

DIRECTIONS

SPECIAL EDITION

ACT

WAVE

STRATEGIES

**Sustainability strategy:
no longer sustainable?**

SALTERBAXTER
An MSL Company

Sustainability strategy: no longer sustainable?

The concept of **Active Strategies** describes the range of approaches we see in response to a new emerging reality for sustainability. A shift away from the idea of a static, standalone 'strategy on a page' to a more flexible approach that gives greater emphasis to a company's ability to predict, respond to and shape external events. An approach we feel is now required if companies want to manage risks and move towards their long-term goals against a backdrop of constant change.

During 2019 we will be uncovering a range of different solutions to this important challenge — what we collectively call:

ACTIVE STRATEGIES

Huw Maggs and Kathleen Enright set out the context and thinking behind the idea of **Active Strategies**.



Huw Maggs
Deputy Managing Director



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Companies have always had to adapt to external change, adjusting strategies to course correct back towards long-term goals. But today the frequency, speed and depth at which some companies are having to adapt to rising societal concerns is unprecedented. We expect this pressure to increase as more consumers, employees, and investors – fed by the media and fuelled by an increasingly mainstream activist movement – wake up to the breadth of challenges and the role of business in both their creation and resolution. This emerging reality also presents a unique tension: positioning for long-term resiliency while remaining agile to shifting sands that have the potential to change a company’s or even an industry’s operating environment almost overnight.

We are all familiar with sustainability strategies. Over time we have built a common understanding of what good ones should include. From purposeful visions to Big, Hairy, Audacious Goals (BHAGs), sustainability strategies are designed to set long-term direction, galvanise action and develop clear areas of focus that elevate priority issues above responsible business basics.

Strategic planning requires businesses to concentrate not only on the field of play today, but to consider numerous moves ahead. This has always been a challenge but, as WEF stated in the lead up to Davos in January, the accelerated pace of change is making it virtually impossible to plan ahead.

This is increasingly true for companies when it comes to sustainability. With an ever-growing body of evidence on the societal and market-based implications of global social and environmental challenges, the rising interest of mainstream media, investors and consumers, and frequent bar-raising moves by leading companies the external landscape is changing fast and is harder to predict than ever.

We argue that this changes the game when it comes to strategic planning and calls for new approaches. That’s the basis of what Salterbaxter refers to as Active Strategies.

Underneath this are strategic plans – the roadmaps for each key area of the strategy that shape the specific activities and logical steps that will lead the business from start to finish (or at least part of the way there). These plans often combine short-term targets and KPIs, strategic programmes and partnerships, communication plans, and much needed resources of people, tools and finance.



The accelerated pace of change is making it virtually impossible to plan ahead.

A wake-up call for business



Take single-use plastics. A documentary film aired in December 2017 led to a global backlash with the potential to reduce the average earnings of consumer plastic packaging manufacturers by 14%. We have subsequently seen 250+ packaging producers, brands, retailers and recyclers (representing 20% of all plastic packaging produced globally) sign up to the Ellen MacArthur Foundation's global commitment – with all the implications that has not only on their individual product portfolios but the entire global plastic packaging system.

With David Attenborough and the Blue Planet team's newest documentary series 'Our Planet' – which sets its sights squarely on anthropogenic impacts – released on Netflix across 190 countries, companies need to be braced for more of the same.

Another example would be climate change. According to a report by Arabella Advisors, in 2018, funds committed to fossil fuel divestment totalled \$6.24tn with 1,000 institutional investors making pledges – everyone from pension funds to nation states. Most of this has occurred in the last 3-4 years. The divestment movement has obviously targeted the oil

and gas sector but it's set the tone and built momentum for more widespread action. We've seen new financial reporting standards, Paris-aligned corporate targets, an increased focus on supply chain emissions, growing citizen-led activism, investor coalitions hunting in packs, and much more, just in the space of two years. Companies that benchmarked and developed what they thought were ambitious climate programmes back in 2015 will now find they are no longer fit for purpose.

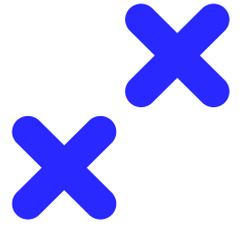
The spark that could light the touch paper on climate change is more mainstream public interest. While the majority of global consumers are concerned about climate change, few up until now have felt empowered to take action in their own lives. That's partly because it's been such a complex and intangible issue. But with last year's heat waves, an increasingly informed youth movement, and a debate that has widened to include far more tangible everyday things like changes to diet, this picture is shifting quickly. And when it comes to mainstream public engagement, plastics may have proved a crossing of the Rubicon that will pave the way for widespread public interest.

As of last year funds committed to fossil fuel divestment totalled

\$6.24tn



Shifting forces



This points to another important signal of what lies ahead. Over the last 10-15 years the corporate sector has, by and large, taken control of the sustainability agenda. Yes, it's come under pressure but often from relatively marginal groups. The public, mainstream investors and policy makers have remained relatively apathetic, until very recently.

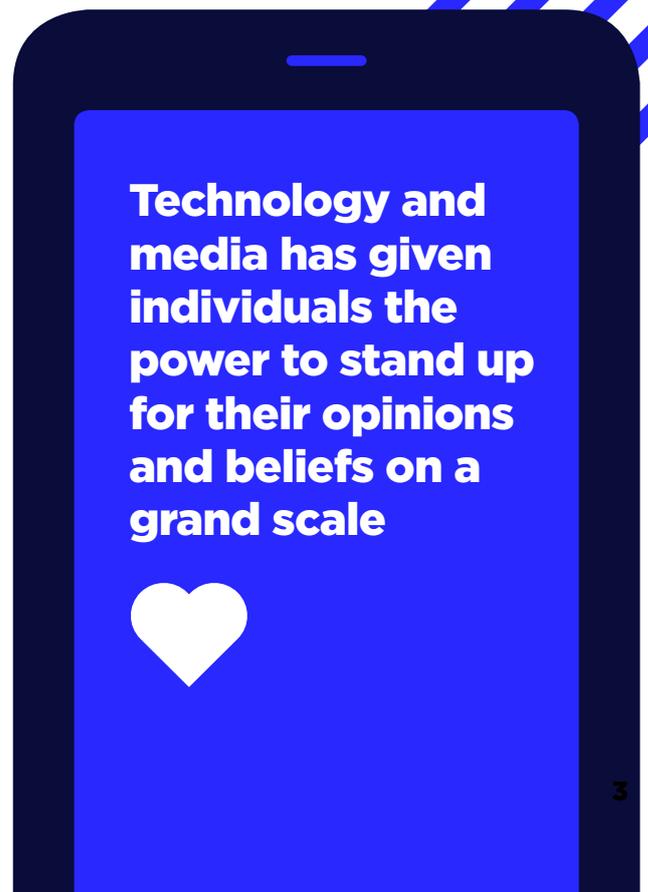
The result is that change has been incremental. The author Gib Bulloch refers to the corporate immune system - the invisible antibodies that seek to snuff out anything that doesn't equate to short-term profit maximisation. In the majority of companies this has tended to trump other forces. And when that's multiplied across the globe that's a powerful resistance to large-scale change.

But there's a sense in the air now, perhaps just in the last two years, that something is changing.

At the centre of this is a powerful new group of young people born after the mid-nineties who by 2020 will account for 40% of global consumers. With the potential to impact more than \$665 billion in family spending, perhaps they will be the catalyst. Big global issues such as climate change, equality, and digital security are much more likely to shape their lives. They are in fact the fabled next generation that we've been talking about

for the last 20 years, and they are coming of age just as technology and media has given individuals the power to stand up for their opinions and beliefs on a grand scale. What's more, Gen Z's opinions and decisions are overwhelmingly shaped by digital and social media.

That's one of the reasons we've seen activism re-manifest as a mainstream movement. In 2018 unprecedented numbers of people took to the streets and to social media. Even employees at multinational firms are now making their voices heard. This has captured the attention of mainstream media creating a feedback loop that has amplified social and environmental issues like never before.



ACT- IVE



STRATEGIES

Change management theorists often talk about 'punctuated equilibrium' - a phrase borrowed from evolutionary biologists studying changes to species over time in fossil records. It describes long periods of stability with fine tuning or adaptation to minor shifts interspersed with short dramatic bursts of fundamental change often as a result of external events.

We would argue that what we are seeing today, when it comes to sustainable business practice, is this on steroids - certainly relative to the last 20 years. Fast-paced change resulting from heightened levels of expectation from civil society and the disruptive influence of leading companies and investors in raising the bar (e.g. what we have seen on climate change), punctuated by broader public and media attention to specific issues, that can be triggered almost anywhere and arrive unannounced to create even bigger shifts in specific industries or on specific issues. The entertainment and plastics industries serve as recent examples.

This has consequences. Not only must companies get much better at anticipating how the landscape is likely to evolve over the medium or longer-term and integrate this into their goals and planning from the outset, they must also set themselves up to predict and respond over shorter wavelengths. And wherever possible they must be willing to get out in front of issues and actively shape the future agenda.

It's this skillset - one that enables companies to thrive in the new and unknown - that sits at the heart of the idea of Active Strategies and we categorise them into four broad themes.

1 PLAN FOR CHANGE

2 PREDICT WITH INSIGHT

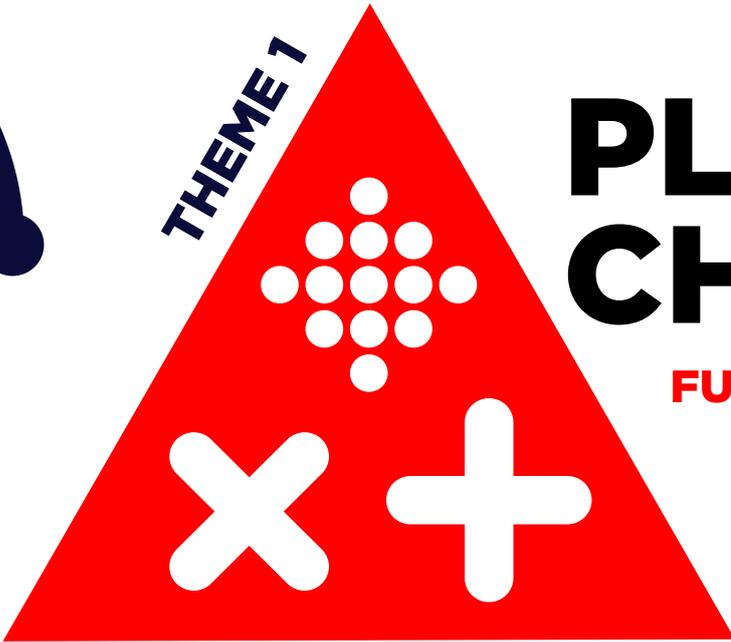
3 EVOLVE TO NAVIGATE

4 UNITE INFLUENCE SHAPE

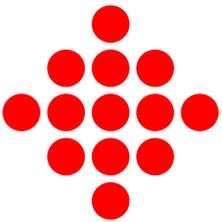
THEME 1

PLAN FOR CHANGE

FUTURE PROOF



This is about future-proofing strategies so that, as much as possible, they are set up to drive long-term business transformation in line with future external shifts - whether that's changes in policy, market dynamics, stakeholder expectations, or corporate leadership. This is where the rubber really hits the road in terms of ensuring strategies deliver business resilience to long-term change. But all too often companies fail to even consider the future, instead benchmarking their forward ambitions against current or past performance.



Too often, companies fail to even consider the future

The UN's Sustainable Development Goals set out a future state (2030) that has been agreed by government, business and civil society - that gives a pretty good thumbnail image of future expectations. And while their macro-level focus make the SDGs challenging to apply as a business planning tool, there are methodologies now emerging that translate the science behind the SDGs into practical tools - one such example that we've used and which we are currently becoming accredited to is the Future-Fit Benchmark.

When Salterbaxter worked with the Body Shop to develop its current *Enrich Not Exploit* strategy and goals, the company used the Future Fit Benchmark tool to great effect benchmarking its ambitions against future scenarios.

Other companies are bringing external experts and opinion formers from all walks of life into the heart of the strategy process to stress test their responses.

Of course, this isn't fullproof and can't predict the shorter wavelength shifts that might appear unannounced but it can set you on an informed course for the long-term and has the added benefit of hedging, to some degree, against shorter term impacts. We imagine many stakeholders would give the benefit of the doubt to Unilever - at least compared to their peers - when it comes to plastics (both reputationally and in terms of their ability to adapt).

Another approach which we see emerging more and more often is to keep the bits underneath - the roadmaps and interim targets - to shorter timeframes. To plan in short 1-3 years bursts, regularly revisiting and re-orientating, while being clear from an external comms perspective as to why you are doing this.

THEME 2

PREDICT WITH INSIGHT

ANTICIPATE CHANGE

If **PLAN FOR CHANGE** is about how you set and construct a long-term strategy so that it maintains its shelf life, then this stage is about how you keep ahead of things during the strategy cycle. Businesses need to get much more adept at understanding and anticipating more immediate changes in the external environment to both manage risks or stand out from their competitors. Maintaining a much more granular 24/7 - 360° view of the market, issues and stakeholder landscape is becoming critical.

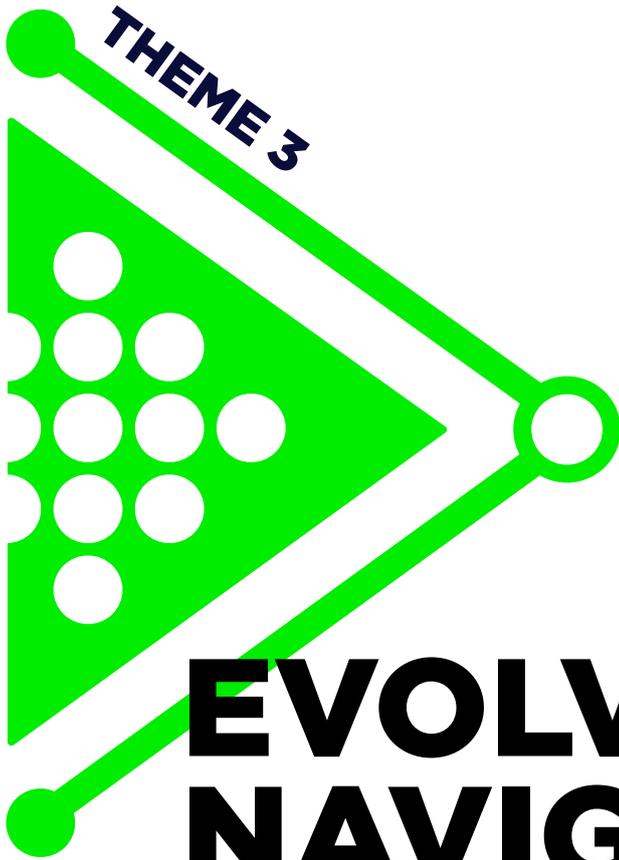
Smart companies are investing in this significantly. New tools and approaches are being applied to identify and understand online and offline opinion formers, and to track more real-time shifts in consumer interest or wider societal debates. These and other approaches need to be applied consistently to help companies better understand and anticipate the complex forces driving change in their operating environments.

Today a fast-growing part of our work at Salterbaxter focuses on helping companies get and stay ahead of everything from single-use plastics, to employee wellbeing, and sexual discrimination.

For example, we are currently working with a number of companies from

across the plastics value chain from manufacturing, to FMCG and retail to help evaluate the debate around single-use plastics - analysing many millions of online conversations and hundreds of specialist reports and articles to help map responses from governments, businesses, NGOs and consumers - and using this to inform future actions and communications.

Another reason this sort of insight is becoming so important is because brands themselves are wanting to be seen as proactive when it comes to stepping up and taking the lead in effecting change. This 'leaning in' to big societal issues - or corporate social activism - is being driven by a knowledge that younger generations in particular want to buy from purposeful brands. But it brings with it risk. Ensuring you have a deep understanding of the issue in question, who is influencing it and how it's perceived and talked about by different stakeholders is an essential pre-requisite for this sort of approach. A cursory comparison between the content of Airbnb's successful #WeAccept diversity campaign (which received 5 million views and 5,000 likes on YouTube in 2017) and PepsiCo's Kendall Jenner advert (which was pulled after a social media backlash and later hailed one of the biggest brand fails of 2017 by AdWeek) highlights the importance of understanding how issues are perceived and debated externally.



THEME 3

RE-ORIENTATE POSITIONS

EVOLVE TO NAVIGATE

But this ability to understand or anticipate issues is worth nothing if you can't respond effectively. Just as important is to set yourself up to quickly re-orientate positions, strategic plans and resulting communications when change does come.

Just as important is to set yourself up to quickly re-orientate positions

We see an increasing number of companies evolving their organisational models in different ways to help them respond. Whether that's building new capacity and skills into functional teams (e.g. innovation, public affairs), streamlining governance structures to speed up decision making or creating vehicles such as corporate growth funds that allow faster investment into new technologies or business models. These approaches help to build-in agility and fast-track responses to emerging challenges and opportunities as they occur.

A great example is one of Salterbaxter's long-standing clients Tetra Pak. In the last 12 months alone the business has not only come out strongly in support of the EU's Plastics Strategy and signed the Ellen MacArthur Foundation New Plastics Economy Global Commitment (making commitments relating to paper straws, PolyAI recycling and use of recycled plastics) but has also mobilised the business behind these with a number of concrete actions – this includes creating 45 new full-time roles that focus exclusively on the circular economy.

We also see an increasing number of companies setting up external advisory boards – standing committees of external experts and opinion leaders who regularly liaise with boards or executive teams – to create a more direct link between the outside world and senior decision-makers.

UNITE SHAPE INFLUENCE

TAKE OWNERSHIP

Finally, businesses need to be willing and able to go one step further. To not only anticipate and react quickly to emerging shifts, but to actively shape the future landscape. Collaboration and advocacy are fast becoming key skills in the corporate toolbox allowing progressive companies to exert influence over the future operating environment by actively taking ownership (with others) when it comes to aligning markets and systems with major environmental and social challenges.

Collaboration and advocacy are fast becoming key skills in the corporate toolbox

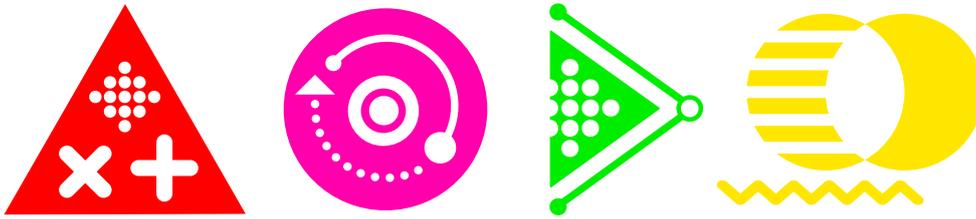
We see companies investing more time and resources into understanding the external chain of influence on a given topic(s) both globally and regionally, and using this to inform and adapt intentional collaboration and advocacy programmes.

As an example, many of you will have seen the flurry of alliances forming between companies across the plastics value chain as they seek to combat negative perceptions and maintain their license to operate by working together to fund and improve everything from waste management infrastructure to consumer recycling behaviours.

But the lesson from single-use plastics (and the somewhat 'after the event' nature of the response from many players) versus the apparel industries response to toxics points to an important lesson that connects different Active Strategies. Namely the critical importance of anticipating change early and then responding quickly with others (so elements of 2, 3 and 4 above).

In 2011, shortly after an investigative report by Greenpeace called 'dirty laundry', key players from the apparel industry quickly came together with leading NGOs to form the ZDHC (Zero Discharge of Hazardous Chemicals) initiative, setting out a clear 2020 ambition and roadmap to phase out discharges of chemicals of concern from textiles and leather industries. The response from industry was quick specifically because they had been closely tracking the issue and had been in dialogue with their critics.

The result? We have heard little mainstream attention to the issue of toxics in apparel production in the last eight years because the sector has taken the initiative to eliminate their discharge. Something they would have had to do at some point anyway and likely with far greater crunches in terms of investment capital and reputational impact.



So what next?

During 2019 we will be delivering a range of thought leadership and content through various formats, zooming in to explore specific elements of the Active Strategies we see emerging in the market. This will be interactive, we will be inviting our clients and network to contribute and opening up the discussion whenever possible. We will then be bringing all our learnings together during our annual Directions Forum in September. As always, we will be applying a practical and actionable lens to what we do.

Why Salterbaxter is well placed to be undertaking this challenge

We have been at the forefront of the sustainability strategy agenda for the last 20 years. In that time we have built strategies that have endured and evolved (L'Oreal 'Sharing Beauty with All', Body Shop 'Enrich not Exploit'), we have driven industry change (H&M's game changing commitment to '100% circular, P&G's 'Ambition 2030 to Make Responsible Consumption Possible'), and our latest generation of strategy work that will

launch through 2019 tackles the very challenge of agility and responsiveness through time-bound roadmaps for delivery, ongoing issues navigation, built-in feedback loops and active governance.

Behind this work is a team with a unique blend of skills and expertise - bringing together deep technical knowledge with business management expertise and creative thinking. And over the last four years we have also been collaborating ever closer with our partners across the Publicis Groupe ecosystem many of whom have relevant and complementary skills. To build and deliver active strategies requires a wide range of joined-up skills at the table from strategy and sustainability to communications, public and government affairs, and investor relations. All of that sits within the multi-discipline teams we are able to put together.

Taken as a whole this gives us a unique set of skills, experiences and perspectives and we want to share what we have learned to help accelerate the shift.

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