Investigate industry associations that offer the opportunity to bring ESG initiatives to scale through shared auditing reports.

**Figure 1. Bayer’s Purpose and Vision**

Bayer is a leader in two initiatives that aim for transparency among (1) pharmaceuticals, the Pharmaceutical Supply Chain Initiative (PSCI) and (2) chemical companies, Together for Sustainability (TfS). Both aim to have companies embed their principles in their supply chain operations, including their supplier codes of conduct. They provide audit and assessment templates for companies to use. Such anonymized industrywide data sharing is becoming a wider trend. For example, five large companies in the cosmetics industry are teaming up to create a scorecard that discloses the environmental impact of their products. The hope is that an industrywide standard of environmental sustainability will take hold. Both initiatives aim to reduce resources spent on expensive audits and instead provide organizations flexibility to invest those resources in other sustainability or business initiatives. External data sharing is a powerful tool for achieving that goal. According to PSCI, organizations that share their data more effectively allocate their own resources and improve sustainability standards across global supply chains. That corresponds with our findings that 31% of companies showing others their data are seeing economic benefits from it. Additionally, the coalitions’ data sharing amplifies the urgency of improving suppliers that fall short. If suppliers begin proactively complying with these widely held standards, organizations might need to do less auditing in the future. "We believe that creating this singular voice makes it easier for suppliers to identify and prioritize improvement opportunities and make effective changes," Udesen said. He doesn’t believe this information needs to be closely held. "We are not competing on our supply chain; we are collaborating." Those with concerns can limit how much they share. The agreement filled out by members of the pharmaceutical initiative asks what audit documents they feel comfortable distributing and if they want to restrict sharing to certain members within the initiative.

**Proactive Standards Setting**

As part of its commitment, Bayer is committed to combating the climate crisis. The company joined the Science Based Targets initiative (SBTi) and has set itself respective targets to reduce greenhouse gas emissions that are in line with the Paris Agreement requirements. Bayer is also one of 815 companies worldwide that have joined the Business Ambition for 1.5°C — an urgent call to action from a global coalition of UN agencies, business and industry leaders — in partnership with the Race to Zero (as of 30 September 2021). Additionally, 100% of its palm oil is sustainably sourced; cultivation of this crop has been a major cause of deforestation around the world. These may look like one-off endeavors, but they make a collective impact, including to the company’s P&L. "It was not difficult to convince senior leadership at Bayer to initiate proactive standards," Udesen said. “This is essential for how we do business and how we deliver value; it just makes sense.” Bayer’s Steps Toward Sustainability

- Review the standards and goals laid out in international agreements such as the UN Global Compact and the Paris Agreement, and create an actionable — not merely aspirational — supplier code of conduct.
- Then, conduct an internal audit and review of the company’s ESG efforts.
- Once done, create an action plan to begin creating and applying proactive standards to meet and exceed those goals.
- Identify opportunities to improve data sharing within and outside the organization. Together with data and analytics partners, identify opportunities for building digital hubs that can serve multiple functional needs. Investigate industry associations that offer the opportunity to bring ESG initiatives to scale through shared auditing reports.
Revamp How You Decide Which ESG Issues Matter Most
by Oana Lupu

To stay competitive and avoid surprises, executive leaders should rigorously examine their impact on the world and society’s changing expectations. Doing so can:

1. Provide a roadmap for enterprise risk management and strategic planning.
2. Help identify new product and service opportunities.
3. Build enterprise resilience by emphasizing long-term viability.
4. Inform a sustainability strategy that drives customer loyalty.
5. Signal to investors management’s ability to deliver results in a changing world.

And that means the formal exercise known as the materiality assessment has to change.

Environmental, social and governance (ESG) issues previously deemed irrelevant to financial performance can quickly become relevant. In the last two years, the pandemic, natural disasters and social upheaval proved this over and over again.

For decades, functions such as investor relations, sustainability, compliance and supply chain have considered which ESG issues matter most to the company and its stakeholders. Organizations placed the biggest emphasis on how these issues affect financial performance, and the results typically informed sustainability reports and other disclosure requirements.

But that’s not enough. Company leadership from every major department should participate in this process and expand it to:

1. Track societal, not just financial, impact.
2. Go beyond surveys and interviews to stay ahead of changing stakeholder expectations.
3. Check the business model for conflicts with human rights and environmental limits.

A change in corporate behavior, societal expectations or the availability of information about company practices can catalyze a dramatic shift in an ESG issue’s importance to a company — or even an industry (see Figure 1). And that can happen fast because of a new and powerful public voice enabled by digital technologies. Social networking sites and messaging apps, for example, make it inexpensive and easy to share data and opinions worldwide.

Therefore, executives should assess what is important to both society and the bottom line — a concept called double materiality, around which the European Commission’s newly proposed Corporate Sustainability Reporting Directive is based. Conduct your own analysis of societal impact, rather than relying solely on guidelines such as the framework developed by the Sustainability Accounting Standards Board (SASB), now known as the Value Reporting Foundation. For example, according to SASB, data security is not a material issue for the hotels and lodging industry. But hotels routinely collect sensitive client information, and that can make people vulnerable to cyber attacks, affecting large swaths of society.

### Figure 1. The Path From Impact to Financial Materiality

<table>
<thead>
<tr>
<th>Stage</th>
<th>Description</th>
<th>Financial Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issue Financially Immaterial</td>
<td>Business and societal interests either are aligned or seem aligned because of social norms or society’s lack of information.</td>
<td>None</td>
</tr>
<tr>
<td>First Sign Issue Could Become Financially Material for Some Companies</td>
<td>A change in societal expectations, corporate behavior or the availability of information about company practices creates misalignment between business and societal interests.</td>
<td>Companies that deviate from normal practices may outperform industry peers.</td>
</tr>
<tr>
<td>Issue Becoming Financially Material for Some Companies</td>
<td>NGOs, media and other stakeholders put pressure on specific companies to change their practices.</td>
<td>Companies targeted by public response are likely to face a drop in stock price, consumer boycotts, lawsuits or employee strikes.</td>
</tr>
<tr>
<td>First Sign Issue Could Become Financially Material for Entire Industry</td>
<td>Companies attempt to regain trust through company-specific or industrywide self-regulation.</td>
<td>Other offending companies in the industry start experiencing the issues above or start being rewarded for not engaging in the same practices.</td>
</tr>
<tr>
<td>Issue Financially Material for Entire Industry</td>
<td>New regulations force companies to change their behavior, or innovations enable the development of differentiated products/services that address the misalignment between business and societal interests.</td>
<td>Performance on the ESG issue affects the valuation of all companies in the industry. Companies compete based on their ability to address the issue.</td>
</tr>
</tbody>
</table>

Source: How ESG Issues Become Financially Material to Corporations and Their Investors, Harvard Business School
The massive Marriott data breach in 2018 highlighted what an attractive and unprepared target hotels can be; they are a treasure trove of information for hackers, marketers and even intelligence agencies, and their cybersecurity infrastructure is weak. The high-profile incident prompted a U.S. Senate hearing at which Marriott’s CEO and lawmakers discussed the need for new data security legislation.

Shirley Birman, quantitative researcher with Truvalue Labs, a company that uses AI to deliver ESG data to investors, saw the ripple effects firsthand. Investor clients she works with started paying attention to cybersecurity risks across all hotels and lodging companies in their portfolios following the breach, she said.

A helpful tool for determining your impact on society is the six capitals framework. It was developed by the International Integrated Reporting Council (IIRC), the organization that merged with SASB to create the Value Reporting Foundation. This tool moves beyond financial resources to add categories for manufactured, intellectual, human, natural, and social and relationships. (see Figure 2).

Business activities increase, decrease and transform these assets, and in turn, they affect the organization’s long-term success. C-suite leaders should discuss how operations deplete and replenish each source of value.

2. Go Beyond Surveys and Interviews to Stay Ahead of Changing Stakeholder Expectations

To identify the ESG issues that matter to stakeholders, most companies collect data through surveys, interviews and focus groups with their close network of customers (78%), employees (70%) and local communities (65%).

Next, determine which are so entwined with the bottom line that they are almost as important to your business — says Matthew Gardner, managing partner at sustainability consulting firm Sustainervations. ESG issues related to these sources of value will likely be material to the organization.

He offered an example of a company he worked with: a manufacturing machinery outfit that serves the forestry industry. Executives recognized the availability of trees (natural capital) was crucial for its long-term success. If the company’s clients didn’t have raw materials to process, it wouldn’t need to purchase equipment, Gardner said. Thinking about this nonmonetary form of value created urgency for executives at the manufacturing business to invest in innovation technology. The company developed new products that work with faster-growing tree varieties that are easier to replenish.

Sources further removed, such as academia (30%), industry associations (30%) or competitors (10%) — which may have different viewpoints — are less likely to be tapped.

Executives should cast a wider net to sense subtle changes in societal expectations. Secondary data, including consumer trend reports and news articles, and technologies such as artificial intelligence (AI), can help efficiently capture emerging sustainability trends, global standards and competitor practices (see Figure 3).

Next, review your list of sources to make sure they represent the views of any new stakeholder groups that gained influence over your business since the previous assessment — said Rodney Irwin, COO of WBCSD. Examples include new competitors that have entered the market, increasingly vocal NGOs, a new employee group following an acquisition or new community representatives after a geographic market expansion.

3. Check the Business Model for Conflicts With Human Rights and Environmental Limits

C-suite leaders should proactively check for conflicts between the business model and ethical norms to determine where they need to adjust corporate strategy before stakeholders sound the alarm.

<table>
<thead>
<tr>
<th>Source Type</th>
<th>How It Helps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Al-powered materiality tools (e.g., Datamaran)</td>
<td>Uses natural language processing to identify emerging sustainability trends based on unstructured, publicly available data (e.g., regulations, news articles, academic journals, trade publications, social media)</td>
</tr>
<tr>
<td>Panel of external subject matter experts</td>
<td>Keeps executives up to speed on the latest scientific, technological, social and regulatory developments relevant to the business, and advises on implications</td>
</tr>
<tr>
<td>Stakeholder dialogue (e.g., opening up the annual meeting beyond shareholders to include other relevant stakeholders such as customers, employees or community representatives)</td>
<td>Improves leaders’ understanding of constituents’ concerns and reveals trade-offs that need to be made between the interests of different groups</td>
</tr>
<tr>
<td>Internal documents (e.g., risk report, strategic objectives, financial disclosures, previous materiality assessments, inquiries from investors and NGOs)</td>
<td>Reveals the context within which the business operates and provides a basis for comparison to previous years</td>
</tr>
<tr>
<td>Standards organizations (e.g., Global Reporting Initiative, International Labour Organization, SASB)</td>
<td>Provides frameworks and definitions for identifying potential issues</td>
</tr>
<tr>
<td>Competitor news, materiality assessments and sustainability reports</td>
<td>Identifies issues you may not have considered (e.g., a topic a competitor deemed material, or one that can become material for the industry because of recent news coverage)</td>
</tr>
<tr>
<td>Publications (e.g., the Forum for Sustainable and Responsible Investment, Chartered Financial Analyst Institute, trade publications)</td>
<td>Explains ESG trends driving investors, reveals topics that are starting to get more attention from regulators and disruptive innovations</td>
</tr>
</tbody>
</table>

Figure 3. Nonsurvey Sources for ESG Issue Identification
Use the business model red flags for human rights — developed by Shift, the nonprofit center of expertise on the UN Guiding Principles on Business and Human Rights — to start a leadership discussion about this (see Figure 4). How many of them apply to your company? And how do you plan to reduce or eliminate each?

Similarly, identify the business practices that have a significant negative effect on the environment. A useful framework is the nine planetary boundaries (see Figure 5). These are the scientifically identified thresholds that, if surpassed, risk making Earth uninhabitable for humanity. Based on this concept, executives should ask themselves the following questions to determine if their organization is contributing to crossing these boundaries:

- Which of our processes, products and services generate the most carbon dioxide (including during customer use)?
- To what extent do our operations increase the concentration of toxic substances, plastics, endocrine disruptors, heavy metals and radioactive material in the environment?
- Does our business model rely on increasingly converting forests, wetlands, grasslands and other vegetation to agricultural land?
- Which business activities rely on chemicals that destroy the ozone layer (e.g., substances used in some fire extinguishers, foam and fumigation)?
- To what extent do our operations contribute to the extinction of species and destruction of habitats?
- How much nitrogen and phosphorus do our operations emit? Which ones emit the most?
- Which business operations have a significant impact on freshwater availability?

**Figure 4. Business Model Red Flags**

<table>
<thead>
<tr>
<th>Boundary</th>
<th>Metric</th>
<th>Why It Matters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ozone Depletion</td>
<td>Stratospheric ozone concentration</td>
<td>The ozone layer protects all living organisms by filtering out ultraviolet radiation from the sun.</td>
</tr>
<tr>
<td>Biodiversity Loss</td>
<td>Extinction rate of species</td>
<td>Balanced ecosystems underpin food security, prevent disease and store carbon dioxide.</td>
</tr>
<tr>
<td>Chemical Pollution</td>
<td>Concentration of toxic substances in the environment</td>
<td>These chemicals can cause genetic damage, reduce fertility and even kill living organisms.</td>
</tr>
<tr>
<td>Climate Change</td>
<td>Carbon dioxide concentration in the atmosphere</td>
<td>Earth’s increasingly warmer temperature is changing weather patterns, causing more frequent and more dangerous events.</td>
</tr>
<tr>
<td>Ocean Acidification</td>
<td>Saturation rate of calcium carbonate in surface seawater</td>
<td>Marine organisms can’t grow and survive in an acidic environment.</td>
</tr>
<tr>
<td>Nitrogen and Phosphorus Flows</td>
<td>Nitrogen and phosphorus concentration flowing into the atmosphere and oceans</td>
<td>These nutrients accumulate in water systems, leading to excessive algae growth and starving other marine organisms of oxygen. Some of the algae can hurt human health.</td>
</tr>
<tr>
<td>Atmospheric Aerosol Loading</td>
<td>Concentration of particles in the atmosphere</td>
<td>Aerosols interact with water vapor to influence cloud formation and weather patterns such as monsoons.</td>
</tr>
</tbody>
</table>
Embedding environmental issues as material now will help you address them earlier; that's better for the planet and business.

Organizations that continue to use the materiality assessment for disclosure purposes alone do so to their own detriment. If your reason for doing it “is to disclose or to report,” Irwin told us, “then you’re the tail wagging the dog.”

Those truly interested in crafting a sustainable corporate strategy need to overhaul the materiality assessment process to understand which ESG issues that don’t currently matter for financial performance will soon impact the bottom line, so they can craft a plan to address them.

1 Our research methodology includes a literature review of academic journals, working papers, guidance documents and articles as well as interviews with the following subject matter experts:
- Dr. Rodney Irwin, professor of accounting and sustainability at Leuphana University and chief operating officer at the World Business Council for Sustainable Development (WBCSD), a CEO-led organization of over 200 leading businesses working together to accelerate the transition to a sustainable world. Irwin oversees projects designed to help companies measure and manage risk, gain competitive advantage and seize new opportunities by understanding ESG information.
- Mark Hodge, senior associate at Shift, a nonprofit center of expertise on the UN Guiding Principles on Business and Human Rights. Hodge co-leads the Valuing Respect project focused on developing better ways to evaluate business respect for human rights, which produced the Business Model Red Flags.
- Dr. Matthew Gardner, managing partner at Sustainserv, a global management consulting firm. Gardner helps companies integrate sustainability considerations into their long-term strategies, day-to-day operations and communications using his technical background in chemistry and environmental science.
- Simon Rawson, director of corporate engagement at ShareAction, a U.K. charity that promotes responsible investment and aims to improve corporate behavior on ESG issues. Rawson works with investors to engage with companies to drive responsible business practices and deliver positive social impact.
- Dr. Donato Calace, VP of accounts and innovation at Datamaran, a software analytics platform that identifies and monitors external risks, including ESG. Calace leads innovation projects and the account strategy for the firm.
- Greg Bala, big data scientist at Truvalue Labs, a FactSet company, which uses AI to quantify ESG data from unstructured text sources. Bala helps deliver timely ESG signals to investment professionals.
- Shirley Birman, quantitative researcher at Truvalue Labs, a FactSet company. Birman works with investment professionals to integrate Truvalue Labs’ data into their investment process.
- Susan Lundquist, head of global go-to-market strategy at FactSet. Lundquist is part of the company’s leadership team.
- Sustainable Finance Package, European Commission.
- International Integrated Reporting Framework, IIRC.
- The Reality of Materiality, WBCSD and Erasmus School of Economics.
- Menu of Business Model Red Flags, Shift.
- The Nine Planetary Boundaries, Stockholm Resilience Centre.

Define your ambitions, set and meet clear goals, and unleash the power of technology.
Without being connected to the rest of society, you don’t have a business. But when society is fragmented or polarized, how do you build that bond? In these circumstances, organizations should work harder to add their voice to the discourse in a way that improves collective outcomes.

It’s time to head to the whiteboard and sketch out how to manage social fractures.

Social fractures are divisions in society that cause people (and institutions) to disengage with each other, engage only in a polarized way or act negatively toward a common good.

Fraying trust – between people, between people and institutions, between institutions – is by far the number one fracture that takes a toll on business.

### 13 issues that lead to social fractures...

1. **Trust**: People and institutions do not trust each other.
2. **Common Cause**: There is no sense of shared purpose or connecting narrative in society.
3. **Common Observation**: There is no agreement about what constitutes “facts” to form the basis of big social conversations.
4. **Fair Access**: Many in society lack fair access to education, healthcare and digital infrastructure.
5. **Discernment**: Judgment about events and situations is not balanced or careful.
6. **Belonging**: Many people feel left out of parts of society as a whole.
7. **Diversity**: There is no diversity and inclusion in the group.
8. **Contribution**: People and institutions lack engagement to actively contribute to a healthy society.
9. **Innovation**: Society doesn’t innovate or move forward anymore.
10. **Equity**: Individual circumstances no longer count when people seek equal opportunity.
11. **Self-Determination**: People do not have the power to make their own choices or use their abilities.
12. **Common Means of Exchange**: There is a lack of a common way to share information or lack of global payment mechanisms.
13. **Statute of Limitation**: There is no clarity about how long people can be held accountable or how long information is kept.

### What kinds of social fractures affect businesses the most?

<table>
<thead>
<tr>
<th>Social Fracture</th>
<th>Percentage of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust</td>
<td>Sum of Top Three: 21%</td>
</tr>
<tr>
<td>Common Cause</td>
<td>First Choice: 62%</td>
</tr>
<tr>
<td>Common Observation</td>
<td>8%</td>
</tr>
<tr>
<td>Fair Access</td>
<td>9%</td>
</tr>
<tr>
<td>Discernment</td>
<td>10%</td>
</tr>
<tr>
<td>Belonging</td>
<td>8%</td>
</tr>
<tr>
<td>Diversity</td>
<td>9%</td>
</tr>
<tr>
<td>Contribution</td>
<td>4%</td>
</tr>
<tr>
<td>Innovation</td>
<td>9%</td>
</tr>
<tr>
<td>Equity</td>
<td>8%</td>
</tr>
<tr>
<td>Self-Determination</td>
<td>8%</td>
</tr>
<tr>
<td>Common Means of Exchange</td>
<td>4%</td>
</tr>
<tr>
<td>Statute of Limitation</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
</tr>
</tbody>
</table>

n = 77, All Answering Respondents, Excluding ‘Not Sure’

We could use this tool to inform our response to our workforce.

Once we’ve identified an uncertainty or set of uncertainties, scenario planning is helpful.

How can we cut through the din of many voices to understand the social forces at work?

"If a business is not connected/listening to social concerns, it is not best positioned to be proactive or competitive."
Head Client Success, USA

“Businesses should definitely listen to social contracts. But the loudest voice is not the best one. Too much political correctness andcancel culture is hurting the society and there the business.”
Manager, Czech Republic

Do we need a new “voice of society” metric to supplement perspectives from employees, investors and consumers?

How can business and society both succeed?

1. How can you anticipate the impact of different social fractures on your business and prepare appropriate responses?
2. Who at your organization is listening to the voice of society?
3. What should you start doing now?
4. How can you benefit?

How can we cut through the din of many voices to understand the social forces at work?

"If a business is not connected/listening to social concerns, it is not best positioned to be proactive or competitive."
Head Client Success, USA

“Businesses should definitely listen to social contracts. But the loudest voice is not the best one. Too much political correctness and cancel culture is hurting the society and there the business.”
Manager, Czech Republic

Social Cohesion

Get With the Program

Mind Your Own Business

Voice of Society

Unified

Decisive

Wait for It

Play to Your Purpose

Inconsequential

Fragmented

We could use this tool to inform our response to our workforce.

How can we cut through the din of many voices to understand the social forces at work?

"If a business is not connected/listening to social concerns, it is not best positioned to be proactive or competitive."
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“Businesses should definitely listen to social contracts. But the loudest voice is not the best one. Too much political correctness andcancel culture is hurting the society and there the business.”
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Do we need a new “voice of society” metric to supplement perspectives from employees, investors and consumers?

How can business and society both succeed?

1. How can you anticipate the impact of different social fractures on your business and prepare appropriate responses?
2. Who at your organization is listening to the voice of society?
3. What should you start doing now?
4. How can you benefit?

How can we cut through the din of many voices to understand the social forces at work?

"If a business is not connected/listening to social concerns, it is not best positioned to be proactive or competitive."
Head Client Success, USA

“Businesses should definitely listen to social contracts. But the loudest voice is not the best one. Too much political correctness and cancel culture is hurting the society and there the business.”
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Social Cohesion: United
Voice of Society: Decisive
Get With the Program

Play to Your Purpose

Mind Your Own Business

Social Cohesion: Fragmented
Voice of Society: Inconsequential
Wait for It

Leadership Considerations

Go Beyond Profit and Shareholder: Engage in broader activities.
Collaborate: Partner to influence larger common causes.
Reduce footprint in other areas: Back out of areas outside of the social cohesion.

Play to Multiple Segments: Have a brand and label for each niche.
Develop Agile Response Mechanism: Keep a finger on the pulse of society.

Concentrate on Business: Treat social activism as an externality.
Focus Employee Messaging: Concentrate on business purpose and goals.
Prioritize Shareholder Value: Focus on running a business.

Extreme Sensing for Sudden Change: Not quarterly, or monthly, but continuously.
Speak Only When You Have a Solution: Or a certain plan or roadmap
Actively Listen: The issues are out there in the open.

Regardless of the scenario, action is imperative.
Innovating With Big Tech to Solve Social Problems: A Q&A With the Asian Development Bank’s Ozzeir Khan

by Rui Zhang

Ozzeir Khan
Director of the Digital Innovation and Architecture Division, Asian Development Bank

Ozzeir Khan is the director of the digital innovation and architecture division at the Asian Development Bank (ADB) and heads the Digital Innovation Sandbox Program there. He develops strategies and initiatives on artificial intelligence, robotic process automation and other emerging technologies in support of ADB’s Strategy 2030. Prior to joining ADB, he was chief of digital innovation labs for the United Nations and worked in the global financial services sector in Asia, Europe and the U.S.

ADB has been engaged in partnerships with civil society for over a decade, but it recognized the need to also collaborate with digital giants such as Microsoft, Google and Amazon — the $25 billion companies with patient investors, deep pockets, an equally deep talent bench and a mastery of monetizing data. Khan told us about his challenges and lessons learned as he worked with Big Tech to solve environmental, social and governance (ESG) issues. The interview has been edited for brevity and clarity.

What prompted ADB to work with digital giants to solve ESG issues?

ADB’s mission is to promote social and economic development in Asia/Pacific. Our work is not directly related to digital. But as we enter today’s digital age, our work is underpinned by data and digital unlike ever before. Digital is now inseparable from how we achieve our mission.

For example, regarding vaccine distributions, we had to analyze the feasibility of bringing them into certain neighborhoods by incorporating logistics data and utilizing adoption algorithms. We had to have the overall impact analysis with logistics data and utilizing adoption algorithms. To do so, we rely on data and digital more and more.

But as a traditional organization, we are not always tech savvy. We found ourselves having to work with digital giants to create solutions on the true partnership level. The type of innovations or digital solutions needed to fulfill our work isn’t something we can buy or procure or subscribe to; we can’t easily put a price tag on it. So that’s why we needed to look beyond our organization.

Could you give me an example of a collaboration you had with a digital giant on solving an ESG issue?

Our collaboration with Oracle and Microsoft on driving financial inclusion in Papua New Guinea was quite interesting. Our regional team there needed to provide financial services to citizens who had no identity and were living outside of the internet network.

One way was to collect biometrics as proof of identification offline. But sometimes people in remote villages worked so hard that their fingerprints were worn off and couldn’t be used for biometrics.

Because of these local complexities, we had to come up with multiple ways of getting biometrics. We might have to verify a person through an elder person in the tribe, take certain available biometrics and record them offline. As you can see, the solution had to be very specific. We scanned the whole market but couldn’t find a commercially available solution tailor-made for biometrics that can be performed offline in a remote village.

Eventually, we found a startup in Finland exploring this particular use case. And then we brought in Oracle and Microsoft for not only their cloud infrastructure and tools but also their support from the local team in Singapore.

Notably, it’s Microsoft’s interest and commitment in digital identity that really appealed to us. They had to analyze the feasibility of bringing them into certain neighborhoods by incorporating logistics data and utilizing adoption algorithms. To do so, we rely on data and digital more and more.

Microsoft continued to invest with us even after this project. It provided us with credits for cloud and access to its developers for advice, was the sounding board for the startup, cleared the security mechanism and helped us with pen testing.

How did you get started, and how did you approach them?

We signed an umbrella noncommercial agreement with Microsoft in 2019. We initially pursued it because under Satya Nadella’s leadership, Microsoft had interest beyond commercial operations in areas in education, financial inclusion and others.

The agreement was done at a very senior level by the Microsoft APAC president and ADB vice president for administration and corporate management. It immediately eliminated commercial equations like having Microsoft’s sales teams sponsoring some credits for us. Microsoft’s APAC account management team, architecture teams and the lab in Singapore all started working with us on a nonprofit cooperative basis, aligned on common interests. And it became a lot easier for them to obtain internal approvals with this agreement at the president level.

How did you figure out their core interest and align with them?

We found that getting access to the right people to get a good sense of what’s happening inside those companies is one of the key success behaviors. These companies now have public sector positions assigned to understand the market. These folks have time and interest to work with us as a mandate from their management.

The issue is, of course, getting to know them. It takes quite a long time to understand the inner workings of a giant web within Amazon, Oracle, Facebook ... and we are getting started with ServiceNow.

And then we spend time with them. Together through conversations and exploring different scenarios, we connect the dots and find where the common interest might lie. For example, I remember having multiple conversations with a local VP of Microsoft who shared certain priorities mentioned by Satya Nadella in a meeting in London two weeks ago, or a certain agenda a key person is pushing for.
With aligned interest, even manufacturing companies could work with them. Take carbon emission as an example: digital giants could play a huge role in validating the data for carbon credits. Then you can export your products from manufacturers in Asia to Europe with more stringent regulations around imports.

**What type of people do you have to “spend time with”?**

The discussions had to happen at the principal level. By principal, I mean the person in charge of the Papua New Guinea program has to get in touch with the public sector technology architect at the partner organizations. I need to bring both principals together to get the mutual understandings correct as early as possible. You know whether things will move forward or whether there is a spark at the beginning.

To summarize, understanding digital giants’ intentions, grasping the root cause of a problem and getting two principals to discuss them in a meaningful manner is how we’ve been able to push things through.

**Could you share some tactics on how ADB found ways to get to the right people?**

We do a lot of homework regarding digital giants’ current global initiatives. We reach out to not only their APAC sales teams but also their corporate social responsibility teams. We invite their C-suites to our digital events to speak and get to know them. We develop a relationship with them and then bring them onboard. Otherwise, if you go through the normal channel, you will be down to the local salesperson trying to sell you their services. One pitfall we deliberately avoid is to only knock on the salesperson’s door because it won’t be strategic and might only open the conversation on a temporary basis.

Additionally, if things don’t click in the first one or two calls, we back off. There could be many reasons — not the right timing, not the right person. But there are alternative partner options, so we don’t spend too much time.

**In the example you gave, you mentioned working with a startup in Finland. Does ADB work with other startups?**

Yes, definitely. We have 4,000 startups registered with us now. We have a whole program and work tremendously well with them. They are more accustomed to a slower execution pace with us, while the giants may want to solve world hunger in two “minimum viable products.”

Another incentive we use is to provide funding or do an equity investment in a startup, but this trick doesn’t work for digital giants. We are starting to figure out how to work with midtier companies (not a startup but also not yet a giant), such as data bricks. Since they are not big enough yet, they are still hungry and want more challenges to grow their products.

**Do you have any other lessons learned you want to advise other companies on?**

The clarification on IP sharing is critical. If you come up with something new together, how will you share that asset you co-created? We found that every organization has different policies. The lesson learned here is from the get-go, make sure you discuss the IP issue upfront.

We usually let organizations leverage the co-created asset for commercial purposes, but we set some exceptions for particular use cases or markets on a nonprofit basis.

**One interesting trend is that these digital companies are getting a lot of pressure from investors to report their ESG progress. Have you picked up the same trend?**

Investors, boards and employees are all asking how they are supporting ESG issues. Over time, it will become even more important. Many companies are still developing the processes and playbooks, but definitely the pressure is there.

One last point: When you are working on ESG issues, you may not have clear requirements. You cannot have commercial agreements.

You have no choice but to partner with the digital giants. Either you partner with them, or you will not move forward.

You will be tinkering in your labs with small use cases. You need to get these digital giants on board because they are the ones running the industries now.

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1 Partnering for a Path to Digital Identity. The Official Microsoft Blog.
Give Stakeholders Credit for Company ESG Efforts and They’ll Repay You With Loyalty

by Sharon Cantor Ceuvorst and Dorian Cundick

Even when customers, employees and the wider community believe a company is authentically committed to and working for positive change in the world, that alone does not guarantee the expected loyalty. When asked about a particular business with which they have a relationship, 84% of these audiences believe the company communicates transparently, and 73% agree it acts consistently to deliver environmental and societal impact. However, only 30% of 3,000 respondents to our survey report feeling connected to the business — that they identify with it and share in its success.

One additional step is necessary for communications leaders: Help audiences see how they contribute to and benefit from your social responsibility efforts.

That extra piece is worth the effort: When stakeholders do feel connected, customers are more likely to purchase, more employees want to stay with their employer and all audiences engage in more positive advocacy on behalf of the company (see Figure 1).

Organizational connection is the extent to which audiences identify with a company and feel invested in its success.

That’s because giving stakeholders a sense of participating in and benefiting from shared action matters more than authenticity. This element of personal fulfillment has nearly three and a half times more impact on organizational connection than belief in the company’s commitment (see Figure 2).

Communicate Authentically and Make the Audience Part of the Solution

Audiences are holding companies to an ever higher standard on issues such as environmental sustainability and diversity, equity and inclusion (DEI) — and abandoning those that fail to deliver. Nearly two-thirds of consumers (65%) agree they are more likely to boycott companies that don’t do social good than they were five years ago.

The shift in perspective affords greater opportunities for communication that makes stakeholders part of the solution to ESG problems. After all, over the past five years, audiences have been isolated and disempowered by the COVID-19 pandemic, economic volatility, political polarization across the world and the looming threat of climate change. U.S. consumers felt more afraid, uncertain, alone and distrustful in 2020 than they did one year prior.²

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The figure below illustrates how organizations can communicate authentically and make the audience part of the solution to ESG problems.

Figure 1. Organizational Connection Builds Loyalty and Advocacy By Level of Connection

<table>
<thead>
<tr>
<th>Low Connection</th>
<th>High Connection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers’ Purchase Likelihood</td>
<td>75%</td>
</tr>
<tr>
<td>Employees’ Intent to Stay</td>
<td>9%</td>
</tr>
<tr>
<td>Audiences’ Advocacy</td>
<td>9%</td>
</tr>
</tbody>
</table>

n = 739 customers; 319 employees; 1,389 audience members
Source: 2021 Gartner Corporate Social Impact Survey
Note: Percentages represent the proportion of respondents scoring in the top and bottom quartile of the organizational connection index who reported completing a purchase from the company (left), or who also scored in the top quartile of intent to stay (middle) or behavioral advocacy (right).

Figure 2. Connection Necessitates Personal Fulfillment Impact on Organizational Connection

<table>
<thead>
<tr>
<th>Authentic Commitment</th>
<th>Personal Fulfillment</th>
</tr>
</thead>
<tbody>
<tr>
<td>16%</td>
<td>55%</td>
</tr>
</tbody>
</table>

n = 3,000 audience members
Source: 2021 Gartner Corporate Social Impact Survey
Note: Multiple regression model with controls for respondent age, gender, region, education, income, employment, prosocial attitudes, stakeholder group membership, perceived consistency of the company’s position, perceived favorability of the company’s actions, and product value. Bars represent proportion of variance explained and do not total to 100% due to additional variance attributed to control variables.
To implement a communications strategy that makes audience members feel like they are part of a solution, first understand the primary ways individuals can benefit from corporate social impact:

- **Self-image** — "I can affirm my values and present a consistent image.”
- **Control** — "I feel capable and secure in my environment.”
- **Belonging** — "I feel connected to others as part of something bigger.”

Each perceived benefit has a corresponding messaging tactic:

- **Illuminate personal values** to improve audiences’ self-image.
- **Empower action** to improve audiences’ sense of control.
- **Promote connection** to improve audiences’ sense of belonging.

The following examples from three different organizations illustrate how to communicate in a way that is likely to credit audience members with ESG progress, thereby creating personal fulfillment for them.

**Illuminate Personal Values: National Grid**

Companies help audience members improve their self-image by showcasing credible perspectives on complex issues. This tactic educates them so they can participate in dialogue with other informed citizens. It also helps them recognize their own biases and false assumptions so they can better understand and feel less conflicted about the issue.

For example, National Grid, a utility company based in the U.K., committed publicly to migrating to cleaner energy solutions. To attract the highly skilled workforce needed to achieve this commitment, National Grid runs a talent attraction campaign called “The Job That Can’t Wait.” Featuring idealistic employees challenges the false assumption that people who care about sustainability don’t take jobs in the energy sector. The campaign encourages potential recruits to see how they can live their values and combat climate change by working for the company (see Figure 3).

**Empower Action: Chipotle**

Executives can improve an audience’s sense of control by:

- Crowdsourcing ideas for priorities and action steps
- Providing helpful resources that make it easy to take action
- Establishing visibility into how individual actions contribute to overall goals
- Giving real-time progress updates against goals

For example, Chipotle, a U.S.-based chain of fast-casual restaurants, provides a personalized report for each customer detailing how their purchases helped the environment. The restaurant chain includes a carbon footprint reduction calculator within its customer app. In addition to seeing loyalty program points, users see the carbon reduction, water savings and soil health associated with their personal order history. Behind the scenes, Chipotle is doing the hard work to select sustainable ingredients and track progress, yet it credits the audience with achieving that impact and affirms the audience’s small choices (see Figure 4).

**Figure 3. National Grid’s Talent Attraction Campaign**

*Video Stills From “The Job That Can’t Wait”*

![Image](image1)

“If you’re looking for a career with purpose that will help the country tackle climate change, join us to do The Job That Can’t Wait.”

*Source: Adapted From National Grid*

![Image](image2)

“I’m proud to work for a company that’s invested a significant amount of money — and we’re talking about billions of pounds, connecting us — to allow us to exchange clean energy between different countries.”

*Source: Adapted From National Grid*

**Figure 4. Chipotle’s Carbon Footprint Reduction Calculator**

*Application*

2021 IMPACT

Your order makes a difference. See how Chipotle’s real ingredients reduce the impact on the planet compared to conventional ingredients.

- **Less Carbon in the Atmosphere**: 556.2 GRAMS
- **Supported Organic Land**: 5.8 SQ FEET
- **Antibiotics Avoided**: 643.5 MILLIGRAMS
- **Gallons of Water Saved**: 8.8 GALLONS
- **Improved Soil Health**: 45.8 SQ FEET

*Source: Adapted From Chipotle*
Promote Connection: Patagonia

To improve an audience’s sense of belonging, companies:
• Demonstrate support for a similar peer group.
• Create content in collaboration with the target demographic.
• Enable peer-to-peer networking.
• Convene local community forums.

Patagonia, a U.S.-based outdoor clothing and gear company, is well-known for its sustainability efforts and environmental activism. Consumers can use Patagonia’s website to connect with nonprofits that have received charitable contributions and grant funding from the company’s foundation, filtering results by location and issue area. That way, audiences can easily find opportunities to volunteer with or otherwise support local organizations whose mission matches their values (see Figure 5).

This communication method transfers the credit for social impact from the company to the audience, which helps them feel like active agents and contributors. With the support and backing of larger corporate institutions, individuals feel more capable of engaging productively with daunting societal challenges. People value this renewed sense of agency and repay the company that made them feel that way with their loyalty and advocacy.

Figure 5. Patagonia’s Action Works Program and “Explore” Page

Source: Adapted From Patagonia

<table>
<thead>
<tr>
<th>Patagonia’s Action Works Program</th>
<th>Patagonia’s Action Works “Explore” Page</th>
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</table>

Connect with Environmental Groups

We’re connecting individuals with Patagonia grantees, to take action on the most pressing issues facing the world today. Patagonia Action Works helps you discover events, petitions and skilled volunteering opportunities in your backyard and donate money to local causes.  Act Now

1 2021 Gartner Corporate Social Impact Survey. This study was conducted online in February 2021 and includes data from 3,000 consumers, B2B buyers, activists and full-time employees from the U.S., Canada, the U.K., Australia, the Philippines, Singapore, South Africa and India. Disclaimer: Results of this study do not represent global findings or the market as a whole but reflect sentiment of the respondents and companies surveyed.

Briefs

Smarter Spending & Planning

Use Personas to Help Shape Your Company’s Future Workspace

At a time of rapid office transformations, personas are a powerful tool for identifying unmet employee needs and designing a future workspace that offers those essentials. Not to be confused with job roles, personas can make employee information more usable and relatable, and keep employee requirements front and center. Indeed, 77% of real estate leaders told us they have completed a workplace persona initiative, were working on one or were considering one.

Create personas based on employee behaviors and preferences (such as the in-office networker, the tech-averse, the home caretaker, the sociable type) – not employee demographics. To do this right:

1. Collect only relevant data for the problem at hand.
2. Check whether HR and IT already have information you can use. Potential data sources include: employee surveys, workplace observations of those who are on-site, natural language processing of employee requests.
3. Validate the personas you created through interviews with employees and managers. If you didn’t capture the whole range of profiles, you’ll need more.
4. As you make decisions, assess the impact of each change on various personas.
5. Resist the temptation to recycle existing personas; construct new ones for each new problem.
6. Update regularly if you’re using personas for evergreen challenges.

— Francois Christophe

How to Reduce Costs in Cloud Infrastructure and Platform Services Contracts

To get discounts for multi-year hyperscale cloud contracts, organizations often need to commit to a minimum level of cloud spending over a specific timeframe. But forecasting consumption for cloud resources is difficult – while under committing means leaving money on the table, overcommitting can erode the cost savings. And negotiated incentives may come with hidden costs. For instance, pre-paying for a set amount of consumption may not always apply to all services. Vendors may define terms such as shortfalls and overages differently than you expect. If not properly understood and aligned to realistic migration plans, you can end up forfeiting the discounts or credits you worked so hard to gain.

Therefore, sourcing, procurement and vendor management leaders who are negotiating these agreements must:

1. Engage with the cloud architecture team to accurately forecast spend and growth before making a commitment.
2. Identify adoption and migration costs to pursue credit incentives and seek support concessions to reduce overall costs.
3. Leverage competitive threats when switching workloads to another provider or when a multicloud approach is viable.
4. Collaborate to form strategic partnerships and publicity agreements to seek additional compensation.

— Dolores Ianni

Talent & Culture

Three Strategies to Attract Hourly Workers During An Acute Shortage

The signs are everywhere, literally: “Now hiring” and “Help wanted.” As the frontline develops gaping holes in retail, manufacturing and hospitality, most reports emphasize supply-side issues: people who left their jobs or got laid off now deciding to say out of the labor market because of unemployment benefits earlier this year, ongoing concerns about health issues should they return to a physical workplace, and the desire for flexibility.

But there’s more to this story. Postings overall in the U.S. jumped more than more than 50% between November 2020 and August 2021, all while the economy records modest job growth. And 56% of all U.S.-based hourly candidates who accepted a position had at least one additional offer on the table.

Focusing on the demand side of the hourly-worker shortage, and the intense competition it creates, is not only imperative, it provides more opportunity for meaningful strategies to win.

Compete with these three steps:

1. Assess the competitive threat from both direct and indirect competitors – new rivals are moving into traditional frontline segments and they are often the most aggressive.
2. Be aware of what your local competitors are offering – candidates are moving for even a 50-cent per hour wage premium down the road. As in politics, everything is local in frontline hiring today.
3. Immediately improve your job descriptions. Keep them short. Bring forward the aspects of your offer that hourly employees most value now: compensation (including bonus), wellness support and growth opportunities.

— Dion Love and Lynneayers

Don’t Let Institutional Knowledge Escape With Unvaccinated Employees

Companies fear a loss of talent in the wake of President Joe Biden’s vaccine mandate and other global and corporate requirements to protect against COVID-19. But all departures are not created equal.

To identify the most important roles, heads of ERM should work with business leaders to:

1. Evaluate where the most essential knowledge lies. Examine how often the organization relies on certain employees for information; whether losing that information will harm the business; and the scope of availability of that knowledge across the company (e.g., is it all with a single employee?)
2. Identify mission-critical roles that are hard to fill. First, evaluate a job’s importance to the business by assessing the extent to which a vacancy could affect other leaders’ responsibilities or business results. Then, scrutinize obstacles to finding replacements.
3. Use data to determine which employees might leave. Tap internal and external information about employee vaccination status and willingness to comply with your policy.

Where employees fall into all three categories, you have pinpointed the highest-risk demographic.

Take steps to protect their essential expertise by collecting stories from those who are departing and using applications, such as spreadsheets, to save content related to role-specific tasks.

— Laura Reul
**Growth & Innovation**

**Advanced Virtual Assistants Reach New Heights to Help Customers and Employees**

Emerging technologies allow virtual assistants (VAs) to process graphics, tables, video and user gaze – not just text or voice. Consumers and employees can get more human-like help with complex interactions and tasks.

Find inspiration for new products in these use cases:
1. Finland’s Immigration Service, Patent and Registration Office, and Tax Administration collaborated with boost.ai, connecting multiple VAs to a single chat window. When visitors ask their “agent” about a topic best answered by one of its digital colleagues, they’re offered a transfer to the right department – in the same window.
2. Cerner, a US-based healthcare provider, partnered with Nuance to embed VAs in its speech-recognition system. Physicians can create clinical reports by talking.
3. Enel, an Italian producer and distributor of electricity and gas, worked with iGenius on a conversational AI solution that let executives, plant managers and plant operators speak a phrase – in one of five languages -- into a mobile phone and get real-time data and insights. Previously, this involved a complex search on a desktop.
4. BSH, Europe’s leading connected home appliance manufacturer, used Fluent.ai to link machine operators’ headsets to voice controls at assembly-line stations. The goal: eliminate the four-second lag and ergonomic stress of pressing buttons.

— Annette Jump

**Try Experimenting with NFTs**

Non-fungible tokens (NFTs) rose to fame on the $69.3 million auction of a work by the digital artist Beeple. Blockchain technology tracks ownership and enforces rules for this new class of crypto assets; transaction volume surged to $10.7 billion in the third quarter of 2021. The U.S.-based National Basketball Association sells collectible “Top Shot” videos; the Kings of Leon band sold access to a new album’s worth of collectible “Top Shot” videos; the Kings of Leon band sold access to a new album’s worth of collectible “Top Shot” videos; the Kings of Leon band sold access to a new album’s worth of collectible “Top Shot” videos.

Skepticism abounds. But NFTs presage a new economic model that expands the universe of buyers for real estate, land, art or media. Any type of asset – text, video, lines of code – can be digitized while commercial participants – not an intermediary – set conditions of doing business.

Executive leaders should experiment with NFTs to assess the opportunity and risk implications:
1. Map value flows to gain a better understanding. How will NFTs restructure industries? How will they influence the definition of royalties? How can they engage customers?
2. Track and monitor early adopters.
3. Consider new funding and payment mechanisms, as well as custody services. Can NFTs serve as collateral?
4. Explore market development. Can you create new value for your data assets?

— David Furlonger

**Data & Technology**

**VPN’s New Competition: Zero Trust Network Access**

Instead of making everything on a network available to authenticated users, the way legacy VPN does, Zero Trust Network Access (ZTNA) restricts which applications and services staff can see once a session is established. Organizations can set ZTNA to vet users by their identity and other attributes such as device type or security posture – and then determine a risk-appropriate level of access.

If you’re looking to implement this technology, consider these lessons from early adopters:
1. Don’t defeat the purpose by giving everyone access to all applications. Instead, set policies early in deployment for control of sensitive information and tools.
2. Document and map users’ application usage before implementing ZTNA.
3. Take the opportunity to revoke access privileges that are no longer warranted.
4. This is not a “set and forget” solution. Implementing ZTNA is an iterative process – ZTNA teams continually update and tweak access policies to keep up with evolving business needs.
5. Prepare to address objections such as concern about changes in user experience. Make the case to executives that ZTNA is an inherently flexible system that lowers risk by making it more difficult to connect personal devices that lack security features.

— Lawrence Orans, John Watts and Neil MacDonald

**Translate AI Ethics Into Specific Instructions for the Builders of Models**

To practice responsible AI, the Danish Business Authority (DBA) recognized it needed to provide its employees with ethics instructions they could put to use.

General policy statements used by other organizations don’t inform ethical model building – only point out (maybe) when they mess up. That isn’t enough when facing potentially big consequences or one-shot operations.

So DBA prepared specific do’s and don’ts for inputs:
1. Do use algorithms that minimize sampling bias.
2. Don’t use citizens’ personal information without consent.
3. Do make sure similar model inputs have equal false positive rates.
4. Don’t create models that produce unequal false negative rates for inputs that are similar.
5. DBA also made a moral decision to refrain from using certain data for predictions, even if the omission could affect the result. An example: “the nationality of the business owner should not influence fraud detection.”

DBA further uses fairness tests to check outputs:
1. Do similar entities have equal true positive rates – are they equal for characteristics that shouldn’t matter?
2. Do similar entities have equal true negative rates – are they equal for characteristics that shouldn’t matter?
3. While these seem like technical considerations, that’s exactly the point! Employees need practical ethics guidance.

— Kevin Gabbard
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