Dutch
Sustainable
Growth
Coalition

Leadership and Corporate Governance for Sustainable Growth Business Models

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1 Introduction

Over the past few years, companies have increasingly taken sustainable growth strategies to the core of the organisation. Within the scope of what needs to be done to resolve today's most pressing problems, however, the progress made by the private sector is incremental. We need to catalyse creativity, and need more multi-stakeholder partnerships, better integration of sustainability into value chains, a higher awareness level about triple bottom line business strategies, a more strategic focus on the circular economy and a more long-term orientation. We need this, as Cambridge Professor Wayne Visser frames it, in the context of the "Age of Responsibility" that we are currently in.

"Business leaders and corporate governance structures can and should be enablers and guardians of sustainable growth business models. It is key to catalyse and incentivise behaviour and actions that are necessary to scale up the innovations that contribute to sustainable growth."

Jan Peter Balkenende
Chairman of the Dutch Sustainable Growth Coalition, and Partner at EY

Why do we need this increased focus on sustainability? As the global population increases from seven to nine billion people by 2050, scarcity of natural resources, undernourishment, poverty, deforestation, desertification, the resulting loss of biodiversity and the increased stress on water are becoming evident. The effects of climate change are clearly visible. Global health problems are prevailing in two extremes: from obesity to undernourishment. Continuing the production and consumption styles as usual is not realistic. The costs of inaction are starting to exceed the cost of action.

Tomorrow's winners are today's sustainable innovators

For business, sustainability is more than damage control. Tomorrow's winners realise that they have to innovate today. Companies can no longer point to governments to take care of public tasks in isolation, without taking responsibility themselves. Although the practice of public-private collaboration is gradually increasing, a frequent complaint of front-running companies is the lack of a global level playing field to remove first-mover disadvantages. The global governance gap applies to both business and governments. Both sectors lack a global institution that can enforce a level playing field. Fortunately, companies like the DSGC members increasingly find that they are in a position to focus on first-mover advantages, rather than disadvantages. Where first-mover disadvantages prevail, solutions are found in necessary partnerships with industry peers. The uptake of this pre-competitive collaboration gives all of us perspective. In many cases, governments and NGOs have an impactful role in this process.

What the business community needs is a tipping point of all such good practices. We need to scale. But in order to scale good practices, we need to *shape* and *share* knowledge about them, while *stimulating* the public debate. It is no coincidence that these are the three cornerstones of the Dutch Sustainable Growth Coalition. The next chapter includes our Manifesto and explains what it means in further detail.

Competitiveness

At times of economic crisis, it is key to look through the lens of competitive advantage. How can companies – and the Netherlands as a country - seize the economic opportunities of sustainable innovation? When we look at the opportunities of, for example, the circular economy, how can this also give a boost to employment? Various DSGC companies lead the Dow Jones Sustainability Index in their respective industries. The Netherlands ranks fifth in the Sustainability Adjusted Index of the World Economic Forum Global Competitiveness Index. The business community in the Netherlands can count on various strong institutions and initiatives that were established with support from the Cabinets I was honoured to lead between 2002 and 2010. Examples include CSR Netherlands, the Dutch Sustainable Trade Initiative and the Transparency Benchmark. Our Coalition's previous and first publication contains more details about the Dutch context.

Outline

As we pointed out in our first publication *Towards Sustainable Growth Business Models*, this journey towards integration of sustainability is an evolutionary process. From a focus on compliance, to an orientation towards risks and opportunities, to strategic sustainable value creation. For each phase, companies can progress in seven dimensions: strategy, leadership, drivers, stakeholder relations, business alliances, embedding and reporting. It is crucial for companies to have a clear picture on where they are in each of these dimensions. Without this knowledge, the road on the journey towards sustainability integration would be rather difficult to navigate.

This publication builds on the first one by looking at the role of corporate governance and leadership to ensure the continuity and progress of sustainable growth business models over time. Without a solid governance structure, sustainable growth strategies rely too much on executives who just happen to be dedicated. Ownership and responsibility must be felt throughout the organisation regardless of rotating sustainability enthusiasts in the board room. The adoption of clearly defined responsibilities vis-à-vis sustainable growth objectives is becoming widespread. This also applies to non-executive directors, as this publication will show.

A bird's eye view of the connectivity between corporate governance and sustainable growth is presented in the third chapter. In the fourth chapter, eight dimensions are explored: the tone at the top, non-executive director oversight, codes of conduct, long-term incentives, accountability and trust, risk and opportunity management, embedding of ownership and the scope of value chain governance. Sixteen case studies with good practices, including the problems and challenges faced in making progress, illustrate these eight dimensions.

Global trends

Companies that would like to stay in business in the long run need to carefully analyse the global mega-trends impacting them, and which are within their sphere of influence. For example, see the overview on page 59 listing all mega-trends that are on the radar of each of the DSGC members. The key to economic success lies in turning these global social, economic and environmental challenges into opportunities. In doing so, an entrepreneurial spirit to innovate – in partnership with NGOs, universities and/or governments - is an important growth driver. The growth drivers of the DSGC members are listed in the company overviews in Appendix 1.

On a final note

Four observations are in place here. First, the role and responsibility of the company in the 21st century. Leaders increasingly understand that the debate is not whether creating value for people, planet and profit should be a priority. The question is how this priority is reflected in company strategy, and in practical terms: the (re)design of corporate governance structures. Second, the urgency to collaborate will become stronger. Knowledge centres, the public sector, NGOs and civil society are proving their ability to be effective partners. Precompetitive collaboration – collaboration among industry peers to overcome (or invest in) sustainability issue areas of shared interest – is becoming common practice. Third, a more long-term orientation is needed, both with internal stakeholders (such as employees) and external stakeholders (such as investors and suppliers). As our social and environmental challenges are of a long-term nature, it makes sense for incentive schemes and appraisal mechanisms to enter long-termism into the equation. Fourth, disruptive business models are emerging. One such example is the shift from ownership of products, to access to the functionality of using products.

Successfully navigating the highly competitive business arena in the 21st century requires business leaders to carry around a different compass. This publication aims to provide practical insights to embed that compass into the heart of corporate governance and leadership.

Jan Peter Balkenende

2 Manifesto

Vision - Mission - Actions

The Dutch Sustainable Growth Coalition was established as a business response to the global challenges we are facing today in economic, social and environmental terms. Businesses can play an important role through innovative solutions in products and services, not in isolation but through collaboration with other businesses and supported by public-private partnerships. In this regard the Netherlands forms a stimulating environment, creating a sustainability valley to accelerate sustainable entrepreneurship. The DSGC was launched at the World Economic Forum in January 2012 and the Manifesto below presents its vision and mission and the key actions that are necessary.

VISION

Global challenges require new orientations...
Our future world needs to be sustainable. With a world population reaching nine billion people by 2050, the global challenges ahead are manifold. Major issues in this respect are addressed in the Millennium Development Goals. These challenges are of vital importance and need to be addressed now. Examples include the scarcity of resources (including raw materials, energy, food and water), social inequality, health and well-being and global climate change.

Companies have a role to play...
The role of business in society is changing rapidly. A growing number of companies are willing to contribute to the necessary transformation of society in a more sustainable direction. This is done by providing innovative products and services with respect for people, planet and profit. Interaction with governmental and non-governmental organisations is increasing and is aimed at creating solutions in partnership.

Traditional growth strategies are no longer sufficient; what is needed is sustainable growth...
Every company has the ambition to grow, but growth should not come at any cost. Many companies now realise that growth measured in purely economic or financial terms has become too limited a concept. To truly solve broader social and environmental issues that affect both current and future generations and businesses, a new orientation is needed. This calls for sustainable growth being integrated into the overall strategy and operations throughout the value chain, linking economic profitability with social and environmental progress.

Dutch companies are among the leaders in this field...
Several Dutch multinational companies are already operating along these lines, as is reflected in their positions as leaders in the field of sustainability. It is their firm conviction that a sustainable growth business model will strengthen their competitive edge while having a positive impact on the quality of life and environmental and social progress. Sustainable development has become an important driver of business growth and innovation and acts as a stimulus for a new approach to doing business.

The Dutch Sustainable Growth Coalition (DSGC):
Several of these companies have joined forces in the Dutch Sustainable Growth Coalition, an initiative aimed to give further impetus to business growth that links financial and economic results with environmental and social returns. They strongly believe that the sustainable growth business model is the business model of the future.

MISSION ▶

The Dutch Sustainable Growth Coalition (DSGC) has the following objectives:

The DSGC aims to pro-actively drive sustainable growth business models along three lines:

Shape

DSGC member companies aim to connect economic profitability with environmental and social progress on the basis of integrated sustainable growth business models.

Share

DSGC member companies aim for joint advocacy of sustainable growth business models both internationally and nationally.

Stimulate

DSGC member companies aim to stimulate and influence the policy debate on enabling sustainable growth – with a view to finding solutions to the environmental and social challenges we are facing.

The DSGC member companies have committed to take the following actions:

Shape

- Within their individual organisations, DSGC members continue to optimise sustainable business strategies towards a sustainable growth business model and to meet their specific targets, which are transparent and measurable. For this purpose the members commit themselves to peer learning through sharing good practices.
- DSGC members will play a catalyst role in their respective sectors in order to ensure long-term integration of sustainability and inspire the transition towards sustainable growth and creating shared value through their business model.

Share

- Identify national and international platforms to advocate best practices among Dutch and international businesses, government, consumers, investors and civil society including NGOs and universities.

Stimulate

- The DSGC aspires to be a coalition of thought leaders and will give its views on "what is moving the boundaries" in relation to inclusive sustainable growth.
- The DSGC will develop policy recommendations to influence government and EU policies so as to create the right framework conditions for sustainable growth.

ACTIONS ▶

Please view the following (Dutch) web page for news items about the activities of the Dutch Sustainable Growth Coalition:

www.vno-ncw.nl/DSGC

The DSGC consists of the following companies:

The DSGC has the full support of VNO-NCW (Confederation of Netherlands Industry and Employers) and is facilitated by EY.

3 Sustainable business growth: leadership and corporate governance

A challenging and winding road toward sustainable business growth

Sustainability has been on the management agenda for over two decades now. However, for far too long, companies have regarded it as an isolated phenomenon. Fortunately, sustainable growth objectives are being more and more explicitly recognised by companies and integrated into their strategy and corporate governance. However, there is still a long, challenging and winding road ahead.

Corporate sustainability can be defined as "a company's delivery of long-term value in financial, social, environmental and ethical terms" (UN Global Compact 2010).

"Sustainability strategies and policies that are embedded in the DNA of companies are the ultimate drivers of sustainable growth. This will benefit society at large. Integrating these drivers in the corporate governance of companies is state of the art."

Bernard Wientjes
President of the Confederation of Netherlands Industry and Employers

Sustainable business growth is aimed at sustaining and progressing the company as well as its stakeholders and the environment in which the company operates. This is done by creating economic, social and environmental value in the short, medium and long term. It connects economic profitability with environmental and social progress. Through innovation in products, services, processes and social relationships, new business opportunities are created that are beneficial to the company as well as to its stakeholders, including future generations. The focus is not only on the company's activities, but encompasses the full value chain both downstream and upstream.

A sustainable growth strategy is company specific and dependent on, among other things, the external circumstances in which the company operates, company-specific features, internal and external stakeholders' needs and expectations and the ambition level of the company itself. Well-deliberated sustainable growth strategies lead to value creation and business growth simultaneously and are an important value driver. This is explicitly recognised in the manifesto of the Dutch Sustainable Growth Coalition.

Corporate governance is generally defined as a system of procedures and processes according to which an organisation is managed and controlled. In essence, it is an important instrument for companies, providing adequate checks and balances to realise a sustainable growth strategy. Corporate governance supports sustainable business growth. A sustainable growth strategy must be in place in order to be governed. Proper personal leadership is crucial to achieve a seamless and productive symbiosis of sustainability and corporate governance and as such achieve corporate leadership.

This chapter provides a concise overview of the role of leadership and relevant elements of corporate governance in achieving sustainable business growth. In particular, attention is given to the focus on stakeholder value and its relationship with creating long-term shareholder value, different corporate structures, possible partnering for sustainable business growth, the role of corporate governance codes and corporate governance elements such as supervision, internal control, accountability and transparency. The overview is the prelude to the key dimensions and phases of leadership and sustainable growth that will be presented in chapter 4.

First things first: appropriate leadership is paramount

Effectively achieving sustainable business growth ultimately hinges on adequate leadership and a sound tone at the top. But defining 'organisational leadership' is a difficult task. One definition that has found substantial applause is: *"Leadership is the ability to influence, motivate, and enable others to contribute to the effectiveness and success of the organisations of which they are members"* (House et al., 2004).

The optimal type of leadership depends on many structural and situational factors. Companies are under increasing pressure to demonstrate more business ethics and wider accountability, among other things, through increased transparency and long-term strategic viability in addition to short-term performance. To realise corporate sustainable growth, leaders should respond to the changing structural and situational factors by identifying risks and opportunities in the short, medium and long term, and by developing the proper response. The challenges of increasing economic, social and environmental responsibilities may require major changes to be made to business models to sustain the cash flows of businesses in the long term.

Managing change requires inspiring leaders who unleash creativity on the work floor and effectuate innovative ideas. Therefore, companies need to replace old 'command-and-control' structures with more 'transformational leadership', with employees being inspired to jointly work towards sustainable growth. In a socially innovative work environment, employees receive more autonomy and are well equipped and facilitated to be creative, deliver excellence in their jobs and are more likely to transcend the satisfaction of their own needs. Without non-dominant and inspiring leaders, organisations risk an 'innovation paradox', which states that innovative ideas are often unspotted and thus not commercialised. 25% of successful innovation is determined by research and development, but 75% by human and organisational factors (Volberda et al, 2006). The members of the Dutch Sustainable Growth Coalition believe that sustainable innovation most likely occurs when social and technological innovation are mutually reinforcing.

Commitment to the added value of sustainable business growth is a key condition to genuinely motivate employees to contribute towards strategy. In developing the strategy, inspirational leaders are in a continuous dialogue with internal and external stakeholders to take into account their needs and expectations in developing the strategic roadmap, making adjustments where necessary or explaining why some of them have not been taken into account. A good corporate governance structure enables leaders to remain sharp, supports the embedding of the strategy and any changes needed to achieve the strategic and operational objectives. It also prevents the sustainable business growth strategy from becoming too dependent on individuals. Therefore, a combination of leadership and governance is needed to achieve the sustainable growth strategy.

In addition to fulfilling legal and ethical obligations (the 'licence to operate'), sustainable business growth needs to be consonant with the needs and aspirations of the company's stakeholders. This results in a 'licence to lead'.

What is the bottom line? Shareholder focus versus stakeholder focus

When it comes to sustainability, the focus is often on the responsibility of businesses. Is it their responsibility to optimise shareholder value, or to optimise stakeholder value by balancing these interests? These perceptions change over time, but they also vary per culture. In addition, the term in which shareholder value needs to be taken into account is relevant. The longer the term, the less significant the difference between shareholder and stakeholder value will be.

A long time ago, when ownership and control of companies became separated, managers turned into 'agents' of the owners (i.e. shareholders). They were supposed to act in the interests of the shareholders and were accountable to them. Traditionally, optimising shareholder value has been an important objective for companies where ownership and control are separate. Although other stakeholders are not ignored as part of a shareholder-focused system, the primary goal of shareholders is to make a return on investment. Hence, in substance, the shareholders' principal target is a financial one.

In general, stakeholders are defined as a person, group or organisation with an interest or concern in an organisation. Stakeholders may affect, or be affected by, the organisation's actions, objectives and policies. Examples of key stakeholders are employees, clients, governments, owners/shareholders, suppliers, and the community from which the business draws its resources. One person can belong to different stakeholder groups, for example, being a shareholder as well as a consumer.

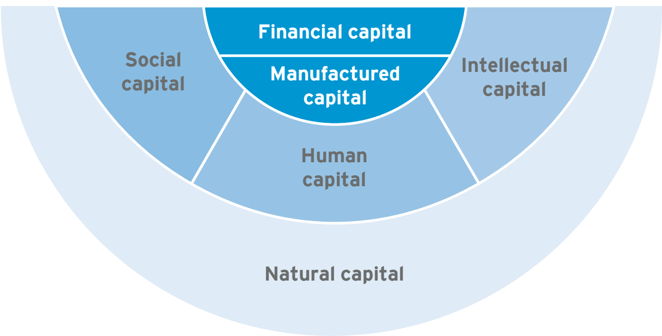
In considering the perceptions, a distinction is often made between continental Europe and the Anglo-Saxon countries, with the first party having more of a stakeholder focus and the latter a shareholder focus. This difference is also reflected in corporate governance structures.

Nowadays, global and local environmental and social challenges increasingly impact financial performance. Through opportunities, cost efficiency or even failure to manage risks or incidents well, investors become increasingly interested in how companies manage sustainability in their growth strategy, operational performance and risk management, as this may impact their return on investment. According to Eumedion, a Dutch-based organisation representing long-term investors in most Dutch listed companies, sustainability company strategies and policies are of eminent importance. As such, the shareholder focus also increasingly acknowledges the relevance of stakeholder value as a means to increase shareholder value. Another example is the Carbon Disclosure Project, which currently provides information on greenhouse gas emissions, water usage and strategies for managing climate change and water risks to 722 signatories with US$ 87 trillion in assets. It collects information from 5,000 companies. This data is also disseminated via investor channels, such as Bloomberg terminals.

In a report from UN Global Compact, the Global Corporate Governance Forum and the International Finance Corporation/ World Bank Group (2009), the responsibility of companies is defined as three fundamental functions of boards and their directors' duties to the companies and shareholders they serve:

- Protecting stakeholder rights and interests;
- Managing risk; and
- Creating long-term business value.

The framework of the International Integrating Reporting Council (IIRC) describes six forms of capital that can either serve as resource or output of value creation: financial capital, manufactured capital, intellectual capital, human capital, social capital and natural capital. Each of these types of capital need to be governed. The figure below, taken from the 2013 Consultation Draft of the IIRC, is one way to visualise them. The process of value creation in relation to these six capitals is described in chapter 3 of our publication *Towards Sustainable Growth Business Models*.



Nowadays, companies are facing the challenge to increasingly manage and balance three bottom lines (economic, social and environmental – also referred to as a "triple bottom line"), as well as different stakeholder needs and expectations.

Stakeholders and different types of organisational structures: the cooperative and the social enterprise

Also, different types of organisational structures exist that, by their very nature, acknowledge their stakeholders.
A cooperative is one of these types: a company that is owned, controlled and operated by a group of users for their own benefit. Each member contributes equity capital and shares in the control of the company on the bases of the one-member, one-vote principle. FrieslandCampina is an example of a successful cooperative. The Company (N.V.) is fully owned by the Cooperative (U.A.) with over 19,000 member dairy farmers. Also, family-owned businesses are often rewarded for their long-term perspective and taking into account stakeholder interests. In addition, there are foundation-owned companies that are profit driven, but have a balanced stakeholder interest approach.

The stakeholder focus may even lead to a completely different form of entrepreneurship: the social enterprise. Social enterprises are governed by multiple stakeholders, are primarily aimed at delivering a positive social and environmental impact and are financially independent of donations and subsidies. Social enterprises operate worldwide, in the form of companies, non-profit foundations or as a hybrid form. In the USA, 'benefit corporations' have a separate legal status in an increasing number of states. This is not to be confused with the certification provided by 'Certified B Corp'; a worldwide movement. Via the non-profit certifier B Lab, it has certified over 760 social enterprises across 60 industries against rigorous standards of social and environmental performance, accountability, and transparency. Companies perceive that certification offers a concrete, market-based and scalable solution to institutionalising their focus on long-term value creation for society. Examples of B Corp Certified companies include Ben & Jerry's, a Unilever wholly-owned subsidiary, and Patagonia.

Partnering for sustainable business growth

The stakeholder focus can also lead to new coalitions, as individual organisations are often unable to successfully realise sustainable growth in isolation. This underlines the importance of co-operation through partnering. Governments can be useful allies for companies, for example in attaining global and local goals, by removing barriers to strategic sustainable growth and stimulating competitors in industries to collaborate in tackling issues of common interest. The Dutch Sustainable Trade Initiative is an example of an initiative supported by the Dutch government, which brings together multinationals, NGOs, governments and other stakeholders to accelerate market transformation in a variety of supply chains. Another example of an initiative in the Netherlands in which various stakeholders cooperate is Food Valley NL. This platform promotes the innovativeness and competitiveness of Dutch companies in the agro-food sector by cultivating cooperative links between businesses, knowledge institutions and governments.

Principle-based corporate governance codes and sustainable growth

Corporate governance codes merely lay a foundation: they describe the responsibility of businesses, but do not address the individual business strategies or business ethics.

Although regional differences still exist, harmonisation in corporate governance is increasingly supported by national and international corporate governance codes. In 1999, the Organisation for Economic Co-operation and Development (OECD) set general principles for corporate governance to be adopted by the OECD countries and further updated these principles in 2004 (see Appendix 2). The corporate governance structure specifies the rights and responsibilities of the different participants in the organisation – such as the board, managers, shareholders and other stakeholders – and lays down the rules and procedures for decision-making. This also implies that the exercising of these rights and responsibilities has to be monitored.

In developing corporate governance structures sufficient room should be available to tailor this to the organisation. This would imply a preference for a principles-based corporate governance code. A principles-based system predominantly provides broader norms in which the 'substance-over-form' idea is prominent. The principles are usually exemplified using a set of best practices and leave sufficient room for specific company characteristics. In a principles-based system, compliance is the result of adopting principles in specific situations. In addition, it sets out how they are implemented. If they are not applicable or if they are not adhered to, the reason why is explained. This is commonly referred to as 'comply or explain' or 'apply or explain'.

The OECD corporate governance code of 2004 recognises the relevance of stakeholders:
"Corporations should recognise that the contributions of stakeholders constitute a valuable resource for building competitive and profitable companies. It is, therefore, in the long-term interest of corporations to foster wealth-creating cooperation among stakeholders. The governance framework should recognise that the interests of the corporation are served by recognising the interests of stakeholders and their contribution to the long-term success of the corporation."

In addition to the basic principles relating to corporate governance, the OECD also published the Guidelines for Multinational Enterprises in 2000, describing the different responsibilities of companies. These guidelines were revised in 2011 to even further address the relevance of economic, social and environmental issues (see Appendix 3). The OECD's corporate governance code makes various references to these guidelines for multinational enterprises.

Corporate governance is evolutionary in nature and should evolve with circumstances:
"To remain competitive in a changing world, corporations must innovate and adapt their corporate governance practices so that they can meet new demands and grasp new opportunities" (OECD, 2004).

The codes of the Netherlands and South Africa are examples of codes in which the responsibility of the company towards society is integrated. In 2003, the Dutch Corporate Governance Code was one of the first to describe the responsibility of an organisation to take into account stakeholder interests. The organisation was defined as a long-term partnership with different stakeholders (shareholders, employees, capital providers, clients, suppliers, governments and societal groups) that directly or indirectly influence, or are influenced by, the achievement of the organisation's objectives. In the Dutch Corporate Governance Code, the executive and supervisory boards are responsible for evaluating and taking into account stakeholder interests in order to sustain continuity in the long term and create long-term shareholder value. In the revised code of 2008, this responsibility was further strengthened by explicitly referring to the responsibility for the societal aspects of entrepreneurship.

Companies often adopt international codes of conduct as a basis for their sustainable growth strategies and business responsibilities. In addition to the aforementioned OECD Guidelines for Multinational Enterprises, over 7,000 companies in over 145 countries have adopted the principles of the UN Global Compact in 2013. These principles address, for example, human rights, labour, the environment and anti-corruption. The principles (see Appendix 4) are an important frame of reference. Although companies adhere to such codes, the level of aspiration in setting the business objectives may be different.

Internal supervision and managing competence on sustainable business growth

Internal board supervision is an essential component of corporate governance in supporting sustainable business growth. In a one-tier board, the independent, non-executive directors are members of the board of directors. In some countries, non-executive directors are organised into a separate supervisory body. This system is often referred to as a two-tier board and is used in, for example, Finland, Germany and the Netherlands. Following a recent revision of the Dutch Civil Code, both the one- and two-tier board structures are incorporated into Dutch law.

A separate supervisory board is claimed to be advantageous, as it operates independently from the executive board. On the other hand, the asserted advantage of a one-tier board is that the non-executive directors are more closely informed about the board's actual decision-making process.

A strong role of non-executive directors (whether or not institutionalised in a separate supervisory board) tends to enable a broader focus on a wide set of stakeholders and their needs, such as client and employee interests. In some countries, employees are also represented in the supervisory board or are involved in nominating candidates.

Most companies in the Dutch Sustainable Growth Coalition have a two-tier board (except for the Anglo-Dutch companies Shell and Unilever, which have a one-tier board). In both one-tier and two-tier settings, it is common to use specialised committees to which particular functions or projects are assigned. These committees may have several operational and supervisory roles. Well-known committees are the audit committee, remuneration committee and nomination committee. In addressing sustainable growth, sufficient knowledge must be in place to be able to address critical questions on strategy, risks and opportunities, management and performance. Please see dimension 2 in Chapter 4 on the role of non-executive director oversight.

Research by Mertens et. al (2011) found that, in the Netherlands, two-thirds of the companies (74% of AEX-listed companies, 60% of AMX-listed companies) refer to sustainability in the Report of the Supervisory Board. They usually do not go beyond box-ticking, implying that these supervisory boards are not really committed to sustainability. Furthermore, 13% of the AEX-listed companies use a separate sustainability advisory panel, compared with 4% of the AMX-listed companies.

Despite the corporate governance codes, the embedding of sustainability into supervisory boards' strategies is still at an early stage.

Embedding control of sustainable growth strategies into the organisation

In order to control a sustainable growth strategy, it is key to manage and monitor the realisation of targets. Internal control helps to manage this process. Internal control is broadly defined as a process, effected by a company's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives.

Although initially drawn up from a financial, command and control perspective, the COSO Internal Control and Enterprise Risk Management (ERM) Frameworks may aid in supporting sustainable business growth. This framework ensures that processes operate as designed, risk responses are effective and the people within the organisation have the right attitude, integrity and competence. All these aspects are monitored. The COSO publication 'Demystifying Sustainability Risk' (2013) describes how sustainability can be integrated into the components of the COSO ERM Framework. Further inspiration can also be drawn from the ISO 26000 Guidance Standard on Social Responsibility. This standard provides guidance on how businesses and organisations can implement social responsibility. It helps clarify what corporate social responsibility is and helps businesses and organisations translate principles into effective actions.

"Leading companies fully understand the connectivity between social, economic and environmental value creation and financial performance. The transparency journey towards Integrated Reporting is a great opportunity for all of us to merge sustainability into corporate strategy while having a well-informed, ongoing stakeholder dialogue."

Marcel van Loo
Country Managing Partner EY The Netherlands

Accountability and transparency

Through transparency in annual reporting, on websites or other forms of communication, companies can demonstrate to what extent they have applied the principles of governance and satisfied the interests of stakeholders. The information also provides stakeholders with a basis for providing feedback on the company's strategy, objectives, (risk) management and performance, and, as such, for entering into a dialogue. Transparency is regulated and the relevance of non-financial information is increasingly recognised. The OECD guidelines on corporate governance, as well as the more detailed guidelines for multinational enterprises refer to wider accountability and transparency. Complying with UN Global Compact requires progress reports to be drawn up against the principles, preferably to be included in annual reporting. The European Commission has extended non-financial information to be included in annual reporting and proposes that non-financial information be even further extended. In addition, the United Nations Conference on Trade and Development published guidance on transparency in corporate governance and corporate responsibility indicators in annual reporting.
In relation to sustainability, the guidance most often used is that of the Global Reporting Initiative. Over 4,000 companies around the world are currently using these guidelines. In 2010 an integrated reporting initiative was launched: the International Integrated Reporting Council (IIRC). The IIRC's ambition is to enhance transparency of the business model and its ability to sustain and improve value creation in the short, medium and long term. Its key focus group is investors.

A common feature of the aforementioned guidelines and principles is that information is requested on the company's strategy, corporate governance and risk management, and financial and non-financial performance.

Conclusion

This chapter provided some background on leadership, corporate governance, including accountability and transparency and its significance in supporting a sustainable growth strategy.
A sound basis is important in order to continue pursuing a sustainable growth strategy regardless of changes in executive or supervisory boards. Leaders need to be able to respond in time to turn economic, social and environmental challenges into business opportunities, and include stakeholders in this process along the way. In the next chapter, the framework and good practice examples, including challenges ahead will be further discussed, bringing this topic to life.

4 Dimensions of integrating sustainability into corporate governance and leadership

To integrate sustainability into a company's strategy and business model over time, it is key to have solid corporate governance structures in place. In this chapter we present eight key corporate governance dimensions. These dimensions are the 'building blocks' required for a successful rooting of sustainable business growth models. For each of the dimensions, companies may progress in phases, the third one being the most advanced stage. The dimensions and phases are summarised in the table on page 24 and 25 and will be discussed in more detail in the subsequent sections.

In our previous publication on sustainable business growth models we identified seven dimensions for sustainable business growth models. An overview is included below. Naturally, there is a strong connectivity between the frameworks presented in both publications. For example, from a corporate governance perspective, *accountability and trust* (dimension 5 in this publication) can be enhanced through a combination of high-quality *reporting* and acknowledging the input derived from ongoing dialogue with *stakeholders*. *Reporting* and *stakeholder relations* were included as dimensions 4 and 7 in the framework we presented in the previous publication (see below). In other words; this publication builds on the previous one. It looks through the lens of leadership and corporate governance.

Sustainable Growth Business Model			
	Sustainability Phases		
Dimensions	**1. Compliance**	**2. Risks and Opportunities**	**3. Strategic sustainable value creation**
1. Strategy	Short-term profit maximisation	Long-term profit maximisation taking into account stakeholder needs and concerns	Generating long-term company value by creating economic, social and environmental value for stakeholders
2. Leadership	Reactive	Proactive	Inspirational and visionary
3. Driver(s)	Legal compliance	Cost savings and revenue opportunities	New market creation and transformational innovation
4. Stakeholder relations	One-way consultation	Two-way dialogue and partnerships	Ongoing interactions
5. Business alliances	Certification or philanthropic	Cooperation/partnership	Co-creation through multi-stakeholder dialogue
6. Embedding	Staff-owned	Embedded in line-management	Cross-functional interaction of line management
7. Reporting	Minimal / legal compliance reporting	Collecting sustainability information for management purposes and external reporting	High-quality reporting demonstrating the sustainable growth business model and the value created by the organisation

Dimensions	Phase 1	Phase 2	Phase 3
1. Tone at the top and Executive Board commitment	The Executive Board is aware of the strategic importance of sustainability, but commitment is largely informal.	The Executive Board is responsible. The initial steps in the formalisation process are made.	The Executive Board is accountable for progress against corporate targets with a sustainability component. Accountability is reflected in competence profiles of Executive Board positions.
2. Non-executive director oversight	Non-executive directors are aware of significance, but sustainability is not structurally on the agenda.	Non-executive directors install a dedicated sustainability committee. Sustainability gradually enters the agenda of existing committees as well.	Non-executive directors integrate sustainability into existing committees. The dedicated sustainability committee primarily acts as accelerator of this integration. Subject is continuously on the agenda.
3. Code of conduct and company values	Focus is on a company-level, self-regulatory Code of Conduct. Alternatively, the company is signatory to external Codes of Conduct with minimal enforcement power.	Focus is on subjecting the organisation to existing third-party certification schemes and programmes.	Focus is on co-creating initiatives that will lift the entire industry to a higher sustainability standard ("pre-competitive collaboration").
4. Long-term incentives Key condition: already (in the transition to) phase 3 of dimension 1	Executive Board members are incentivised (financially and/or non-financially) to achieve their sustainability (components of) targets.	Broader groups of employees and middle management are incentivised (financially and/or non-financially) to deliver progress against sustainability (components of) targets.	Structural and rigorous interventions to catalyse long-term thinking and incentives.

Please note that the numbers of the dimensions are random and do not indicate a sequence. One exception is dimension 1, which is an important enabler for the other dimensions (such as dimension 4).

Dimensions	Phase 1	Phase 2	Phase 3
5. Accountability and trust	Stakeholder *management*. Stakeholders have no role in company reporting. Sustainability reporting is mainly qualitative and serves as a communication tool to the public.	Stakeholder *engagement*. Stakeholders have a role in company reporting. Sustainability reporting is based on GRI standards.	Stakeholder *governance*. Stakeholders are an integral part of reporting and governance structures. Connectivity between information on stakeholder value and financial profits.
6. Strategic risk and opportunity assessment	Company responds to sustainability issues on an ad hoc basis.	Gradual structural integration of sustainability issues into risk assessment. Strategy is largely reactive.	The company's risk strategy is informed by key global mega-trends. Focus is on opportunities. Strategy is pro-active.
7. Integrated thinking and embedding of ownership	Ownership of sustainability by employees is minimal. The sustainability team/department is mostly in the lead.	Employees outside the sustainability team have tasks, but these are informal in nature, with employees not being accountable.	Full embedding in line responsibilities and human resources (talent, leadership) development.
8. Scope of value chain governance	Governance focus is on value chain within the company's direct sphere of influence.	Governance focus is also on the suppliers' suppliers and goes beyond the company's direct sphere of influence.	Governance focus is on suppliers and end users largely outside the company's own sphere of influence. Company forges transformational partnerships with systemic, global impact.

4. Tone at the top and Executive Board commitment

The tone at the top is key to achieving sustainable business growth. Various international CEO surveys show that an increasing number of CEOs attach importance to sustainability and demonstrate how this can be integrated into the company's strategy. However, good practices of how this commitment is formally integrated into the CEO function are harder to find. Proposing a toast to a more sustainable world at the annual employee dinner is a nice first step. But holding key Executive Board members accountable for the progress made requires more rigorous interventions.

In phase 1, the CEO is highly dedicated and may well be able to bring about a wave of enthusiasm across the organisation, but he or she is operating in isolation. Sooner or later, the CEO will encounter resistance. The Executive Board as a whole is not yet aware of the urgency or business relevance of the subject. **In phase 2,** the full Executive Board is involved and committed, joining forces with the CEO. Strategic sessions are held to decide on focal sustainability areas that are most material to the organisation. Targets are formulated and a dedicated Sustainability Steering Committee or Council (including Executive Board members) is installed. Individual Executive Board members take responsibility for specific targets in the sustainability strategy and stimulate each other to achieve them. In the most mature and **phase 3,** Executive Board members and the CEO are not only responsible, but are also held accountable, for example through different target setting. This is different from **phase 2** in that knowledge, insight and experience relating to sustainability are qualities that are now explicitly and formally part of the job profiles of Executive Board members, most notably of the CEO. When rotation in leadership occurs, guardianship over sustainable growth and the necessary competencies and knowledge in this area are an intrinsic part of the role. Although the symbolic value of a strong visionary leader is always linked to some extent to a specific individual, competence and leadership in the area of sustainability should be linked to a position rather than to a person. The CEO's leadership style has preferably moved from a command and control approach to an inspirational and supporting approach. Non-executive directors overseeing the nomination of Executive Board members and executive search firms ensure that the skills matrix of the Executive Board members reflects the company's commitment to sustainability.

In phase 3, it may not be necessary to have (a delegation of) the Executive Board to participate in a separate, parallel governance body focussing on sustainability (such as a Sustainability Steering Committee or Council). In this phase, all relevant sustainability discussions and decisions will have been embedded into the agenda of the regular Executive Board meetings. A sustainability advisory panel may however remain in place to provide relevant strategic expertise to the full Executive Board. All members of the Dutch Sustainable Growth Coalition work together with a governing body dedicated to sustainability, for example a CSR Steering Committee or a Sustainability Board, consisting of both Executive Board members and senior management. At seven of the eight member companies, the Committee is chaired by the CEO who provides feedback to the Executive Board as a whole. At Philips, the Sustainability Board is chaired by the Chief Strategy and Innovation Officer. More details are available in the company profiles in appendix 1 to this publication. Two case studies (DSM and AkzoNobel) on this dimension are included on the next pages.

Nomination of Board Members

When recruiting a new executive, Boards should include in the selection criteria that candidates must have the ability to:

- demonstrate solid understanding of the complex sustainability issues that affect the business environment;
- commit to operating in accordance with the highest social, environmental and ethical standards; and
- provide a track record of producing excellent financial results with due consideration for the interests and concerns of different stakeholders.

Source: UNGC Lead (2012)

DSM – Tone at the top

Description

DSM has transformed from a bulk petro-chemical company into a Life Sciences and Materials Sciences company. Sustainability is one of four growth drivers of the corporate strategy, the other three being high-growth economies, innovation and acquisitions and partnerships. Clear sustainability KPIs have been set at global group level. With sustainability becoming an integrated part of operations, it gains management's attention and commitment at the top. At DSM the full Managing Board, with the CEO and Chairman serving as primary point of contact, is responsible for the sustainability strategy. The Board members chair various projects and focus areas. For example, the Board member responsible for, among other things, the Nutrition Cluster is, together with the CEO, the primary point of contact for DSM's partnership with the United Nations' World Food Programme. The CEO is responsible for Inclusion and Diversity, and the Board member responsible for DSM's Materials Sciences business is also the focal point for Safety, Health and Environment. On a quarterly basis, sustainability performance is integrated into the regular reporting information that is reviewed by the Managing Board. Both short- and long-term remuneration, as well as variable incentives, are linked to sustainability targets; see box on page 47.

To ensure the Managing Board can debate the most recent sustainability trends and developments impacting DSM, its members engage with a dedicated external Sustainability Advisory Board (an international group of thought leaders) on key sustainability topics at least twice a year.

Added value

Thanks to a committed tone at the top which has been sustained over the years, DSM has been able to inspire, motivate and activate its employees worldwide. Sustainability has become an important engagement element for DSM's staff across the globe. The CEO actively involves leaders within and beyond the Managing Board. Alongside its motivational and inspirational characteristics, sustainability has become, next to a key value and responsibility, a real business growth driver, leading to new products that have a better footprint and a higher quality than comparable products. Making progress against sustainability targets has become a tangible objective that is integrated into the annual performance evaluation of the top 300 leaders of DSM. As the Managing Board is both responsible and accountable, it effectively oversees and manages the organisation's sustainable growth strategy. The spin-off for the broader organisation is a consistent, pro-active, accountable and competent "tone at the top".

"Sustainability is our key value. We have the responsibility to simultaneously create ecological, societal and economical (triple P) value. I am proud that our engagement surveys indicate that this is broadly supported amongst our employees globally."

Feike Sijbesma
CEO of DSM

Challenges

Besides the hard-wiring and governance that DSM has put in place, the soft-wiring of the culture of sustainability both within the organisation and in relation to its main stakeholders is critical for success. As a substantial portion of the sustainability efforts are now integrated and part of the day-to-day business process, for example through the full Life Cycle Analysis and innovation, the challenge is to have people engaged in the bigger themes of sustainability and the role of business in society. DSM is working on this through its One DSM Culture Agenda, where Inclusion & Diversity is one of the four focus points.

AkzoNobel – Tone at the top

Description

At AkzoNobel, the ExCo has formal responsibility for sustainability. A Sustainability Council advises the ExCo on strategy developments, monitors integration of sustainability into management processes and supervises the company's sustainability targets and overall performance. The Sustainability Council is chaired by the CEO and includes ExCo representatives, business managers and Corporate Directors of Strategy, RD&I, Integrated Supply Chain,Sustainability / HSE, Procurement, Human Resources and Communications. The long-term bonuses of the top 600 executives – including the ExCo – are for 30% related to performance on the basis of the Dow Jones Sustainability Index. This includes issues such as governance, social impact, response to climate change, innovation, supply chain management and operational eco-efficiency. Throughout the year, there are four key moments for the ExCo in relation to strategy and the role of sustainability. In April, the ExCo and Sustainability Council meet with the Supervisory Board to discuss the key sustainability trends, issues and challenges in preparation of the "strategy days". These are held in May, with the ExCo zooming in on the progress made against the company's targets and strategy set for the year 2020. In September, following the publication of the Dow Jones Sustainability Index, the ExCo discusses in detail what lessons can be learned and how the organisation can benefit from the insights generated. In December, sustainability is integrated into the processes of drafting the annual plan for the following calendar year.

Added value

As the ultimate responsibility for the company's strategy – including all of its sustainability components – lies with the CEO, this has a positive spin-off for the broader organisation. For example, at AkzoNobel, all processes are laid down in detail in a performance dashboard. Every business unit has a set of business relevant sustainability targets within the sphere of influence of each of the business unit's employees. The CEO reviews, on a half-yearly basis, whether the businesses meet their milestones. This advanced operational review cycle includes all targets that must be met by 2020. This enables the organisation's leadership to strongly monitor the progress made. Formal tasks and responsibilities of current and future ExCo members are directly tied to the successful delivery of the company's strategy, including sustainability targets, as laid down in this dashboard.

Challenges

At a corporate level, the annual report integrates financial and non-financial information. At other levels, however, non-financial and financial information is not always integrated. For example, non-financial information is not always integrated into external presentations to investors or internal decision-making. As a result, information on social and/or environmental implications of investments (for example, when building a new factory) is not always part of decision-making by ExCo members (or by the company's senior management in general).

"The CEO plays a fundamental role in driving the overall vision of sustainability for the organisation and ensuring that it is part of the core business strategy, rather than a sideline functional strategy. The CEO has a bird's eye view of the organisation and as such, can connect the various disciplines around one shared agenda."

Ton Büchner
CEO of AkzoNobel

4. Non-executive director oversight

Having independent, critical non-executive directors (whether or not institutionalised separately in a Supervisory Board) is essential for holding the Executive Board accountable. Non-executive directors are in a position to request clarification about complex sustainability issues, including social, environmental and ethical matters. They may request specific information about the progress made in more challenging areas of the sustainable growth strategy, and ask the CEO and Executive Board as a whole the proper critical questions. **In phase 1,** initial steps are taken to include sustainability topics on the agenda during meetings of non-executive directors. The subject is discussed, its urgency being championed by a passionate non-executive director or, outside the board, by a specialist supervising sustainability within the organisation. However, sustainability is not an agenda topic at meetings of individual committees responsible for, for example, audit, remuneration or nomination. **In phase 2,** a separate dedicated Board committee on sustainability may be formed and time invested in discussing the company's sustainability strategy. Driven by this new dedicated committee, sustainability gradually enters the agenda of other non-executive director committees, too. **In phase 3,** the sustainability committee is still in place, but merely acts as a resource encouraging the discussion on sustainable business growth in the context of the changing environment the company is facing. In relation to responsibilities, non-executive directors in other committees are assuming responsibility and pro-actively integrating sustainability issues into the regular meetings of the various committees. This responsibility is formally included in the charters of the committees. The figure on page 36 visualises the two scenarios: a separate committee versus vertical integration.

The non-executive directors of the members of the Dutch Sustainable Growth Coalition engage in different roles relating to governance of sustainability. For example, Shell has a dedicated non-executive CSR Committee. DSM's Supervisory Board is structured in four sub-committees; one of which is the CSR Committee. The Supervisory Boards of HEINEKEN, AkzoNobel, FrieslandCampina and Philips discuss and review corporate sustainability strategy, objectives, implementation, progress and policy at least once or twice a year. At KLM, one of the Supervisory Board members is in charge of CSR supervision. Unilever has institutionalised an independent ongoing feedback loop through its Corporate Responsibility Committee, which consists of at least three non-executive directors. A case study on Shell, demonstrating how non-executive directors can act as an insightful 'mirror' to the Executive Board, is set out on the next pages.

Shell – Non-executive director oversight

Description

Royal Dutch Shell has a single-tier board consisting of eleven non-executive and two executive directors. The executive management is led by Peter Voser, CEO. Three non-executive directors together form the Corporate and Social Responsibility Committee (CSRC). The Committee reviews the performance of the company in the areas of Health, Safety, Security, Environment and Social Performance (at least four times per year). Throughout the year, the Committee reviews and discusses a range of topics that include exploration in Alaska and Nigeria, and the development of unconventional oil and gas resources. The Committee is chaired by Charles Holliday, Chairman of the Board of Directors of Bank of America Corporation, a former CEO of DuPont and, among other positions held, a former Chairman of the World Business Council for Sustainable Development (WBCSD). He is joined by two other non-executive directors: Gerrit Zalm, Chairman of the Board of Management of ABN AMRO Bank N.V. and a former Minister of Finance in the Netherlands, and Sir Nigel Sheinwald, a former diplomat. The CSRC also reviews policies and performance with respect to the Shell General Business Principles, Code of Conduct and HSSE & SP standards.

Added value

In addition to its regular meetings, the CSRC also visits facilities during the year in order to examine the company's operations more closely. In 2012, for example, the CSRC visited Nigeria to observe the environmental damage from illegal refining in the Niger Delta, to liaise with local stakeholders and government officials, and to receive input from local Shell employees. Members of the CSRC meet regularly with Shell's Executive Vice President for Safety, Environment and Social Performance, as well as the Chief Ethics and Compliance Officer. The Committee also receives feedback from external stakeholders, including Shell's External Review Committee that is made up of civil society representatives. Having a dedicated Committee of non-executive directors to focus on Shell's most material sustainability topics is a valuable governance instrument. The conclusions and recommendations are reported back to the full Board and the executive management. It is laid down in the public Terms of Reference of the CSRC that the Committee must be comprised of at least three non-executive directors, who are appointed by the Board at the recommendation of the Nomination and Succession Committee.

Challenges

On an annual basis, the CSRC develops an agenda for the following year that encompasses the most material sustainability issues and risks the company faces, both currently and for the future, to the extent these can be foreseen. In recent years, the CSRC more strongly emphasised the importance of looking forward into the future, to ensure that future risks and opportunities are carefully considered and well understood, which leads to the company's business plans becoming more resilient. The challenge going forward is to continue to effectively apply this forward-looking approach in a world of greater political uncertainty and more rapid change.

"The searching external perspective that the CSRC brings is very valuable to Shell, as through the Committee's experience and challenge, our business plans become more robust for the future."

Peter Voser,
CEO of Shell

Embedding sustainability within non-executive director oversight

Credits: elements of this visual are similar to a version in a UNGC Lead (2012) study.

Irrespective of the phase, it is vital that the composition of both the Executive Board and Supervisory Board reflects the diversity of the organisation. Research shows that a more diverse board takes more solid decisions on sustainability, as a wider variety of stakeholder issues is taken into account. An example of evidence found with respect to a positive correlation between female leadership and sustainability is the study carried out by the Berkeley Haas School of Business among 1,500 companies. Companies with more women were more likely to show advanced levels of transparency and higher social and environmental performance (McElhaney and Mobasseri, 2012). The table on page 37 provides insight into the gender balance and nationality of the board members in the highest governance bodies of DSGC companies. Particularly in the area of gender diversity, the DSGC members acknowledge that they are in a transition process. Each member invests heavily in talent management in order to retain and develop female leaders.

Overview of diversity within the highest governance bodies of the DSGC members

	Executive	
DSGC Governance Body	# of nationalities represented	# of females as part of total
DSM Managing Board	4	0 of 5
Unilever Leadership Executive	7	3 of 16
HEINEKEN Executive Committee	7	0 of 11
AkzoNobel Executive Committee	3	0 of 7
Philips Executive Committee	4	2 of 10
FrieslandCampina Executive Board	1	0 of 5
Shell Executive Committee	5	0 of 8
KLM Executive Committee	1	1 of 10

	Non-executive	
DSGC Governance Body	# of nationalities represented	# of females as part of total
DSM Supervisory Board	4	3 of 7
Unilever Non-executive directors	6	5 of 12
HEINEKEN Supervisory Board	5	2 of 10
AkzoNobel Supervisory Board	6	2 of 9
Philips Supervisory Board	4	2 of 8
Friesland Campina Supervisory Board	2	1 of 13
Shell Board of Directors (incl. 3 Executive Committee Members)	5	2 of 12
KLM Supervisory Board	2	2 of 9

4. Code of conduct and company values

Most companies have a code of conduct. Its objective is to clearly communicate the company's values and business principles. Ideally, these values guide the organisation's leadership when recruiting, inducting, training and appraising employees. The business principles and codes of conduct of the Dutch Sustainable Growth Coalition members explicitly address environmental, social and economic values and principles. These key documents serve as a guide in the day-to-day decision-making of employees being in line with company values. There is some criticism about the impact of the largely self-regulatory, voluntary, codes. It is argued that they may create a tendency for governments to lean back and refrain from developing, introducing and monitoring effective social, ethical and environmental regulations. However, in conjunction with the other elements of leadership and corporate governance, codes of conduct may form a strong basis for sustainable business practice.

In phase 1, a company may have a (global) code of conduct that explicitly refers to subjects such as integrity, anti-corruption, gender, discrimination, environmental issues and human rights. A company may be a signatory to the UN Global Compact or a code developed by a Chamber of Commerce. Unfortunately, however, non-compliance is usually not subject to effective sanctions. **In phase 2,** some companies, in addition to applying this more overarching code of conduct, may move towards complying with third-party codes of conduct focusing on specific aspects of responsible and sustainable entrepreneurship. Examples include certification schemes, often run by NGOs such as UTZ Certified, Fair Trade, the Forest Stewardship Council, the Marine Stewardship Council and other initiatives. In this second phase, the company collaborates and negotiates with third parties, often with the intention of increasing the sustainability standards of the industry as a whole. **In phase 3,** a company goes beyond its own code of conduct or signing up to existing schemes. Instead, the company pro-actively takes the lead in innovating, pioneering and co-creating (industry) initiatives. This is also referred to as "pre-competitive collaboration". Such initiatives serve both the company and other project participants, such as competitors, suppliers or other business partners that participate in these initiatives. The company is not just a signatory, but an accelerator and, potentially, a catalyst of market transformation in areas not yet covered by existing certification programmes.

A case study on Philips' pre-competitive work in mainstreaming the company's values on conflict-free tin, serving more than merely the direct interests of its own organisation, is given on the next pages. Shell's case study explains how its code of conduct and general business principles are integrated into the company's activities in the area of biofuels.

Philips - Code of Conduct

Description

Philips has a Supplier Sustainability Involvement Programme in place in which suppliers need to comply with the Philips Supplier Sustainability Declaration. This Declaration is based on the Electronic Industry Citizenship Coalition (EICC) code of conduct and additional clauses on freedom of association and collective bargaining. Philips knows from experience that a structurally more sustainable supply chain can only be realised if brands and their suppliers, NGOs and governments cooperate. This holds true, in particular, if sustainability issues arise further down the supply chain, where Philips has no direct relationships. The Conflict Free Tin Initiative (CFTI) is a supply chain project in which Philips collaborates with Tata, Motorola and the Dutch government. NGOs and the Congolese government also support it. Conflict minerals, sourced from the Eastern Democratic Republic of Congo (DRC) are mined under oppressive conditions. Many companies have shied away from the area to prevent their mineral sourcing from financing local conflict. In response, the CFTI introduced a track-and-trace system to ensure conflict-free minerals and promote economic development in the region. So far, this has been successful; shipments are on their way to the smelter, employment rates have improved, the income of miners has doubled and working conditions have improved. By placing its first order for conflict-free tin and sharing know-how, Philips helps to develop a market for legitimate trade of minerals and minimise trade in conflict minerals. The first products containing conflict-free tin are expected to be introduced by the end of 2013 at the latest.

Added value for anchoring Philips' mission and vision

Philips strives to make the world healthier and more sustainable through innovation. Its goal is to improve the lives of 3 billion people a year by 2025 with innovative products that are produced in a sustainable way. Therefore, Philips also depends on a sustainable supply of minerals, which is reflected in its target for 2015, achieving 72% compliance of suppliers with its sustainability programme. However, since mines are seven or more tiers removed from Philips' direct suppliers, it is difficult to govern whether minerals are conflict-free, as required through the supplier code of conduct. Philips' participation in the CFTI enables the company to indirectly

"Our participation in the conflict free partnership encourages the tin market in Congo to be more in sync with, among other, core principles laid down in our Philips Supplier Sustainability Declaration. This pre-competitive initiative demonstrates that Philips, together with others, can help lift the ethical, social and environmental standards of a complex market to a higher level."

Frans van Houten
CEO of Philips

govern lower tiers in its supply chain, even if this is outside of Philips' direct sphere of influence. This pre-competitive initiative has the potential for the minerals market to transform and adopt values that are in sync with those formulated in the company's Supplier Sustainability Declaration.

Challenges

One important challenge for Philips is to improve the social and environmental conditions under which the tin is mined. In addition, it will be both a challenge and an opportunity to extend the track-and-trace system to other materials. Finally, legal and corresponding auditing requirements should not hamper but stimulate initiatives like the Conflict Free Tin Initiative.

Shell – Code of Conduct

Description

Shell's Code of Conduct recognises that sustainable development principles must be embraced within all activities to deliver sustainable outcomes. A case in point is Shell's approach to biofuels. The public discussion about the sustainability of biofuels has led to a large number of sustainability standards being introduced by different organisations in recent years. These standards require improvements to be made to the greenhouse gas balance for biofuels, among other things. Through a joint venture called Raizen, in Brazil, Shell produces low-carbon biofuel from sugar cane, which can reduce CO_2 emissions by up to 70% compared to petrol.

Added value for anchoring Shell's sustainability strategy

Shell's sustainability strategy requires collaboration with communities, governments, non-governmental organisations and others to help the company operate safely and responsibly. Shell believes it can safely and responsibly develop and produce biofuels. Shell's position remains for projects and activities to maintain a deliberate focus on sustainable practices, continuous improvement, collaboration with regulators and engagement with local communities. This approach has been adopted in recent large-scale biofuel projects in Germany and Brazil. The Shell Code of Conduct and the guidelines for biofuels help and guide the company in this respect. Shell has worked hard to improve sustainability standards in its biofuel supply chain since 2007. Environmental and social sustainability clauses have been introduced into new and renewed contracts for biofuels that Shell buys for blending with petrol and diesel. In line with the Shell Code of Conduct, clauses are drawn up stating that biofuels are not knowingly linked to the violation of human rights, nor produced from raw materials in areas of rich biodiversity. Currently over 97% of the volume of biofuels purchased by Shell are covered by these clauses. Shell seeks to increase this percentage further.

Challenges

To improve the sustainable production of biofuels, Shell supports the adoption of international standards for sustainable sourcing governing the protection of natural resources, including biodiversity, soil, water and social issues. Shell is a major purchaser of biofuels for blending. The Shell General Business Principles require suppliers to comply with regulatory requirements, for example through international certification schemes. Shell recognises that biofuels can help developing countries, who have limited natural resources, to modernise agriculture and generate income, and thus increase security of food supply. The company also understands the challenges associated with biofuels production. Binding sustainability criteria for biofuels and certification systems are necessary beyond European level. It is important to bring greater clarity to the debate about the environmental impact, sustainable practices and potential strains on the food chain. Shell is involved in various initiatives to explore ways to alleviate public concerns regarding biofuel-related challenges posed by deforestation, livestock demands and stress caused on the food, water and energy nexus. Shell has invested in advanced biofuel research and is involved in initiatives such as RAI (Resilience Action Initiative) that explores how future energy demands can be addressed effectively.

For the future, Shell is developing advanced biofuels from new sources using advanced conversion processes. These processes can potentially produce more efficient fuels with lower CO_2 emissions as well as fuels that can be blended in higher proportions with petrol and diesel.

"We see an important role for biofuels in the energy mix. We will continue to leverage our technical expertise to find innovative ways to develop efficient fuels, whilst continuing to lower our carbon emissions."

Peter Voser
CEO of Shell

4. Long-term incentives

A challenge facing many companies is short-termism. A global study among 2,500 public companies established that the average tenure of a departing CEO went down from 6.3 years in 2000 to 4.8 years in 2012 (Booz & Company 2012 Chief Executive Study). In addition, management boards are faced with vocal short-term investors merely interested in ensuring their return on investment on the shortest term as possible. In general, the duration of equity ownership varies per investor profile and per regional origin and depends on an active or passive investment policy. Institutional investors, i.e. life insurance companies, foundations and pension funds, have a more long-term orientation due to their pay-out horizon, which may be 20 to 30 years ahead. Hedge funds, certain institutional and private investors and day traders, however, have a short-term perspective. Executive boards feel their pressure much more than when engaging with their long-term shareholders. Both the short tenure of executives and pressure felt by Executive Boards provide an incentive for companies to be increasingly fixated on short-term financial results. Various governance interventions can, however, be made to ensure that the proper incentives are in place to foster the organisation's desired long-term focus, thereby serving the interests of stakeholders.

Dimension 1 (Tone at the top and Executive Board commitment) has to be in place in order for long-term incentives to be created. Without Executive Board members who are committed to (and as phase 3 of Dimension 1 suggests: accountable for) clear targets, it is not possible to create incentives to stimulate delivery.

In phase 1, the Executive Board members decide to build financial and/or non-financial incentives to achieve their own sustainability (components of) corporate targets. This signals a powerful message to both employees and external stakeholders. Goals can be formulated in various ways. One approach is to formulate a percentage of increased revenue resulting from a product line that meets a minimum level of sustainability criteria. Another approach is to formulate a goal that is not linked to business growth, but solely focused on sustainability performance (such as a minimum percentage of responsibly sourced natural resources).

In phase 2, broader groups of employees and middle management are incentivised - financially and/or non-financially - to realise sustainability (components of) targets. Driving through culture, employees and managers working at various levels of the organisation experience how non-financial incentives are created to take a more long-term orientation (for example, in the areas of leadership development, career counselling and training). Whether linked to financial or non-financial incentives; it is key that sustainability (components of) targets are concrete and actionable. For example, although the Dow Jones Sustainability Index can be used as an indicator to determine (non)financial incentives, individual employees are more likely to realise sustainability targets that they can, themselves, influence. A case on how HEINEKEN puts this into practice is included in dimension 7 of this Chapter.

In phase 3, more rigorous, systemic interventions encouraging a long-term orientation may be made. The message conveyed to all stakeholders (including shareholders and employees) is that the sustainability strategy and the business strategy are synonymous in a well-run business that drives consistent value. In this phase, the management incentives (both financial and non-financial) that drive sustainability delivery are the same that drive business delivery. At Unilever, CEO Paul Polman decided to shift from quarterly to half-yearly reporting in order to visibly mark the start of an era of less short-termism (a case on which is included on page 48-49).

Another example of a "phase 3" measure would be to, as a UNGC Lead study suggests, partially link executive pay to shares, bonds or escrow that are released after 10 or 15 years. In general, non-executive directors overseeing remuneration (whether or not institutionalised as a separate remuneration committee) should carefully evaluate and monitor the integration of sustainability into incentives (financial and/or non-financial).

The Dutch Sustainable Growth Coalition members have taken various measures to link sustainability to financial incentives. The overview "Linking sustainability to financial incentives" provides further insight.

Linking sustainability to financial incentives

Various DSGC members link sustainability targets to financial incentives for executives. Their variable cash incentives and annual bonuses often depend on sustainability performance. For example, Philips' annual incentive criteria for the Executive Committee consist of 20% team targets comprising sustainability targets as part of its EcoVision programme. Fewer DSGC members use long-term financial incentives to ensure a sustainability-focused mindset amongst executives. An example is AkzoNobel, which links 50% of the conditional share grant to its Executive Committee relative sustainability performance. DSM uses a mix of short- and long-term incentives. The short-term incentives are linked to ECO+ solutions, energy-efficiency improvement and employee engagement. The long-term incentives are related to greenhouse-gas emission reduction targets. Together these account for 50% of the Managing Board's variable remuneration. At Unilever, remuneration arrangements support the sustainability agenda. The CEO's personal performance goals under the annual bonus scheme include Unilever Sustainable Living Plan targets.

KLM and AkzoNobel link executive remuneration to sustainability by benchmarking the company's position against the Dow Jones Sustainability Index (DJSI). At KLM this applies to the Members of the Board of Managing Directors, as part of their long term incentive plan. AkzoNobel also includes this criterion as part of its 30% long-term bonuses payable to its top 600 executives. The DJSI includes issues such as governance, social impact, response to climate change, innovation, supply chain management and operational eco-efficiency. Other practices linking middle/higher management remuneration to sustainability targets are, for example, a scorecard used by Shell to determine the annual bonus levels for all employees, including executives, with sustainable development accounting for 20%. KLM has formulated CSR performance indicators integrated in the variable remuneration for members of the executive committee and senior executives (in which innovation is key to improve social and environmental performance). Another example is FrieslandCampina, which incentivises sustainability at member farms. To encourage renewable energy, FrieslandCampina buys sustainable energy certificates from member dairy farmers producing green energy, who are in turn rewarded with a supplement on top of the standard energy price. Pilot projects in the area of solar energy and green gas production will also increase incentives. In addition, dairy farmers who put their cows out in the meadow to graze on at least 120 days a year, for at least six hours a day, are paid a meadow milk premium of 0.50 euro per 100 kilos of milk. Please read the HEINEKEN case for on page 50-51 additional practical insights.

Unilever – Long-term incentives

Description

Upon the start of his tenure as Unilever's CEO, Paul Polman immediately announced the elimination of earnings guidance in 2009. From 2011 onwards, Unilever stopped publishing full financial results every quarter. Instead, the company issues trading statements for the first and third quarters and full financial results for the second and fourth quarters. As a result, the discussions with investors are currently more of a long term nature. Trading statements – which are required by law- are about half the size of a regular Unilever full financial quarterly report. This reduces workload for internal staff and, more importantly, it gives a strong signal to the market. A shift from a short-term to a longer-term focus better reflects the way Unilever manages its business. The company's leadership spends significant amounts of time pro-actively seeking to attract and retain investors with a long-term orientation.

Added value

Engaging shareholders around the "why" behind a shift from quarterly to half-year reporting requires a heavy time investment, but is paying off. Unilever's extensive dialogue with investors has enabled the company to secure a more solid and future-proof shareholder base. Unilever regularly arranges meetings between its business heads and investors. In addition, once a year, the company organises an investor seminar where investors are given the opportunity to meet a wide cross-section of its managers allowing investors a deeper understanding of the business and the importance of the Unilever Sustainable Living Plan to its business model designed to deliver sustainable growth. The conversations that were generated by the decision enabled the organisation to address a more systemic problem of short-termism both within and beyond Unilever. Internally, various employee programmes are designed and rolled out to catalyse this transition in thinking from a focus on short-term profit to more long-term value creation.

"A myopic view of driving shareholder wealth at the expense of everything else will not create a company that's built to last. You need to attract a shareholder base that supports your strategy—not the other way around. We actively seek one that is aligned with our longer-term strategy."

Paul Polman
CEO of Unilever

Challenges

In its attempts to generate a new wave in thinking about capitalism, the company is confronted with a dominant paradigm of Milton Friedman's focus on short-term profit maximisation in the interest of shareholders. Among many actors in business, there is a low level of understanding of the interdependence between business and society. This requires leaders to be highly resolute in holding course on the Unilever Sustainable Living Plan and 'educating' investors about the business benefits in both the short, medium and longer-term. The time investment of Unilever's employees in having awareness conversations about the global challenges that affect Unilever is a significant but necessary condition for the Unilever Sustainable Living Plan to succeed.

HEINEKEN - Long-term incentives

Description

In 2010, HEINEKEN introduced a new holistic approach to sustainability, dubbed "Brewing a Better Future", which aims to improve environmental, community and social sustainability. With approximately 85,000 employees in more than 70 countries, implementing such an approach across the breadth and depth of such a global organisation has been a major challenge. It was achieved through providing operating companies with autonomy and accountability for their own sustainability programmes - based on an agreed set of global themes. At HEINEKEN, every market has its own three-year sustainability plan and its own sustainability committee to co-ordinate the topic at management level.

Added value

What gets measured gets done. This holds even more true for remuneration. Every operating company manager has targets that fit within his or her working field, but also progresses HEINEKEN's ambitious Brewing a Better Future agenda. For example, corporate relations managers are responsible for forging partnerships on promoting responsible consumption and managing stakeholder dialogue; supply chain managers have concrete targets on the reduction in energy and water consumption in their breweries, as well as being responsible for safety in the breweries. Local logistics managers have specific targets relating to the CO_2 emissions of distribution and Human Resources managers are measured on accident prevention measures. Concrete sustainability targets in employee's own areas of expertise are a top priority: the results partly define their incentives package.

"We have decided to make sustainability one of our six key business drivers. When you do this, you have to assure you measure it in exactly the same manner as you would with other business drivers. Therefore, sustainability has to be formulated in key performance indicators, and incentive packages."

Jean-François van Boxmeer
CEO of HEINEKEN

The objective of the General Manager/Managing Director of every operating company in scope for Brewing a Better Future is to ensure the full roll-out of the Brewing a Better Future agenda, which means that he or she is responsible for the overall delivery of the Brewing a Better Future agenda, and for demonstrating clear internal leadership relating to, and delivery of, the local three-year plans (including the minimum requirements communicated by the Brewing a Better Future Steering Committee). In addition, he or she must participate in external stakeholder dialogues on material topics relating to market sustainability. His or her level of success in this respect is monitored by the Regional President and will be part of the overall end-of-year review process.

Challenges

When working at locations far from the head office, employees tend to feel disengaged from global sustainability initiatives and disinterested in global objectives. Global themes and goals are – by definition – aggregated across many countries and cultures. By decentralising the sustainability agenda and translating global objectives into local objectives, employees better understand, identify and engage with the actions they need to take and quickly turn a global approach into a real source of local pride and achievement.

4. Accountability and trust

The members of the Dutch Sustainable Growth Coalition are in an ongoing dialogue with stakeholders to define issues of public concern. The output of these conversations is integrated into, among other things, annual reporting. In short, to earn public trust, companies must be accountable for (and transparent about) the stakeholder value created.

In phase 1 the company responds to some of the stakeholder interests, but this does not play a major role in defining the topics the company should focus or report on. The company has limited understanding of who its stakeholders (other than its shareholders) are or how to interact with them in a two-way dialogue. This is also reflected in the quality of reporting. To the extent that information on non-financial performance is available, the information is primarily qualitative, anecdotal and not necessarily focusing on issues that stakeholders consider being material. **In phase 2** the company engages with stakeholders in a two-way dialogue. It draws up a sustainability report using, for example, indicators of the Global Reporting Initiative. **In phase 3,** the company integrates its stakeholders into its reporting cycle. For example, in 2013, Unilever has held stakeholder consultations to discuss its annual Global and local progress reports on its Sustainable Living Plan in 13 cities across the world, combined with a six-hour online community event ("Living Lab") drawing together the input of 550 stakeholders from 80 countries. Similarly, HEINEKEN asked an independent think tank to involve 22 stakeholders – including critical NGOs – to help shape the "materiality matrix" that defines the issues that its sustainability report should focus on. KLM's extensive experience with institutionalising stakeholder input as part of the reporting cycle is included in the cases on the next pages. In this phase, companies are aware of the interrelationships between financial and non-financial information. DSM's award-winning integrated report is also included as a separate case in this chapter. Similarly, Philips and AkzoNobel have been among the front-runners to publish an integrated report, thereby making extensive use of stakeholder input. Philips elevated the level of assurance for non-financial information from 'limited' to 'reasonable' (which is the standard level for financial information).

In short, as White (2006) puts it, companies transition from *managing* their stakeholders to *engaging* with them, to formally including stakeholders as part of *governance* mechanisms, such as reporting. Non-executive directors overseeing the company's audits (whether or not institutionalised as a separate "audit committee") should carefully evaluate and monitor this process.

KLM - Accountability and trust

Description

For KLM, stakeholder dialogue is key and therefore integrated across the organisation. KLM identifies and reviews key sustainability issues with stakeholders, applying the materiality test in accordance with the GRI guidelines in this respect. Based on stakeholder interests in specific sustainability issues, KLM determines and tailors the appropriate instruments for effective consultation. These range from customer surveys, online communities, competitor benchmarks, staff surveys and forums, risk management related to CSR issues, participation in CSR working groups held by specialist associations, to partnerships with NGOs. For communities located closely to its (regional) headquarters, KLM also holds a series of dialogue events, which are thematic forums where experts can share their insights. Stakeholder feedback is an integral part KLM's non-financial reporting.

Added value for anchoring KLM's sustainability strategy

Inclusion of stakeholder dialogue in the reporting cycle reinforces KLM's strategy. KLM's stakeholder governance has always served to increase trust of its stakeholders and the general public. For many years now, KLM has taken up dialogue with local governments and citizens about issues such as noise hindrance. With the set-up and implementation of KLM's sustainability agenda, feedback from stakeholders has always played a significant role and even served as a catalyst for change and innovation within the organisation. For example, the strategic partnership with WWF-NL boosts the attention and innovation to achieve climate targets such as CO_2 efficiency and biofuel innovation, taking environmental and social impacts into account. A dialogue with catering suppliers speeded up the sustainable catering offer on board. In the recent decade, sustainability entered the international scope of KLM's

stakeholder engagement. For example, in October 2013 the UN aviation organization ICAO will discuss proposals for a global approach on aviation emissions. KLM considers this a key opportunity for governments to take action around the future sustainable development of aviation. Therefore, KLM was actively involved in the internal debate within the international airlines association IATA, which in June 2013 explicitly committed itself to a global approach to managing aviation's carbon emissions through ICAO. This sends a strong, positive signal towards governments around the world.

Challenges ahead

A large stakeholder portfolio comes with the challenge to keep KLM's stakeholders involved in the issues which are relevant for both KLM and the individual stakeholder. Traditional stakeholder management (carried out by specific employees) is changing and becoming increasingly part of various relevant functions. This will require more flexibility of employees and the capability to translate external insights into new business opportunities. Using stakeholder input to achieve the sustainability ambition goes beyond regular dialogue and requires a more effective and strategic dialogue. As dialogue takes place between partners with different backgrounds, one of the challenges is to develop a common language and understanding, in order to act effectively and efficiently, without losing progress. Different dialogue platforms and partnerships have shown that investment in the relationship and mutual trust are key elements in this respect. Examples are KLM's partnership with WWF-NL and the Alders Table, an advisory platform with stakeholders for the development of Schiphol.

"We can only achieve our sustainability goals if we interact with our stakeholders. Working together with the different partners in the value chain is key to make it successful. We need to remain open-minded for new insights and innovation to continue setting the standards in the aviation industry ."

Camiel Eurlings
CEO of KLM

DSM – Accountability and trust

Description

In 2010, sustainability was defined as one of DSM's four key growth drivers, as well as being DSM's key value and responsibility. Since then, DSM has published an Integrated Annual Report, measured against the criteria of the Global Reporting Initiative at a high level of transparency (GRI application level A+), reflecting the philosophy that sustainability is an integral part of doing business. This is fully in line with DSM's overall philosophy, which is creating value in three prime dimensions equally: people, planet and profit. In 2011, the Integrated Annual Report was awarded three prizes, among which the Kristal award, for the most transparent sustainability report. The Kristal award, an initiative of the Dutch Ministry of Economic Affairs, awards the prize after assessing the quality of a wide range of sustainability and integrated reports against the Transparency Benchmark. All information about financial results is accompanied by sustainability information, and vice versa: progress against sustainability targets is explained within a financial context. This flows naturally from the fact that over 40%of DSM's total sales consisted of ECO+ products and solutions, which have a significantly smaller environmental footprint than mainstream solutions. These solutions also make up 80% of the company's innovation pipeline. In addition, DSM's focus on bio-based solutions in the area of renewable energies is an example of the connectivity between sustainability and financial performance.

Added value

Integrated reporting is a logical step; separating the information would prevent the company from accurately explaining to its stakeholders how it is creating economic, social and environmental value. For example, it enables employees to better understand how their individual and team efforts add up in total, and how they are part of a larger innovation transformation of the company. The report also allows for higher quality conversations with the public and a wide variety of external stakeholders, leading to more trust. For this reason, the report also includes a section of "what still went wrong", listing all incidents and, especially, the lessons learned.

Challenges

A further challenge is to not only report on the alignment of business with the environment, but also on the alignment of business with social progress. DSM has new metrics in place which it is developing in close contact with the business and peer companies. Furthermore, the reporting processes, including internal controls, are improved to bring them up to a similar level as financial reporting.

"Today's accounting systems, calculating profit and looking at value creation of companies, stem from the past. Planetary boundaries and societal challenges, as well as the role of companies in this respect, were not felt as much as today. We need systems that supplement the profit calculation with a company's impact on our planet, its use of the world's resources and 'externalities', and its ecological footprint. A clear definition and calculation also needs to be developed for the people and societal impact dimension, looking at the effect of companies on people with respect to health, wellness, labour and other societal aspects. These metrics should also become accepted tools for company valuation. With analysts and the wider public following their societal and ecological ratings as closely as their profits, business leaders may feel stimulated to make business decisions differently."

Feike Sijbesma
CEO of DSM

4. Strategic risk and opportunity management

In this publication, we look deeper into risk and opportunity management as a corporate governance instrument (rather than as a dimension in our sustainable growth business model; see table on page 23). In the roadmap towards sustainable business growth and the strategy developed in this regard, it is of importance to monitor market developments in the short and long term and assess to what extent risks and opportunities may occur in achieving the business strategy. Companies are beginning to understand the impact of social, economic and environmental risks on the financial bottom line, with integration of sustainability into this dimension increasingly taking place. For example, the lack of natural resources, the volatility of prices of raw materials due to climate change, are often mentioned as strategic risks. To improve insight into the impact of such potential risks, they can be monetised. Social and environmental costs ("externalities") of products and services are currently not reflected in the price of products and services, nor in scenario planning or risk management. Calculating these costs allows for better anticipation of the costs of compliance if new legislation on actually charging these costs, for example through tax instruments, is implemented. In other words, although nature and society do not have a bank account, business leaders should keep in mind their hypothetical debt to this account when developing scenarios, taking decisions and managing risk.

In phase 1, risk management focuses solely on reputational damage resulting from non-compliance. The approach is reactive and geared towards maintaining a license to operate. For example, over the past few years, companies have been shaken up by global public campaigns concerning, among other things, wages in developing countries, aggressive tax planning, deforestation, corruption, dubious financial products and environmental pollution. **In phase 2,** the Executive Board considers sustainability issues to be within the scope of regular risk management, but the focus is still largely defensive. The company is still caught by surprise when an issue arises, as it does not have a full view of all risks (potentially) confronting the organisation. **In phase 3,** the company has a broad understanding of not only risks, but also opportunities

Examples of global mega trends that inform the risk and opportunity management and strategy of the DSGC members. Please note that the size of the words do not reflect a prioritisation.

presented by sustainability (for example, natural resource scarcity or aging of the global population). Within the company, employees have a full understanding of their own role as guardians of the sustainability risk management strategy and the way in which individual failure can negatively impact the organisation at large. Non-executive directors overseeing risk management (whether or not institutionalised as a separate risk committee) carefully evaluate and monitor this process. The company's risk and opportunity management is informed by the mega-trends that affect the organisation most. The word cloud provides insight into the global mega-trends that the members of the Dutch Sustainable Growth Coalition have identified, presenting both risks and opportunities to the DSGC companies.

The cases hereafter illustrate how AkzoNobel and FrieslandCampina integrate sustainability into risk and opportunity management.

FrieslandCampina – Risk and opportunity management

Description

A core element of risk and opportunity management is an (ongoing) assessment of the risks and opportunities faced by the organisation. Integration of drivers that derive from societal developments, such as environmental and social factors, has been part of FrieslandCampina's Global Enterprise Risk Assessment. The assessment is guided by the company's strategy, route2020. Its framework encompasses 28 risks, including environmental sustainability, employee safety and sustainable sourcing. The assessment programme was launched in August 2012. In July 2013, 35 operating companies across the world were involved. For each local operating company, a five-day risk assessment took place, including interviews with stakeholders and workshops with the local management team.

Added value

Inclusion of social and environmental aspects within risk and opportunity assessment has enabled the company to not just respond to, but also anticipate issues. The key to this success lies in the ability for local operating companies to focus on subjects that are most relevant to their own geography, culture and society. As a result, the role played by social and environmental issues varies per operating company. For example, the rising demand for healthy and fresh dairy plays an important role in emerging Asian markets, as the company must better support the development of farmers. In some developing countries, aging of the farmer population provides an opportunity for FrieslandCampina to engage in local capacity programmes to increase productivity and make the farmer profession more appealing for younger people. Tightening regulation in the area of waste water has been a

"In our Enterprise Risk Assessment program we identify the risks and opportunities that arise from external developments. Building social and environmental developments into this program enables us to further improve the social and environmental awareness of management and to follow a pro-active approach, turning potential risks into business opportunities."

Cees 't Hart
CEO of FrieslandCampina

relevant driver of innovative, sustainable and safe technologies going far beyond simple compliance with rules. In mature markets, the rise of obesity as a societal problem drives the company towards developing products with lower amounts of fat and sugar. FrieslandCampina uses local studies in each of the local assessments and reports on each assessment. Depending on the outcome, different specialists within the organisation – whether from procurement, marketing, quality management or another angle - can be engaged timely.

Challenges

FrieslandCampina intends to repeat the cycle of assessment on an annual basis. Priority actions are formulated every year and reviewed on a quarterly basis. The challenge the organisation faces is that these actions must be monitored and reported as an integrated component of the regular reports that are filed by the operating companies to the four business groups (which, in turn, report at corporate level). The assessment and forthcoming actions – including all social and environmental factors – must be embedded in the day-to-day operations and mindsets of local companies in order to be effective.

AkzoNobel – Risk and opportunity management

Description

In defining the company's strategic agenda, AkzoNobel analyses the issues that are impacting each of its four end-user segments: buildings and infrastructure, transportation, consumer goods and industrial. For each of these, AkzoNobel has identified the global mega-trends that impact its business strategy. The World Business Council for Sustainable Development (WBCSD)'s 'Vision 2050' report is used to anticipate long-term changes in the market. In the buildings and infrastructure segment, the growing demand for buildings with lower energy costs forms a driver for the company to improve the environmental performance of the end user through sustainable innovative products. The same applies to its transportation segment, where the need for reduced energy use of light-duty vehicles drives AkzoNobel's focus on shifting to new, lighter materials. Resource scarcity is a key driver in its consumer goods and industrial segments, gearing the company's innovation activities even stronger towards eco-efficiency, using waste as a resource rather than as traditional waste (closed loop) and improving resource efficiency in the downstream value chain (i.e. with customers, consumers and in end-of-life). These insights, in turn, inform risk and opportunity management. Operational risks in the area of access to raw materials and energy pricing and strategic risks around stakeholder support are integrated into the "major risk factors" as included in AkzoNobel's 2012 Annual Report. Key sustainability issues are integrated into corporate and business planning processes and in risk management and compliance. If a specific sustainability risk arises, or a stakeholder flags an issue of concern, the company develops an improvement plan that is owned by a subject matter expert.

Added value

Awareness of the long-term global mega-trends as envisioned by the WBCSD enables AkzoNobel to anticipate change in (the type of) demand for its products and act accordingly. Moreover, the organisation is moving away from an emphasis purely on risks (working on integrity, governance and compliance with standards, applicable laws and regulations) towards creating opportunities for value creation through sustainable innovation, process excellence and talent development. In short, integration of sustainability issues and global mega-trends, as part of risk and opportunity management, helps the organisation anchor its sustainable growth strategy and remain ahead of the game.

Challenges

Explaining the importance of having a long-term orientation and building awareness at all levels remains a challenge. To work on this challenge, various development management programmes are rolled out. As much as possible, knowledge about how relevant global mega-trends affect AkzoNobel's four end-user segments is tailored to specific roles and divisions, and is communicated through various internal and external communications channels. Furthermore, the development of specific business unit sustainability targets which are within the sphere of influence of the employees helps build awareness and create engagement.

"Closely tracking the positive and potentially adverse impacts of global mega-trends on the customers in our key end user segments enables our organisation to anticipate, take action and ultimately turn risks into business opportunities. The World Business Council for Sustainable Development provides some guidance on these trends, and we use these insights to inform our strategy."

Ton Büchner
CEO of AkzoNobel

4. Integrated thinking and embedding of ownership

A key instrument of corporate governance is the way in which integrated thinking is stimulated through embedded ownership. This means that managers in a wide variety of divisions and departments and at different management levels have a specific, tailored and relevant role or task in relation to the sustainability strategy. As already highlighted in the first dimension of this chapter, the "tone at the top" and having key members of the Executive Board each lead areas within the sustainable growth agenda is an important condition for embedding sustainability organisation wide. Senior and middle management form a crucial interface between the leadership of the organisation and the work floor.

In phase 1, the organisation has overall targets and KPIs, but these are not specified for individuals, divisions or departments. There is no accountability mechanism within the organisation to ensure that progress regarding these targets can be reported. There is a sustainability or Corporate Responsibility (CR) team advocating the importance of taking these steps, but, in practice, this team is the only 'owner' of the sustainability strategy. **In phase 2,** individuals or divisions/ departments have individual targets, but these are rather 'soft': failure to deliver progress does not have any consequences. Some first steps might be made to integrate sustainability as part of learning, training and leadership development. **In phase 3,** sustainability targets are formalised, tailored and individualised, and are included as part of career counselling and (leadership) development tracks. Good performance in a selection of sustainability criteria is rewarded accordingly (see also dimension 4 of this chapter on long-term incentives). A small sustainability or CR team primarily serves as a knowledge hub providing board-level expertise and acting as guardian of the overall strategy. It is worth mentioning that the role of corporate communications departments is essential. A solid corporate story that employees from all cultures, functions and geographies can easily articulate, and that is preferably co-created by employees themselves, is a key condition for people to take ownership. On the next pages, cases are presented by HEINEKEN and FrieslandCampina to illustrate how can work in practice.

HEINEKEN – Integrated thinking and embedding ownership

Description

To achieve real engagement and ownership, it is essential that employees view the company's commitment to sustainability as a top priority. HEINEKEN has made sustainability one of its six key business priorities, giving it visibility and endorsing the idea that the work its people do on sustainability is a key growth driver of HEINEKEN. HEINEKEN's CEO chairs the Corporate Affairs Committee that monitors the entire Brewing a Better Future strategy. A number of other Executive Committee members have a seat on this Committee, ensuring top-level engagement and drive. This formal embedding of ownership and responsibilities has helped the Board to get a grip on the execution of the Brewing a Better Future strategy. In addition, it has provided the necessary link to all business initiatives.

Added value

The General Manager of each operating company monitors the strategic and operational progress made on all sustainability targets. He or she is supported by a sustainability coordinator who ensures that all functional managers focus on their own objectives, and also report on time and correctly. In turn, the sustainability coordinator is supported by regional sustainability coordinators. Embedding these formal responsibilities into the functions that are directly involved is important not only for removing red tape, but also, and particularly, for ensuring good and effective implementation. From the Corporate Affairs Committee onwards, every single

"Our Brewing a Better Future strategy comes to life because we involve every single one of our 85.000 employees and make them responsible for the delivery. We also engage our suppliers, customers and consumers in supporting our sustainability targets - from the barley we need to produce our beers to the bars where people enjoy our beers."

Jean-François van Boxmeer
CEO of HEINEKEN

objective set within the Brewing a Better Future framework is steered by Executive Committee members responsible for driving the delivery of the strategy and monitoring progress. This is necessary because, for example, water consumption reduction programmes need to be handled by appropriate experts who deal with water management on a day-to-day basis. These ambitious programmes require execution and attention of local functional managers.

Challenges

Engaging, motivating and supporting employees is therefore essential and is something in which HEINEKEN invests a great deal of time, energy and resources. To this end, HEINEKEN introduced "Green Gauge", a measurement system that records progress on all of its key commitments and indicators. The company is now able to report on progress at a local, regional and global level on a quarterly basis. In line with the desire to keep things simple, the figures are complemented by a simple traffic light format allowing one to see at a glance whether a company, region or HEINEKEN as a whole is on track. Every Brewing a Better Future KPI is monitored quarterly using the Green Gauge reporting system: input is provided by functional local managers and checked by head office functional experts, who validate the data provided.

FrieslandCampina – Integrated thinking and embedding ownership

Description

FrieslandCampina's working method, which includes the implementation of the CSR policy, is key to the *route2020* strategy. The company is making major investments in the growth and development of its employees. A broad employee survey found that the company's Executive Board is seen to be rolling out a challenging vision for the future. Over 80% of all its staff understand how the goals of their Operating Company or Business Unit tie in with the company's overall goals. Over 90% are aware of how their own work contributes to the goals of their company. Similar percentages were obtained in relation to safety, Corporate Social Responsibility (CSR) and pride in the responsibility their own business unit was taking for environmental issues.

Added value

Next to leadership development for managers in different management layers, the company organises extensive training and executive development programmes for its member dairy farmers. CSR forms part of all programmes. Future managers and executives need to be aware of their own roles and responsibilities in ensuring that the policy is implemented. To create this understanding, the company started an intensive 12 month dialogue with its member farmers (also shareholders) about the *why*, the *how* and *what* of sustainable dairy farming in 2011. This resulted in the launch of the 'Foqus Planet' programme for sustainable dairy farming in the three countries with the full support of FrieslandCampina's member farmers.

In order to engage also senior and junior management of the company, FrieslandCampina made CSR workshops part of its global leadership development program in cooperation with business schools in Switzerland and the UK for approximately 500 managers from around the world.

Challenges

A significant challenge is to ensure that both 19,946 employees (in 28 countries) and the 19,487 member dairy farmers of the cooperative FrieslandCampina in the Netherlands, Germany and Belgium fully understand why CSR is an integrated part of the company's overall strategy and all its business processes. It is key that everyone understands how to contribute to the 12 overall CSR targets, 'from grass to glass'. A better

"FrieslandCampina is working hard to roll out this sustainability policy and involve employees and member dairy farmers in its implementation. Together with our member dairy farmers and employees, FrieslandCampina is building an excellent sustainability business case. If we succeed, we will make a real difference in the market and within society as a whole."

Cees 't Hart
CEO of FrieslandCampina

understanding of the environmental and social impact of the business is therefore necessary. Furthermore, not all managers have included sustainability goals in their annual plans and responsibilities yet. This is now being dealt within the Business Groups and at individual Operating Company level. Meanwhile, Business Groups have already made CSR part of their Long Term Plan, Operating Companies are required to make CSR part of their Balanced Business Plans for 2014 and Green Teams have been set up by employees in a number of Dutch plants. Further steps in CSR training, CSR employee engagement and CSR communications are scheduled for 2014 on top of the global roll-out of FrieslandCampina's corporate purpose in 2013.

4. Scope of value chain governance

The current impact of companies on society is unprecedented. In the 18th century, it was relatively easy to keep track of the societal impact of a company, which was usually owned by a few families or investors. Nowadays, companies, like the companies forming part of the DSGC, are global entities. For some of them, shares are traded by thousands of investors and they interact with a myriad of suppliers that are difficult to monitor and control. As the oversight function has become so complex, how far should value chain governance stretch? The members of the DSGC believe that sustainable value chain governance may in some cases require that suppliers and customers (in various cases: consumers) at each end of the value chain spectrum be involved in delivering a higher sustainability performance of the product.

In phase 1, a company is primarily concerned with governing sustainability challenges directly within its own sphere of influence. In other words, beyond the doors of its own facilities, the organisation does not monitor the origins of the products or services it sells. **In phase 2,** the company expands its level of concern to suppliers. The company has an extensive supplier code of conduct and actively audits compliance with the code, as well as, for example, monitoring quality (and other legally required) audits. Nevertheless, this is complex as auditors may sometimes only be able to capture a snapshot of the real, day-to-day production at a site. In addition, the code may be undermined by weaker legislations of nations where the company conducts its operations. **In phase 3,** the company expands its focus to suppliers at the start, or customers (in various cases: consumers) at the end of the value chain. For example, KLM, in the absence of reliable biofuel suppliers to the aviation industry, has co-funded a joint venture, SkyNRG. SkyNRG, an independent entity, helps create a sustainable future for aviation through actively developing a sustainable production chain for alternative aviation fuels. Another example is Unilever, which is involved at all stages of the value chain of its products: from driving sustainable sourcing through its supplier base, to providing solutions to reduce water and energy consumption and increasing resource efficiency, to building partnerships to accelerate sustainable market transformation. The cases on the next pages illustrate KLM's work in the area of alternative aviation fuels and Unilever's engagement with consumers.

KLM – Scope of value chain governance

Description

It is vital for KLM to take responsibility for lowering carbon emissions, reducing dependence on finite fossil fuels and secure supply of renewable energy. However, the aviation industry, unlike other modes of transport, has no alternative to liquid fuel. KLM's strategy is to explore the entire value chain - from research to commercialisation – to achieve a breakthrough for scalable, affordable and sustainable biofuel. For that purpose, KLM set up the joint venture SkyNRG, unique in its kind, to help develop a sustainable fuel supply from growing feedstock to delivery.

Added value

Creating a market for biofuel goes beyond KLM's individual sphere of influence. Partners throughout the supply chain are needed to make it happen. First of all, the technical governance of biofuel must be approved by ASTM International. To guarantee safety, the production process and fuel specifications must be certified. Second, KLM only uses sustainable feedstock on the recommendation of the Sustainability Board, which includes representatives of WWF-NL, the Copernicus Institute and Solidaridad. KLM strives to ensure certified processes among its suppliers, as monitored by the Round Table for Sustainable Biofuel (RSB) which

"The environmental impact and affordability of sustainable biofuel flights depends on our ability, as an industry, to develop a market in the first place. Creating a new market with reliable suppliers goes beyond our direct scope of corporate governance, but is key to realising KLM's ambitions in this area. At KLM we have laid the foundations through our engagement with, and investment in, SkyNRG and organisations such as WWF-NL. If other airlines join us in our gradual transition to scalable, affordable and sustainable biofuel, the environmental impact of our industry can be improved significantly."

Camiel Eurlings
CEO of KLM

guarantees the highest standards in working conditions and environmental care in the biofuel production chain. Finally, KLM aims to increase the demand of sustainable biofuels in order to scale up production and lower prices as a result. (Biofuels currently are 3-4 times more expensive than regular kerosene.) To achieve this, cooperation with biofuel producers, a 'Green Deal' with the Dutch government and partnerships with corporate customers through the KLM BioFuel programme are key.

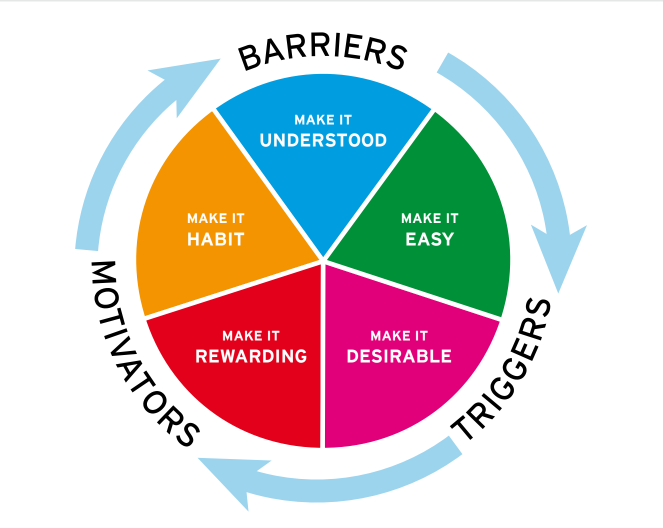
Key challenges

Sustainable biofuels and suppliers thereof are still very scarce. The current conventional fuel industry has had a century to develop its fuel sources, supply chains and distribution networks. The aviation biofuel industry is still in the infancy stage. Another factor is the sustainability of biofuels. A wide range of non-food crops and sources of biofuel are being researched. Renewable feedstock has to meet stringent sustainability criteria: the impact on biodiversity must be limited, the feedstock may not compete with food production and CO_2 emissions must be substantially reduced throughout the production process. Finally, it is important to reduce biofuel prices by stimulating greater demand. It is estimated that more than half of biofuel production costs is related to the cost of feedstock.

Unilever – Scope of value chain governance

Description

Unilever has assessed that more than two-thirds of its greenhouse gases' impact comes from consumers using its products. Teaming up with retailers to engage with consumers about adopting a more sustainable lifestyle has become an important component for the company to reach sustainability targets. An increasing number of retailers – both large and small – are now working to integrate sustainability into their business. For example, Unilever works with retailers on in-store programmes that help educate and engage shoppers in a number of markets, from the UK to China. Underpinning Unilever's approach is its 'Five Levers for Change model– a set of principles which, if applied consistently, increases the likelihood of creating a lasting consumer behaviour change. First used in health and hygiene campaigns around hand washing in developing and emerging markets, the model is now applied increasingly in other areas and brands as well (i.e. reduction of salt consumption).



Added value

Changing consumer behaviour is outside the direct scope of influence of Unilever, but is crucial for achieving the Unilever Sustainable Living Plan (USLP) targets to halve its environmental footprint by 2020. Extending the scope of governance further into the end-user phase of the full life cycle of its products is a key condition for realising the USLP. Next to growing double digit sales of brands that put sustainability at the heart of the business, it has created value for society: from increased recycling behaviour of consumers in advanced markets to fighting diarrhea through hand washing education in less advanced markets.

Challenges

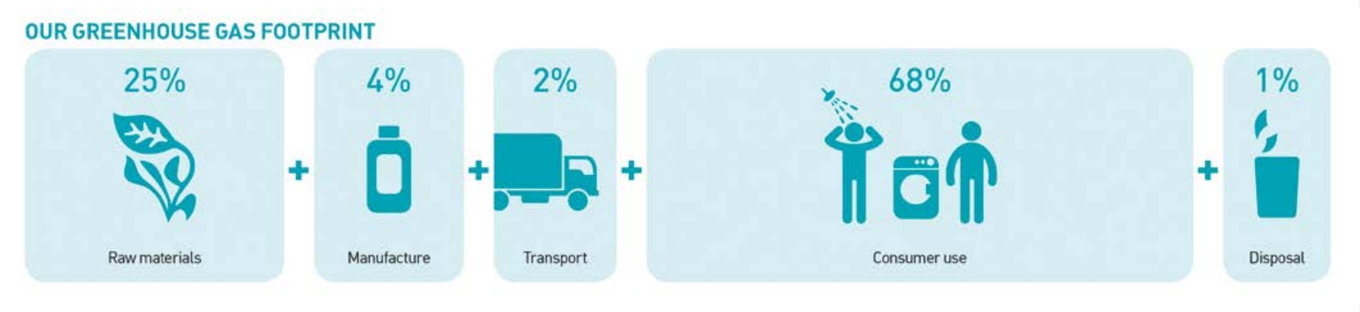
The challenge is to find the 'consumer sweetspot': the area where sustainability benefits overlap consumer benefits. People buy brands for the direct benefits that they provide, not for their lack of environmental impact per se. Unilever needs to find the win/win/win: a product with an excellent direct benefit, that also has a positive environmental impact and makes good business sense for its business and retail customers. For example, fabric conditioners that require less water for rinsing, enable people in water scarce areas to access the softening and fragrance benefits of fabric conditioner, use less water and develop the market for Unilever and its retail customers.

"The Unilever Sustainable Living Plan asks for systemic, transformational and behavioural change. In partnership with a variety of organisations, we want to inspire consumers to choose more sustainable products and adopt more sustainable habits when they cook, clean and wash with our products."

Paul Polman
CEO of Unilever

Even when innovative solutions are found to produce products with lower amounts of salt or sugar, many consumers add this themselves in order to compensate. This is why it needs to make sure that the benefit of any innovation is a positive message, an additional benefit for consumers, not demanding them to give up on what they prefer but creating new preferences. Investing in understanding and education to enable behaviour change is also critical, so that the innovation can be the tool that encourages people to change. The Unilever Five Levers for sustainable behaviour change is a simple model developed from a vast body of sustainable behaviour change research and practical application that is used extensively by the brands in driving the adoption of more sustainable choices.

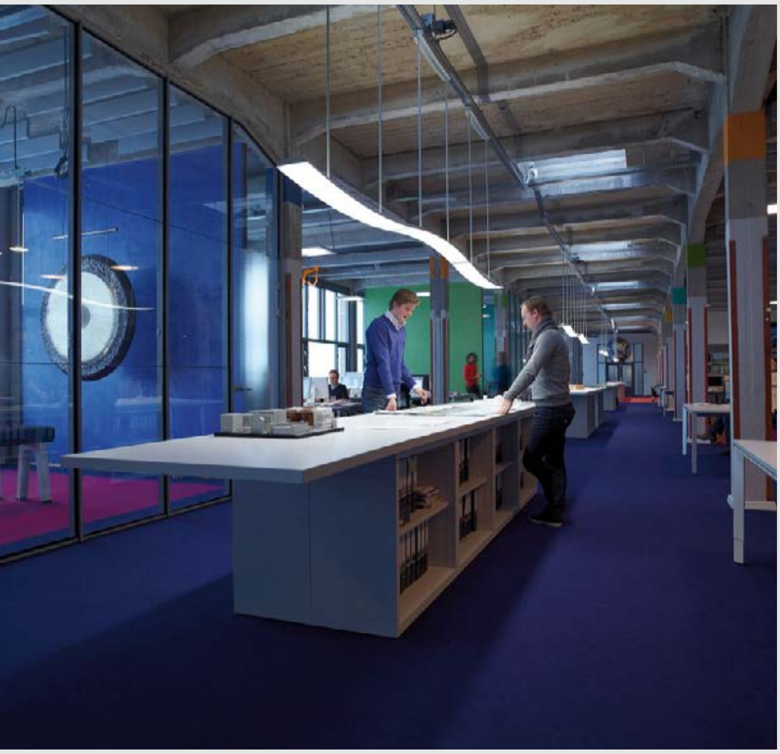
On a different note, some changes in consumer behaviour require structural adjustments to be made to the (policy) environment outside Unilever's scope of influence. The company's Global Advocacy team works on creating the right policy environment. For example, in order for consumer recycling initiatives to work, recycling infrastructure must be in place.



Philips – Scope of value chain governance

Description

Two Philips projects demonstrate an extension of the scope of value governance with respect to customers and consumers. Working in partnership with a firm of architects, Philips turned lighting into a new performance-based concept, "Pay per Lux", as part of which the user - not the customer - only pays for the actual amount of light used, rather than owning the lighting equipment. Philips remains the contractor of the lighting installation, energy bills and products. At the end of the contract period, Philips recycles the lighting components back into the production process. The user thus benefits from new innovations that encourage further energy use reduction. Another project, supported by the Mexican government and executed in partnership with Eneco Energy Trade and ING Wholesale Banking, is Luz Verde in Mexico. As part of this project, Philips distributed 30 million Compact Fluorescent Light lamps to Mexican households, which are then able to reduce their energy consumption and increase their purchasing power. The project will reduce CO_2 emissions by more than 7 million tons in 10 years' time. The CO_2 emission reductions will be traded on the market through carbon credits (i.e. the UN Clean Development Mechanism), which, in turn, finances the lamps.



Added value

"Pay per Lux" is a turnkey solution, with Philips assuming the role of a service provider. The solution will improve supply chain sustainability and support Philips' goal of doubling the used products collection rate. The Luz Verde project improves people's lives, which can only be done in a healthy ecological context. As is generally the case in circular economy business models, the relationship with the customer changes, particularly in the business-to-business environment where ownership gradually changes into usership. The healthcare business, in which Philips has had a long-lasting remanufacturing and refurbishment position, is witnessing its transition from an equipment to a solution provider using business models such as "pay per scan".

Challenges

In terms of stakeholder governance, a challenge presenting itself is the fact that consumers and certain product categories will enter into a long-lasting relationship with a brand - through reparability, product return and upgrades or change of behaviour towards more collaborative product use. Business to business will move towards more consultative selling of solutions and services, whereby a (third) party can take up the investments. This relates to another challenge concerning total cost of ownership. Since circular services and products cover the complete value chain, investments are sometimes made by a different party than the one receiving the revenues. To achieve equal value distribution, financial models and contracts need to accommodate such reorganisation of the value chain. A final challenge relates to shipments of spare parts and secondary raw materials; in some cases, current legislation prohibits the transport of materials, including spare parts, from one country to another.

"The transition from a linear to a circular economy is a necessary condition for Philips to make the world healthier and more sustainable through innovation. A circular economy requires innovation in the areas of material, component and product reuse, as well as related business models. Through more effective use of materials, economic growth will eventually be decoupled from the use of natural resources and ecosystems. In such an economy, the lower use of raw materials allows Philips to create more value."

Frans van Houten
CEO of Philips

The traditional transaction between a company and its customers is one of selling a product or service. However, having access to the functionality of a product is gradually becoming more important than owning a product. This is one of the key questions that have emerged in the uptake of the circular economy, where all materials are recycled into the same or a different product, without compromising quality. Product ownership shifts from consumer to producer, as well as end-of-life treatment. The Philips case on the previous pages elaborates on the work of Philips regarding the "pay per lux" business model, requiring a completely different type of consumer transaction (focusing on services and access rather than sale of products) and governance relationships with various third parties.

Triangulating phases for each dimension

Integrating sustainability into corporate governance and leadership is a gradual process. Each of the eight dimensions can be in a different phase. For example, a company may be in an advanced phase in the dimension of integrating sustainability into codes of conduct and company values, without having advanced in the area of integrating sustainability into company reporting. In general, however, organisations tend to mature similarly across dimensions as they move from one phase to the next.

As explained and illustrated in this chapter, each dimension has three progressive maturity levels or phases that can be distinguished. For companies that are only starting to integrate sustainability into the core of their strategy, business model and organisation, the first phase of some dimensions may already be relatively advanced. For example, 'Non-executive director oversight' (dimension 2) and linking 'Long-term incentives' to sustainability (dimension 4) requires companies to have a clear set of overall corporate priorities and targets that already include sustainability components. Without targets, non-executive directors have no basis to hold the Executive Board accountable. Similarly, without clear parameters and KPIs, holding employees accountable for progress in the area of sustainability goals as part of their performance measurement would be ambiguous.
In other words, embedding sustainability into corporate governance must serve to anchor a sustainable growth business model and clearly defined vision and plan including targets - not the other way around. The first dimension – 'Tone at the top and Executive Board commitment' can thus be considered a prerequisite for the other dimensions to develop and mature.

5 Conclusions and recommendations

In conclusion, three overarching key recommendations for business leaders overseeing sustainable growth strategies must be highlighted. These are key conditions for building, gaining and retaining momentum for sustainable growth.

- **Merge sustainability and overall corporate strategy, build an integrated mindset.**

  Frequently, CEOs leading the sustainability agenda find themselves in a struggle to harmonise two parallel agendas: the sustainability strategy and the corporate strategy. If the two remain separate, none of the eight dimensions demonstrated in this publication can be governed effectively. Having a "schizophrenic" governance model frustrates and confuses stakeholders, especially employees, who need clarity around the company's focus and priorities in their day-to-day work. Having an integrated sustainability mindset is key. This "mindset" can be defined as "a collectively held view that long-term value creation requires the company to embrace the risks and opportunities of sustainable development; and that the board is simultaneously a mentor and monitor, a steward and an auditor, of management's commitment to corporate responsibility and sustainability" (Grayson and Kakabadse, 2013). Develop concrete guidance for action and decision-making: both small and large, and both local (at operational level) and global (at headquarter level).

- **Rethink and rephrase company goals**

  Make sure this integrated mindset is not only articulated and understood at group corporate level at the headquarters. Rethink and rephrase your strategic and operational goals and involve employees and managers at other levels – and from diverse (cultural) backgrounds - in defining local operational goals. In doing so, it is also important to use the results of stakeholder dialogues as input, both at corporate and local levels. As the current global challenges require a long-term view, rethink the company's mission and business model and define where the company needs to be in 20-30 years' time and what goals and actions are needed to achieve this. As market conditions continue to change, this cannot be a status-quo exercise that is carried out every 5-10 years. It requires a continuous reflection in which good and critical governance is key. This keeps the organisation sharp and flexible, enabling it to respond in time to new market conditions and changing stakeholder interests. The DSGC company overviews in Appendix 1 include examples of how to integrate sustainability into strategic goals.

- **Don't wait for laws, regulations or a level playing field, but be proactive in designing governance needed to support sustainable business growth**
  Each of the dimensions on leadership and corporate governance that we identified in chapter 4 goes beyond what is required by law. Refraining from taking any action on most of them - at this point in time - does not have any legal consequences. Some business leaders therefore may conclude it is best to wait until a level playing field is created (for example, in the area of assuming responsibilities, or in relation to reporting) or for national laws to emerge on social and environmental standards. Despite corporate governance codes and international organisations, both businesses and governments currently lack a global institution that enforces this level playing field. In addition, it is nearly impossible to incorporate corporate governance (or a reorientation therein) into laws and regulations, other than at the level of principles. Each organisation has its own unique business model to achieve sustainable business growth and method as to how leadership and corporate governance can best be empowered to support this. Each of the eight dimensions (as laid down in chapter 4) needs to be advanced at company level. Companies must proactively define how each of the eight dimensions can be designed, executed and monitored within their own organisations. Business leaders can and should further promote the relevance of corporate governance in relation to sustainable growth within their own circles of influence. Where possible and necessary, this should be done in *collaboration* with competitors, customers, suppliers and other stakeholders.

Integrating sustainability into traditional corporate governance structures and leadership approach is a gradual process. Without this integration, there is a risk of sustainable growth strategies becoming ad hoc in nature and too dependent on individual executives. It is the combination of leadership and strong corporate governance that forms the foundation for achieving sustainable business growth. In addition, the continuous internal and external stakeholder dialogue strengthens the identification of potential changes needed in the route to sustainable business growth. Global environmental and social challenges cannot be solved if they are not consistently prioritised and addressed by the business sector. The explanations and illustrations in this publication have provided further insight into this transformational journey.

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Appendix 1:

Company Overviews

AkzoNobel

In a nutshell
AkzoNobel is a leading global paints and coatings company and a major producer of specialty chemicals. The company operates in more than 80 countries and supplies industries and consumers with innovative products and services.

Vision, mission and strategy

- **Vision:** Delivering leading performance by building on our leading market positions in paints, coatings and specialty chemicals.
- **Strategy:** To achieve its vision, AkzoNobel has a strong focus on four key end-user segments. This focus enables the company to get closer to its customers and be much more responsive to the dynamics of the markets in which it operates. A common feature in these segments is that resource scarcity (energy and raw materials) will drive major changes. Achieving longer-term business success for AkzoNobel and its business partners relies on the ability to get the greatest positive impact out of products and services, from the fewest resources possible. This will contribute to cost savings and will generate revenue growth for AkzoNobel and for its business partners across the entire value chain.
- **Sustainability / C(S)R components in overall strategy:** Three of the six strategic ambitions of AkzoNobel include specific sustainability targets, for example, an increase in revenue from eco-premium solutions (products with less ecological impact), reduction of carbon equivalent emissions through the full value chain and resource efficiency improvements across the full value chain.

Specific targets
AkzoNobel has formulated its Strategy 2020. Key elements are set out below.

1. Sustainable business solutions: increase revenue from downstream eco-premium solutions (that generate direct resource and energy benefits for customers, consumers and end-users) to 20% of total revenue by 2020.
2. Resource efficiency: substantial reduction of carbon emissions through the cradle-to-grave value chain of 25-30% per ton by 2020 (2012 base).
3. Report on the Resource Efficiency Index as of 2014. This index measures how resource efficiency is improved across the full value chain, compared with the Gross Margin generated.
4. Capable engaged people: sustainability is an integral part of business and culture in all parts of the organisation; suppliers and customers are fully engaged in developing innovative, sustainable solutions.

Governance structure

- **Executive Directors:** AkzoNobel's Sustainability Council is chaired by the CEO and includes Executive Committee representatives, business unit Managing Directors and corporate staff directors. The Council advises the Executive Committee on strategy development, monitors the integration of sustainability into management processes and oversees the company's sustainability targets and overall performance.
- **Leading governance body:** The Corporate Director for Sustainability and HSE reports directly to the CEO. This function leads a small team, including an expert group focusing on life cycle and sustainability assessments.
- **Non-Executive Directors:** The Supervisory Board reviews progress on sustainability strategy biannually.

Transparency and reporting
AkzoNobel has self-assessed its Integrated Annual Report 2012. This report fulfils the requirements of Application Level B+. The Dutch Henri Sijthoff Prize for the best integrated Annual Report in the Netherlands in the AEX companies' category (reporting year 2010) was awarded to AkzoNobel. The company was the Chemicals Super Sector Leader in the 2013 Dow Jones Sustainability Index, in which it has had a Top 2 position for nine consecutive years.

DSM

In a nutshell

Royal DSM is a global science-based company active in the health, nutrition and materials industry. By connecting its unique competences in Life Sciences and Materials Sciences, DSM is driving economic prosperity, environmental progress and social advances to create sustainable value for all stakeholders.

Vision, mission and strategy

- **Mission:** DSM's mission is to create brighter lives for people today and for generations to come. The company connects its unique competences in Life Sciences and Materials Sciences to create solutions that nourish, protect and improve performance.
- **Strategy:** DSM has identified four strategic growth drivers: High-Growth Economies, Innovation, Sustainability and Acquisitions & Partnerships. With regard to Sustainability, DSM focuses on developing and providing products and services that have better ecological performance over the life cycle (Eco+) and a more positive impact on people (People+) than competing products and services. This strategy drives DSM's innovation. The 'One DSM Culture Agenda' further embeds sustainability into the organisation. This programme aims to connect business organisations, regional organisations, functional excellence groups and shared services and is geared towards speeding up execution to support this sustainable growth strategy.
  The change agenda focuses on building visible, inspirational leadership to guide DSM's mission and strategy.
- **Sustainability / C(S)R components in overall strategy:** Two of DSM's seven growth targets include sustainability and concern an increase in innovation-related revenue and revenue in Emerging Business Areas (including biomedical, bio-based products and services, and advanced surfaces).

Specific targets

DSM has formulated specific Sustainability aspirations for the period 2011-2015:

- Dow Jones Sustainability Index Top ranking ("Gold")
- ECO+ (innovation pipeline), at least 80% of the pipeline being ECO+
- ECO+ (running business) from 34% to 50%
- Energy efficiency: 20% improvement between 2008 and 2020
- Greenhouse gas emissions: 25% reduction between 2008 and 2020
- Employee Engagement Survey: towards High Performance Norm
- Diversity and People+ programme, a strategy for measurably improving people's lives

Governance structure

- **Executive Directors:** The CEO and Chairman of the Managing Board is the primary point of contact for sustainability. The entire Managing Board involved in sustainability, with individual members chairing specific sustainability projects or areas.
- **Leading governance body:** Sustainability is organised in a functional network. This network is supported by the Corporate Sustainable Development department, which reports to the Company Secretary (Senior Vice President of Corporate Affairs). The latter, in turn, reports directly to the CEO and Chairman of the Managing Board.
- **Non-Executive Directors:** The Supervisory Board is structured in four sub-committees; one of which is the Corporate Social Responsibility Committee.

Transparency and reporting

DSM publishes an integrated report with GRI A+ status (self-declared). DSM received a special transparency award from the Dutch Ministry of Economic Affairs (Transparency Benchmark) for the quality of its integrated report 2012. Since 2004 DSM has four times ranked among the very top leaders in the sector and has six times held the worldwide sustainability leader position in the Materials industry group (previously named Chemicals supersector).

FrieslandCampina

In a nutshell

Every day Royal FrieslandCampina provides around 1 billion people all over the world with food that is rich in valuable nutrients. With annual revenues of over 10 billion euro, FrieslandCampina is one of the world's five largest dairy companies. FrieslandCampina supplies consumer products such as dairy-based beverages, infant & toddler nutrition, cheese, butter, cream and desserts. Products are also supplied to restaurants, bakeries and catering companies. FrieslandCampina supplies ingredients and half-finished products to manufacturers of infant & toddler nutrition, the food industry and the pharmaceutical sector around the world. FrieslandCampina has offices in 28 countries and employs a total of 19,946 people. FrieslandCampina's products find their way to more than 100 countries. FrieslandCampina N.V. is fully owned by Zuivelcoöperatie FrieslandCampina U.A.

Vision, mission and strategy

- **Mission:** FrieslandCampina's ambition is to offer people essential nutrients through natural dairy products and, at the same time, being the most attractive dairy company to the cooperative's member dairy farmers.
- **Strategy:** FrieslandCampina has formulated a 'route2020 strategy' to achieve growth of the company and maximise the value of all the milk produced by the Cooperative's member dairy farmers. FrieslandCampina strives to achieve the foreseen growth of its activities in a climate-neutral manner throughout the entire chain from cow to consumer. The company wants to achieve this by working together with the member dairy farmers and chain partners on improving energy efficiency, reducing greenhouse gas emissions and stimulating the production of sustainable energy on dairy farms.
- **Sustainability / C(S)R components in overall strategy:** Two of the five strategic goals of FrieslandCampina involve areas related to sustainability: halving the number of job-related accidents within five years, and climate neutral growth throughout the entire chain.

Specific targets

The company's Corporate Social Responsibility strategy focuses on four priority areas:

1. Nutrition & Health: reduce the sugar, salt and fat contents of FrieslandCampina products; develop a company standard for labelling and consumer information; help combat undernourishment; and reach ten million children a year with effective information on healthy nutrition.
2. Efficient and sustainable production chains: reduce energy, water usage and waste water by 20% per kilo by 2020 (compared with 2010); 100% consumption of green electricity by 2020; and sustainable production of all raw materials purchased.
3. Dairy development in Asia and Africa: align dairy farms run by local dairy farmers with FrieslandCampina's worldwide Foqus planet quality standard; raise the annual family income of dairy farmers to well above the UN-specified poverty threshold; and increase productivity per cow in South-East Asia and Nigeria by 50% compared with 2011.
4. Sustainable dairy farming: facilitate the climate-neutral growth of FrieslandCampina through the introduction of measures on member dairy farms; maintain the current level of meadow grazing on 75-80% of member dairy farms; improve the health and welfare of livestock on member dairy farms; and stimulate biodiversity.

Governance structure

- **Executive Directors:** The Corporate Social Responsibility (CSR) Board is chaired by the Chief Executive Officer.
- **Leading governance body:** The Corporate Sustainability Department and the CSR Board are responsible for the CSR policy. The latter consists of Directors and Managers of HR, Cooperative affairs, a regional director for Benelux, marketing, communications & sustainability, etc. Both entities are responsible for informing the Executive Board and the management of the business groups and operating companies. CSR is implemented throughout the entire organisation by the CSR Governance Board, the sustainability coordination team and four implementation teams.
- **Non-Executive Directors:** One member of the Supervisory Board is also a member of the CSR Board.

Transparency and reporting

FrieslandCampina publishes a CSR Report with GRI B status (self-declared).

Heineken

In a nutshell

Established in 1864 by the Heineken family, HEINEKEN has a long history and heritage as an independent global brewer. HEINEKEN brews quality beers and builds award-winning brands. Its portfolio comprises a total of over 250 international, regional, local and specialty beers and ciders. HEINEKEN is the world's most international brewer - the Heineken® brand is present in almost every country around the globe and over 165 breweries have 85,000 employees in more than 70 countries.

Vision, mission and strategy

- **Mission:** HEINEKEN values passion for quality, enjoyment of life, respect for people and respect for our planet. HEINEKEN wants to win in all markets, operating the Heineken® brand and a full brand portfolio in the markets of its choice.
- **Strategy:** HEINEKEN is driven by six business priorities: 1. grow the Heineken® brand; 2. consumer-inspired, customer-oriented and brand-led; 3. capture the opportunities in emerging markets; 4. leverage the benefits of HEINEKEN's global scale; 5. drive personal leadership; 6. embed and integrate sustainability.
- **Sustainability / C(S)R components in overall strategy:** Sustainability is an integral part of the company's strategy alongside other commercial and business imperatives. For example, HEINEKEN tests all new innovations against sustainability criteria using an EcoDesign methodology. HEINEKEN is rolling out energy and water saving best practices in all markets, combined with specific local targets for each operating company. In emerging markets HEINEKEN has committed to sourcing 60% of raw materials in Africa by 2020, leveraging public-private partnerships to work with smallholder farmers in improving their practices, yields and family income.

Specific sustainability targets

HEINEKEN's "Brewing a Better Future" strategy focuses on four areas:

1. Protecting water resources: Reduce specific water consumption in the breweries by 25% and compensate/balance water used by production units in water-scarce and distressed areas.
2. Reducing CO_2 emissions: Reduce CO_2 emissions in production by 40%, reduce the CO_2 emissions of fridges by 50% and reduce CO_2 emissions in distribution by 20% in Europe and the Americas.
3. Sourcing sustainably: Procure at least 50% of main raw materials from sustainable sources, procure 60% of raw materials in Africa through local sourcing and ensure ongoing compliance with the Supplier Code Procedure.
4. Advocating responsible consumption: Make responsible consumption aspirational by leveraging the Heineken® brand, ensure that every market in scope has a measurable partnership in place, aimed at addressing alcohol abuse, and reports publicly on it, and deliver global industry commitments.

Governance structure

- **Executive directors:** The CEO chairs the Corporate Affairs Committee, which is the steering body for CSR strategy and projects. Other executives in that committee are the Chief Corporate Relations Officer, the Regional President Americas, the Chief Supply Chain Officer, the Chief Commercial Officer and Regional President Western Europe.
- **Leading governance body:** On a daily basis, CSR is governed by a team of representatives from the Supply Chain, Commerce, HR, Corporate Relations and Procurement functions. The team is chaired by the Manager Global Sustainable Development. Progress is a recurring item on the Executive Committee's agenda and that of every management team in HEINEKEN's operating companies. Specific three-year plans have been developed for each market, aimed at achieving the "Brewing a Better Future" goals.
- **Non-executive directors:** In compliance with the Dutch Corporate Governance Code, the Supervisory Board discusses sustainability at least once a year.

Transparency and reporting

HEINEKEN publishes a sustainability report, fulfilling the requirements of GRI Application Level B+. In 2012, sustainability reports were issued by 33 key markets for local stakeholders. The company aims for all its operating companies to issue their own local sustainability reports by 2015. In 2012, HEINEKEN participated in the Investors Carbon Disclosure Project (CDP), achieving a disclosure score of 88 points, which is a B performance rating. Overall, this resulted in a ranking in the CDP Benelux Leadership Index. HEINEKEN leads its industry sector.

KLM

In a nutshell
AIR FRANCE KLM is a global leader in air transport and comprises a single holding company and two airlines, Air France and KLM, each of which retains its own brand and identity. Its three main businesses are passenger transport, cargo transport and aviation maintenance services.

Vision, mission and strategy

- **Vision:** KLM wishes to be at the front of the industry. After merging with Air France, KLM nowadays occupies a leading position in the international airline industry. KLM wants to be the customers' airline of choice, an attractive employer and a company that grows profitably for its shareholders.
- **Mission:** KLM strives to achieve profitable growth contributing to both its own corporate aims and to economic and social development.
- **Strategy:** AIR FRANCE KLM launched the 'Transform 2015 plan', a three-year transformation plan (2012-2014) to achieve cost reductions, regain competitiveness and ensure that its products and customer services are leading worldwide. The plan applies to all of the Group's businesses: passenger transportation, cargo transportation and aeronautics maintenance. The Group will further invest in offering innovative products and services which are adapted to evolving customer needs. The plan involves the development of strategic partnerships and further extends the company's long-distance network. It also includes a sustainable development policy based on respect of its commitments to environmental advances and social progress. By implementing new working conditions and action plans, the Group's employees can play their part in achieving the transformation.
- **Sustainability / C(S)R components in overall strategy:** The sustainability policy as part of overall strategy focuses on four CSR key issues and is integrated into the company's decision-making process and execution.

Specific targets
AIR FRANCE KLM works on four key CSR issues:

1. Environment: create a sustainable balance between aviation growth and environmental footprint reduction by mobilising the airline industry, innovating in the supply chain and reducing impact. Through the "Climate Action Plan" the company has set specific targets to minimise its environmental impact in the fields of CO2, noise, local air quality, waste, energy and water.
2. Customers: increase customer satisfaction; improve service quality for customers; continue to integrate CSR into products and services; and strengthen the responsible purchasing policy by increasing the sign-up rate for CSR Supplier Charters and the number of CSR audits.
3. Employees: stimulate employability through mobility; facilitate training and personal development; aim to reach zero workplace accidents; decrease the absenteeism rate; support diversity; and increase flexibility.
4. Contribute to local development; continue long-term dialogue with local stakeholders; promote economic development at destinations; maintain a strong commitment to development projects.

Governance structure

- **Executive Directors:** CSR management is guaranteed at Board level.
- **Leading governance body:** The CSR department is responsible for policy and deployment in the organisation, from senior management priorities to implementation through unit action plans. A CSR Council has been established At KLM Executive level, which meets every quarter. This Council, which is made up of several executives and senior managers, advises the Board of Directors and Executive Committee on CSR policy.
- **Non-Executive Directors:** The Supervisory Board, alongside the Board of Directors, approves the strategic orientation and CSR policy and ensures implementation.

Transparency and reporting
AIR FRANCE KLM publishes a CSR report with GRI A-status (GRI checked). Dow Jones Sustainability Index: No.1 in the airline sector for eight consecutive years; and Supersector leader in the The Dow Jones Sustainability Index has ranked Air France-KLM leader of the Airlines industry for the ninth consecutive year in 2013. For the fifth year running, Air France-KLM is ranked leader of the broader "Transport" category, covering air, rail, sea and road transport as well as airport activities.

Philips

PHILIPS

In a nutshell

Royal Philips is a diversified Health and Well-being company, which focuses on improving people's lives through timely innovations. As a world leader in healthcare, lifestyle and lighting, Philips integrates technologies and design into people-centric solutions based on fundamental customer insights.

Vision, mission and strategy

- **Vision:** Philips strives to make the world healthier and more sustainable through innovation. Its goal is to improve the lives of 3 billion people a year by 2025. Philips wants to be the best place to work for people who share its passion. Together they will deliver superior value to its customers and shareholders.
- **Strategy:** Philips' strategy is to strengthen its existing leadership positions while expanding promising businesses to become leaders in the healthcare, lighting and consumer lifestyle markets. This strategy is supported by a continued focus on emerging markets and a commitment to being a leading company in matters of sustainability.
- **Sustainability / C(S)R components in overall strategy:** Philips takes a two-dimensional approach – social and ecological – to improving people's lives. The social dimension consists of products and solutions that directly support the curative (care) or preventive (well-being) side of people's health. The ecological dimension is determined by the company's Green Product portfolio, such as our energy-efficient lighting, in order to realise healthy ecosystems that are needed for people to live a healthy life.

Specific targets

Philips' EcoVision programme has three goals:

1. Improving people's lives: 2 billion lives a year by 2015; 3 billion lives by 2025.
2. Improving energy efficiency of Philips products: 50% improvement for the average total product portfolio compared with 2009.
3. Closing the materials loop: Double global collection, recycling amounts and recycled materials in products compared with 2009.

Governance structure

- **Executive Directors:** The Philips Executive Committee is advised by the Sustainability Board that meets quarterly. This is chaired by the Chief Strategy and Innovation Officer, Executive Vice-President and a member of the Executive Committee, who has overall responsibility. Other members of the Board include three other members of the Executive Committee, sector executives and the global head of Group Sustainability.
- **Leading governance body:** The global head of Group Sustainability reports to the chair of the Sustainability Board. Group Sustainability is responsible for trend analysis, strategy, policy and action plan development, as well as internal and external reporting, and has a cross-functional leadership role for the global sustainability network in sectors, functions and markets.
- **Non-Executive Directors:** The Supervisory Board reviews the sustainability programme annually.

Transparency and reporting

Philips publishes an integrated report with GRI status A+ level (self-declared), providing reasonable assurance for all reported results (including both financial and non-financial information). The company uses dedicated reporting tools on the various Ecovision targets. In the Dow Jones Sustainability Index, Philips was Super Sector Leader in the Personal and Houshold Goods category for the second consecutive year in 2012. In 2013, Philips was included in the Industrial Conglomerates category. The new classification better reflects the company's diversified industrial portfolio.

Shell

In a nutshell

Shell is a global group of energy and petrochemical companies employing 87,000 people in more than 70 countries. Its aim is to help meet the energy needs of society in ways that are economically, environmentally and socially responsible.

Vision, mission and strategy

- **Mission:** The objectives of the Shell group are to engage efficiently, responsibly and profitably in oil, oil products, gas, chemicals and other selected businesses and to participate in the search for and development of other sources of energy to meet evolving customer needs and the world's growing demand for energy in a responsible way.
- **Strategy:** Shell wants to be/remain a competitive and innovative company by focusing on three themes:
  1. The upstream and downstream businesses, which generate cash from existing assets. These are mature businesses and Shell only makes selective investments in growth markets.
  2. Shell's growth agenda centres around integrated gas, deep water and resources plays such as shale oil and shale gas.
  3. Future opportunities include the Arctic, Iraq, Kazakhstan, Nigeria, and heavy oil, where large reserves are housed.
- **Sustainability / C(S)R components in overall strategy:** Meeting the growing demand for energy worldwide in ways that minimise environmental and social impact is a major challenge for the global energy industry. Shell aims to improve energy efficiency in its own operations by supporting customers in managing their energy demands and by researching and developing technologies that increase efficiency and reduce emissions in liquids and natural gas production. Shell believes fossil fuels will continue to provide the bulk of energy supply, while cleaner-burning natural gas will play an increasingly greater role as a complementary to wind and solar energy. Renewable energy, including low-carbon biofuels for transport, will also increase steadily.

Specific sustainability targets

Shell sets objectives and targets within its individual business units as the most effective way to drive sustainability performance improvements across the company. The company strives for continuous improvement in all activities. Sustainability measures account for 20% of the company's annual performance scorecard. Shell aims to have zero fatalities or leaks, and no incidents that harm people. These targets form its Goal Zero approach. Shell integrates human rights into the Shell General Business Principles and Code of Conduct, which govern the way the company does business worldwide.

Governance structure

- **Executive Directors:** The Chief Executive Officer (CEO) and the Executive Committee hold overall accountability for sustainable development. They set priorities and standards in sustainable development that shape business activities.
- **Leading governance body:** The CEO chairs the Health, Safety, Security, Environment and Social Performance (HSSE & SP) Executive, which reviews and assesses how sustainability performance is managed. Each business is responsible for complying with environmental and social requirements and achieving specific targets.
- **Non-Executive Directors:** Shell's Corporate and Social Responsibility Committee assesses the company's policies and performance with respect to its Business Principles (which include sustainable development), Code of Conduct and HSSE (Health, Safety, Security & Environment) & SP (Social Performance) standards. The Committee consists of four non-executive Directors and meets quarterly.

Transparency and reporting

Shell publishes a sustainability report with GRI A+ status (GRI-checked).
The company has reported voluntarily on its environmental and social performance since 1997. Reporting is in accordance with oil and gas industry guidelines developed by the International Petroleum Industry Environmental Conservation Association (IPIECA), the American Petroleum Institute (API) and the International Association of Oil & Gas Producers (OGP).

Unilever

In a nutshell
Unilever is one of the world's leading suppliers of fast-moving consumer goods with operations in over 100 countries and sales in 190 countries.

Vision, mission and strategy

- **Mission:** Unilever works to create a better future every day, with brands and services that help people feel good, look good, and get more out of life. The company wishes to lead for responsible growth and inspire people to take small everyday actions that will add up to a big difference. Unilever plans to develop new ways of doing business that will allow it to double in size, while reducing its environmental footprint and increasing its positive social impact.
- **Strategy:** 'The Compass' is Unilever's strategy for sustainable growth. Embedded in its 'Unilever Sustainable Living Plan (USLP)', Unilever has three goals to achieve by 2020:
  1. Help more than 1 billion people improve their health and well-being;
  2. Halve the environmental footprint of Unilever's products;
  3. Source 100% of the company's agricultural raw materials sustainably and enhance the livelihoods of people across its value chain.
- **Sustainability / C(S)R components in overall strategy:** These goals are supported by seven commitments. For more details on these commitments please refer to the next textbox.

Specific sustainability targets
Each of the seven commitments for 2020 is underpinned by specific targets:

1. Health & Hygiene: Help more than a billion people to improve their hygiene habits and bring safe drinking water to 500 million people.
2. Nutrition: Double the proportion of our portfolio that meets the highest nutritional standards, based on globally recognised dietary guidelines.
3. Greenhouse Gases: Halve the greenhouse gas impact of our products across the life cycle.
4. Water: Halve the water associated with the consumer use of our products.
5. Waste: Halve the waste associated with the disposal of our products.
6. Sustainable Sourcing: Source 100% of our agricultural raw materials sustainably.
7. Better Livelihoods: Engage with at least 500,000 smallholder farmers and 75,000 small-scale distributors in our supply network.

Governance structure

- **Executive Directors:** The USLP is the full responsibility of the Unilever Leadership Executive (ULE). The Chief Executive Officer leads the ULE's quarterly monitoring of progress against targets and is in charge of strategic direction setting. The USLP Steering Team is led by the Chief Marketing & Communication Officer and consists of the leaders of the categories (ULE members), R&D (ULE member), procurement, the Chief Sustainability Officer and representatives from finance, HR, legal, customer development and communications.
- **Leading governance body:** A Chief Sustainability Officer (Senior Vice President), supported by a central Sustainable Business team, supports the USLP Steering Team.
- **Non-Executive Directors:** Unilever's Corporate Responsibility Committee comprises three of the Board's non-executive directors. It oversees Unilever's role as a corporate citizen and reviews progress. As part of its remit to review risk, the Board's Audit Committee oversees the independent assurance programme of the USLP. In addition, the Unilever Sustainable Development Group of external corporate responsibility and sustainability specialists advises on the USLP.

Transparency and reporting
Unilever issues progress reports on the milestones as set out in its Unilever Sustainable Living Plan. The second report, the Unilever Sustainable Living Plan Progress Report 2012, was published in April 2013, with GRI status B+. Dow Jones Sustainability Index: in 2012, it was the leader in the Food Producers sector for the fourteenth time. In 2013, Unilever remained among the top leaders of this sector.

Appendix 2, 3, 4

Appendix 2

Corporate governance: basic principles, OECD (2004)

I. Ensuring the Basis for an Effective Corporate Governance Framework

The corporate governance framework should promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.

II. The Rights of Shareholders and Key Ownership Functions

The corporate governance framework should protect and facilitate the exercise of shareholders' rights.

III. The Equitable Treatment of Shareholders

The corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights.

IV. The Role of Stakeholders in Corporate Governance

The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.

V. Disclosure and Transparency

The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

VI. The Responsibilities of the Board

The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

Appendix 3

OECD Guidelines for Multinational Enterprises: brief overview (2011)

- General Policies: Extensive overview of responsibilities aimed at contributing to economic, environmental and social progress with a view to achieving sustainable development.

- Disclosure: timely and accurate information is disclosed on all material matters regarding their activities, structure, financial situation, performance, ownership and governance. Social, environmental and risk reporting is encouraged.

- Human Rights: Respect human rights, through policy, actions, human rights due diligence.

- Employment and Industrial Relations: Respect the right of workers, the ability to joint trade unions, freedom of choice of representatives, collective bargaining, abolition of child labour, elimination of all forms of forced or compulsory labour, respect equality of opportunity and treatment in employment.

- Environment: protect the environment, public health and safety, and generally to conduct their activities in a manner contributing to the wider goal of sustainable development.

- Combating Bribery, Bribe Solicitation and Extortion: Enterprises should not, directly or indirectly, offer, promise, give, or demand a bribe or other undue advantage to obtain or retain business or other improper advantage.

- Consumer Interests: act in accordance with fair business, marketing and advertising practices and should take all reasonable steps to ensure the quality and reliability of the goods and services that they provide.

- Science and Technology: activities are compatible with the science and technology (S&T) policies and plans of the countries in which they operate and as appropriate contribute to the development of local and national innovative capacity.

- Competition: Refrain from entering into or carrying out anti-competitive agreements among competitors.

- Taxation: contribute to the public finances of host countries by making timely payment of their tax liabilities treat tax governance and tax compliance as important elements of their oversight and broader risk management systems.

Appendix 4

UN Global Compact 10 principles

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

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