Staying competitive in a fast-changing world

Practical steps for future-proofing your business
Business operates in a fast-changing world

Globally, the political landscape is shifting and becoming more unpredictable; technology is changing everything we do; environmental pressures are reaching alarming levels and tensions in society are rising in many parts of the world.

In this context, the purpose of the economy and - within that - the purpose of a company, is being challenged. Focusing solely on profit maximization is no longer acceptable.

Unfortunately, decision-making and disclosure practices have not caught up and often overlook crucial risks, opportunities and value drivers related to environmental, social and governance (ESG) issues and across natural, social and human capital.

As a result, boards sometimes miss material information that’s essential for defining a robust and resilient corporate strategy.

This has to change.

Climate-change; nature-loss and inequality are major challenges for which business will be expected to develop solutions.

This checklist can help your company manage these and other emerging issues in a comprehensive, strategic and proactive way. Read through the steps, then select and adapt the actions that are most appropriate for your company now, and those to plan for in the future.

Here are some tips for staying ahead

Prepare your organization for change by modernizing your corporate governance

Understand your key risks, opportunities, impacts and dependencies in the new global context

Integrate relevant issues into risk management, performance management and decision-making

Build stronger relationships with banks and investors so that you can be fully and adequately rewarded

Tell key stakeholders what you’re doing in a strategic way

Staying competitive in a fast-changing world
1. Prepare your organization for change

A changing world means a new business landscape. In order to thrive, companies need to ensure their governance structures and strategies are aligned with the times.

In any company, the board is responsible for ensuring that strategic direction is aligned with stakeholder interest and that day-to-day business management is conducive to long-term success.

It’s part of a board’s fiduciary duty to make sure it’s managing risks and opportunities across all areas. But, a board cannot reasonably accomplish this if it isn’t addressing expanded impacts, dependencies and risks – like those related to environmental, social and governance (ESG) issues.

ESG considerations apply to all businesses and should be reflected across risk management, performance and strategy.

Keep your board aware of new risks and opportunities

How is your organization managing new risks and opportunities across the changing business landscape?

Are the decision-makers in your company aware of these new risks and opportunities? If not, why not? And if so, how are they responding?

Integrate discussions around sustainability into board meetings and decision-making processes

Integrating ESG topics to board discussions is essential. Are conversations around ESG challenges included in existing board meetings, or do you have a stand-alone committee to discuss these issues?

Include mandates, expertise and incentives for ESG-related risks and opportunities so the board can see how these aspects might impact decision-making, risk management, performance management, budgeting, capital allocation and investment decisions.

Link compensation to sustainability performance

Compensation is one of the most potent levers the board can use to encourage management to act. By aligning executive incentives toward a wider range of priorities and goals – including those related to social and environmental performance - the company can encourage and reward sustainable behavior and spur stronger performance.

Getting started

- Explore the relationship between sustainability and corporate governance.

- Ensure robust internal controls throughout your company by using the latest guidance.

- Engage board members in governance workshops – designed to help boards deal with the new and emerging challenges facing businesses today.
2. Optimize internal decision-making

When executives have reliable and relevant information about their risk and opportunity profiles, they’re more capable of making the decisions that will deliver the product and service innovations necessary for a flourishing society and prosperous business.

Many companies don’t know where to start.

Here are some tips:

☐ **Measure and value impacts and dependencies**

Before the 1990s, 80 percent of a company’s value was found in tangible assets such as plants, property and equipment. Now, up to 80 percent is represented by intangibles — brand, ideas, relationships with nature and society, skills and resources.

It’s in the best interest of companies to truly understand the relationships between their business models and these intangibles because doing so helps lead to better corporate decision-making with positive outcomes for and beyond the company.

☐ **Apply enterprise risk management to ESG-related risks and opportunities**

“Black swan” events are more frequent and severe than ever before.

Ten years ago, the top global risks in terms of impact included only one environmental risk. But today, environmental and social risks account for most of the top risks in terms of impact and likelihood.

Ground-breaking solutions are available to help your company measure and manage these risks and opportunities through strengthened enterprise risk management practices.

☐ **Move toward integrated performance management**

Incorporate the new risks and opportunities you discover into your company’s established performance management processes and functions like budgeting, forecasting, evaluation and appraisal. Make sure they’re also reflected in corporate culture, values and leadership.

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**Getting started**

- Explore, uncover and assess a broader range of your impacts and dependencies using the [Natural Capital Protocol](#) and the [Social & Human Capital Protocol](#).

- You can also use the [NatCap Checker](#) to check the maturity and robustness of your assessment. Implement what you learn across your business strategy and decision-making practices.

- Apply [WBCSD and COSO’s new guidance](#) for applying enterprise risk management to ESG-related risks and opportunities. It’s a step forward for your company in assessing and addressing new exposure to emerging and previously unexpected risk.
3. Tell stakeholders what you’re doing in a strategic way

Corporate reporting provides the bridge between a companies’ performance and the capital markets.

Disclosing your company’s performance on a full range of ESG issues highlights the true value and impact of your business, setting you up to be rewarded if you’re managing risks and opportunities properly.

While the integration of ESG and sustainability-related topics into business is improving, the use of information by markets for capital allocation is still limited. This is partially because much of the ESG and sustainability information provided is not standard, comparable or material. You can help address this.

Focus on what really matters and make a plan

Sometimes, sustainability and ESG reporting tries to be “all things to all people.” It’s important to remember that not all reporting is good reporting, and shorter or more concise is often better – so focus only on what’s material.

Disclose what really matters to you and your key stakeholders and make a plan for your reporting strategy.

Understand what’s out there and what’s expected of you

Since 1992, there’s been more than a ten-fold increase in the number of corporate reporting requirements related to ESG topics. Lack of coordination makes it frustrating, overwhelming and time-consuming for businesses to keep up.

Make sure you understand the requirements your company faces, so you’re aware of what’s expected of you.

Recognize what you do well and what can be better

Reporting on ESG and sustainability issues needs to be more than a “tick-box” exercise.

Learn how the sustainability reporting process can drive change inside your business, while effectively meeting your stakeholders’ needs. Always strive for improvement.

Getting started

- Explore the new ESG Disclosure Handbook and library to understand which ESG and sustainability metrics are the most important for your company.

- Check out the Reporting Exchange to understand regional requirements for what, where, how and when to report – as well as to whom.

- Engage with Reporting matters to understand where your corporate sustainability reporting is strong, where it can be better and where there are opportunities to feed the information you report back into your corporate strategy.
4. Give investors decision-useful information they won’t ignore

Investors use corporate reports to assess a company’s performance and prospects. However, when preparing their reports, companies use dozens of approaches to decide what information they’ll disclose, how, how much, where and why. This can lead to difficulties getting “decision-useful” information into the hands of investors, which means your company may not be appropriately rewarded if you’re not using the information that is robust or trustworthy enough.

How can your company address this?

Getting started

- Explore and implement the latest guidance on ESG Disclosure for information on disclosure questions, dilemmas and decisions to help you develop effective and efficient disclosure practice.

- Follow established disclosure recommendations, like those from the Task Force on Climate-related Financial Disclosures (TCFD) and look at examples effective disclosure practice from the TCFD Preparer Forums.

- Understand investor perspectives on the importance of data quality and credibility as well as assurance.

Strengthen processes for applying judgement with respect to ESG disclosure

Understand how ESG information influences investor decision-making so that your company only discloses relevant information that will help direct capital flows toward your business.

Identify and disclose financial information related to resilience

Investors want to see that your company is resilient and ready for the future. You can show this by clearly describing your plans for strategic business development as the world and business operating context continues to change. Focus on metrics outlining R&D activity, capital allocation, returns and efficiencies.

Provide reasonable assurance on as much information as possible

You wouldn’t submit your financial filings without a comprehensive audit – so why would you disclose ESG information without one?

Independent assurance enhances credibility and trust in the information that companies disclose in their corporate reports. It can increase the confidence that investors have in the information you’re providing and can help support their decision-making.
5. Identify sustainable investment options

Recent research shows that companies who prioritize and invest in ESG enjoy significantly enhanced performance on a variety of key financial metrics, including return on sales, sales growth, return on assets, and return on equity, in addition to improved risk-adjusted shareholder returns.

To ensure you’re keeping up, your company can look into the following.

☐ Make the most of innovative sustainable finance solutions

Seek targeted finance supporting sustainable ambitions.

Through advancements in sustainable investing, companies can lower their cost of debt and enhance returns. Olam, Danone, and Phillips, for example, have all linked ESG performance to loan prices and interest rates in collaboration with ING, BNP Paribas and others.

Aside from lowering their cost of capital, companies who consider ESG risks and opportunities also benefit from better access to financing, customer satisfaction and loyalty and better employee relations.

☐ Align retirement assets with sustainability

The majority of Fortune 1000 companies have not aligned corporate retirement plans with their sustainability commitments, despite the fact that recent studies show the majority of employees would like their companies to do so.

66% of millennials and 67% of women expect their 401(k) plans to offer funds aligned with their company’s sustainability commitments. The rising profile of millennials and female investors is likely to boost pressure for companies’ improved sustainability performance.

Offering these options to employees alongside traditional pension funds has the potential to increase participant engagement and savings rates.

Getting started

• Learn how to develop a responsible retirement plan
• Connect with leading financial institutions to explore sustainable finance products and services
• Implement this checklist to improve corporate governance, internal decision-making, external disclosure, and your relationship with capital market players
The checklist

Prepare your organization for change

☐ Keep your board aware of new risks and opportunities
☐ Integrate discussions around sustainability into board meetings and decision-making processes
☐ Link compensation to sustainability performance

How

• Explore the relationship between sustainability and corporate governance.
• Ensure you have appropriate internal controls and board oversight across your company using the latest guidance.
• Engage board members in our governance efforts – designed to help boards reflect the new and emerging challenges facing businesses today.

Optimize internal decision-making

☐ Measure and value impacts and dependencies
☐ Apply enterprise risk management to ESG risks and opportunities
☐ Move toward integrated performance management

How

• Explore, uncover and assess a broader range of your impacts and dependencies using the Natural Capital Protocol and the Social & Human Capital Protocol.
• You can also use the NatCap Checker to check the maturity and robustness of your assessment. Implement what you learn across your business strategy and decision-making practices.
• Apply COSO’s new ESG guidance. It’s a strong step forward for your company in assessing and addressing new exposure to emerging and previously unexpected risk.

Tell stakeholders what you’re doing in a strategic way

☐ Focus on what really matters and make a plan
☐ Understand what’s out there and what’s expected of you
☐ Recognize what you do well and what can be better

How

• Explore the new ESG Disclosure Handbook to understand which ESG and sustainability metrics are the most important for your company.
• Check out the Reporting Exchange to understand what, where, how, when to report - and to whom.
• Engage with Reporting matters to understand where your corporate sustainability reporting is strong, where it can be better and where there are opportunities to feed the information you report back into your corporate strategy.
Give investors decision-useful information they won’t ignore

- Strengthen processes for applying judgement with respect to ESG disclosure
- Identify and disclose financial information related to resilience
- Provide reasonable assurance on as much information as possible

How

- Explore and implement the latest ESG Disclosure guidance for information on disclosure questions, dilemmas and decisions to help you develop effective and efficient disclosure practice
- Follow established disclosure recommendations, like those from the Task Force on Climate-related Financial Disclosures (TCFD) – look at examples effective disclosure practice from the TCFD Preparer Forums
- Understand investor perspectives on data quality and credibility when you’re choosing how to disclose and which types of assurance to use

Identify sustainable investment options

- Make the most of innovative sustainable finance solutions
- Align retirement assets with sustainability

How

- Learn how to develop a responsible retirement plan
- Connect with leading financial institutions to explore sustainable finance products and services
- Implement this checklist to improve corporate governance, internal decision-making, external disclosure and your relationship with capital market players

Need more guidance?

Get in touch
Rodney Irwin
Managing Director, Redefining Value and Education
redefiningvalue@wbcsd.org

Find out more
www.wbcsd.org/Redefining-Value

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