

# SUSTAINABILITY AS OPPORTUNITY: Yara's Creating Impact Strategy

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Resource scarcity, food security, climate change. These are just a few of the global challenges that increasingly are affecting our world and shaping the business environment for many companies, including Yara, the world leader in the production and distribution of mineral fertilizer.

*In response to these challenges, Yara began to refocus its business strategy around sustainability in 2007. With support from Jørgen Ole Haslestad, Yara's CEO, and the company's Board of Directors, Yara launched a new strategic plan titled "Creating Impact" to address these global challenges through core business functions. In so doing Yara increased its investment in Research & Development; integrated environmental, social, and governance (ESG) criteria into business decision-making; developed innovative partnerships with stakeholders; and shifted its communications efforts away from what it produced to how its products advanced sustainable agriculture and environmental solutions. The establishment of Creating Impact signaled Yara's commitment to driving environmental sustainability and promoting global food security in ways that would both grow its business and benefit society at large.*

*This caselet will explore the drivers and success factors behind this new strategy, as well as key elements of the Creating Impact program and implementation, to identify lessons that may be applicable to other companies.*



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## The company

Yara is headquartered in Oslo, Norway, and notched 2013 revenues exceeding NOK 85 billion kr. (approximately EUR€10.3 billion). The company also has a strong position in the industrial environmental solutions market, pioneering products used to reduce hazardous and toxic emissions, and to improve air and water quality.

### Key figures 2013

How we performed

NOK millions		2013	2012	2011	2010	2009
<b>Financial performance</b>						
Revenue and other income	NOK million	85,052	84,509	80,352	65,374	61,418
Operating income	NOK million	7,791	11,159	13,240	7,467	1,271
EBITDA 1)	NOK million	13,266	16,970	18,163	15,315	5,549
Net income after non-controlling interests	NOK million	5,748	10,552	12,066	8,729	3,782
Investments 2)	NOK million	7,729	10,415	3,643	4,373	6,192
Debt/equity ratio 3)	%	0.06	0.02	0.12	0.27	0.56
Cash flow from operations	NOK million	12,174	13,233	7,363	7,093	11,925
CROGI 4)	%	12.6	17.3	20.9	17.4	8.5
ROCE 5)	%	12.4	19.3	25.8	20.6	7.4
Earnings per share 6)	NOK	20.63	37.31	41.99	30.24	13.08
Total equity	NOK million	56,419	49,991	44,779	35,334	28,863
Share price on OSE	NOK at year-end	261.0	273.8	240.0	337.5	263.70
<b>Social performance</b>						
Employees	Number at year-end	9,759	8,052	7,627	7,348	7,629
TRI rate 7)	Per million hours worked	4.3	5	4.0	3.8	2.7
<b>Environmental performance</b>						
GHG emissions 8)	Million tons CO2 eq.	9.8	11.4	11.2	13.1	12.5
Energy use 8)	Petajoules	263	258	229	223	208

Source: [Yara Annual Report 2013](#)

## The motivation

For years the global policy agenda had been focused on the effect of climate change on future food production and environmental quality. The global food market was tightening with increased pressure on land, water, and other resources, and food prices were rising drastically. It became widely known in both the development and business communities that the world would need to produce 60 percent more food in order to feed a projected global population of 9 billion people by 2050.

In response to these global trends, stakeholders and experts started to question global companies

such as Yara about how they would address the increased need to grow food within the constraints of the world's natural resources. In 2007 Yara developed an approach to Corporate Citizenship. A year later, the company was challenged in the context of the African Green Revolution Conference about how it was making its profits and what it was doing to keep up with increasing global food demand. This served to accelerate efforts by Yara's management and Board of Directors to take these issues seriously, and to embed sustainability into core business functions.

## Company response

### Developing a new strategy

Between 2007 and 2013, Yara took a series of steps to integrate its sustainability efforts into core business functions. These efforts culminated in the launch of Creating Impact.

In 2007, Yara adopted a formal approach to corporate citizenship for the first time. A year later, Haslestad, Yara's then-recently appointed CEO, asked Terje Tollefsen, then President of Yara China Ltd., to head the Strategy and Business Development team and lead Yara's sustainability efforts. As CEO of the Industry Solutions Division at Siemens, Haslestad had seen a significant portion of the company's revenue generated from what it defined as "green business," and became a strong believer that there was no inherent tradeoff between making profit and driving environmental and social change. Until that point, Yara's sustainability efforts had been partly led by the central Health, Environment, Safety, and Quality team and partly driven by Communications. Haslestad moved sustainability at Yara to the Strategy department due to the strategic importance these issues posed to the core business.



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Between 2010 and 2012, Yara deepened its understanding of and commitment to sustainability and began to build buy-in with key business leaders. In 2010, the company conducted an internal analysis of the ways in which it could create profitable business solutions to global challenges related to resources, food, and the environment. Results of this analysis later would become the three pillars of the Creating Impact strategy. At an internal Summit in 2011, members of Yara's leadership team presented the approach to key internal business managers. Next the company developed a strong business case for Creating Impact, and created an internal steering committee to shape this work.

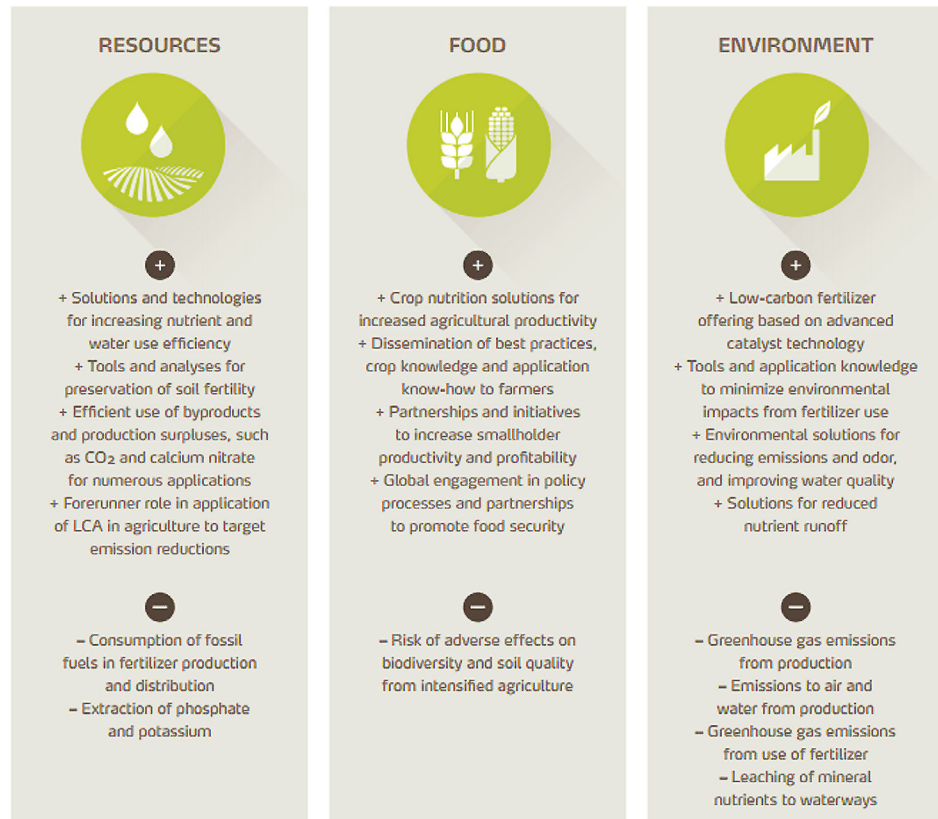
In 2013, Yara's Board of Directors approved Creating Impact and decided to implement ESG criteria along with societal value into its business decision-making processes. The company established formal governance structures and launched internal programs (connected to existing business processes) to drive Creating Impact forward. The Board's approval lent much-needed credibility to the effort and solidified its strategic importance to the company.

### *Overview of Creating Impact*

The goal of Creating Impact is to improve farming efficiency around the world by developing technologies and products that yield more and better qual-

ity food without further cropland expansion. This means growing more grains and food for every kilo fertilizer and liter of water applied.

Currently, the Creating Impact strategy comprises three pillars:



Source: [Yara Impact Review 2013](#)

Today, Creating Impact is stewarded by Yara's CEO in partnership with a steering committee that includes Tollefsen and members of the Executive Management team including Egil Hogna, SVP Head of Downstream; Yves Bonte, SVP Head of Industrial; Bente Slaatten, Chief Communications and Branding Officer; and Jarle Hagen, SVP Business Communication Programs. The Creating Impact Coordination Committee, which includes members of various business units, stewards the implementation of the initiative.

## Results

Yara's approach to sustainability is creating measurable value for the company, its shareholders, customers, farmers, and society.

### Ghana Grains Partnership

In 2008, Yara and Weinco, a Ghanaian warehousing and import/export company, launched the Ghana Grains Partnership (GGP) in response to the food shortfalls in maize throughout Western Africa. The GGP is a public-private partnership and a value chain initiative that brings together public institutions, private companies, individual farmers, farmers associations, and traders and processors. The GGP aims to strengthen the market through improved infrastructure, closer collaboration and improved efficiency throughout the grain value chain. **By 2013 GGP helped triple yields for the more than nine thousand farmers that participate in the program.**

### Business Benefits

- **Sales growth.** Since launching Creating Impact, Yara has seen rapid growth of its fertilizers and environmental products. One clean air product in particular, Air1, showed 30 percent growth in 2013 alone.

In the Downstream segment, which takes Yara's fertilizer products to market (23.7 million tons in 2013), the renewed strategic approach has affected the product and marketing mix. Yara's share of premium offering products (measured as Downstream's EBITDA) increased from under half to almost 2/3 from 2010 to 2013. This reflects the segment's focus on crop yield and quality, dedication to end user profitability and partnership with customers and other stakeholders. The highly effective foliar fertilizer range, Yara Vita, has seen sales revenues increase about 17 percent CAGR since 2008/2009.

- **New markets and products.** Since launching Creating Impact, Yara has developed new products and markets, thereby opening up new revenue streams and moving its revenue mix away from products that are at risk given sustainability trends.

Due to legislation in Europe, there increasingly are stricter limits on harmful GHG emissions in the air. This creates a market for solutions that cleanse such emissions. Yara was an early mover in this market, primarily by working with other industries to define the standard for catalyst fluids used in the cleansing process. Aligned with the Creating Impact approach, Yara has invested to increase its participation in this emissions-cleansing market.

Yara has invested over NOK300 million kr. in acquiring companies with a select set of capacities in the emissions-to-air market. Yara also has invested more than NOK1 billion kr. in its own infrastructure and capacity to serve this market. This has increased Yara's capacity to serve global markets for catalyst fluids, and has enabled Yara to deliver both catalyst and non-catalyst technology to become a full-ser-

### Environment and Climate Compatible Agriculture Project

Started in 2010, The Environment and Climate Compatible Agriculture project is a partnership in Tanzania between Yara, Syngenta, Sokoine University (Tanzania) and University of Life Sciences (Norway) with a dual goal of (1) developing a deeper understanding of the impacts of agriculture on the environment and climate change; and (2) testing if the use of agricultural inputs could be compatible with environmental sustainability and climate change while also improving the productivity and profitability at the farm level. The results were promising. **The average yield increase for smallholder maize farmers was 140% following the Syngenta-Yara agronomy protocols in 2011-2013.**



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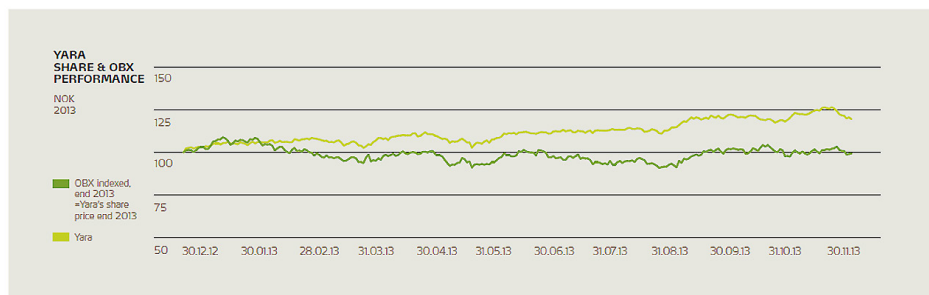
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vice provider to customers. Yara is expanding beyond delivering catalyst reagent fluids to diesel engines in the automotive sector and into delivering technology and services to stationary emissions sources such as power plants and the cement industry, as well as to the maritime sector. It is the only global company in the industry, and the only one in the world that combines the delivery of catalyst fluids with associated cleansing technology.

Percentage of portfolio that fits into Creating Impact. Approximately 60 percent of Yara's fertilizer business fits into Creating Impact, and one-third of its industrial segment sales volumes fall into the environmental solutions category.

- **Increasing shareholder price.** Shareholder price has increased steadily since Yara launched Creating Impact. While many factors contribute to stock performance, as the chart below illustrates, since early 2013 Yara consistently has performed above market trends for the Oslo Stock Exchange Market Index.



Source: [Yara Financial Report 2013](#)

## Social and Environmental Benefits

In addition to the impressive business benefits, Yara's focus on sustainability has also yielded significant social and environmental results.

- **Resources.** Yara's environmentally differentiated fertilizer solutions, which support improved agricultural productivity and better

resource efficiency, reach approximately 9.2 million farmers worldwide ([Yara internal calculation](#)).

- **Food.** Yara's fertilizers are used on approximately 50 million hectares of land, by more than 15 million farmers who produce more than 160 million tons of grain. In Africa alone Yara trained more than 20,000 farmers on sustainable agriculture practices in 2013. Through its Ghana Grains Partnership, Yara has helped triple yields for the more than 9,000 farmers that participate in the program. Additionally, through the Environment and Climate Compatible Agriculture project in Tanzania, Yara increased the average yield for smallholder maize farmers by an average of 140 percent.

- **Environment.** Yara's low-carbon fertilizer, paired with top farming practices, can reduce the carbon footprint associated with fertilizer use by more than 50 percent ([Yara calculations](#) based on IFS Proceedings 639; "GHG Emissions and Energy Efficiency in European Nitrogen Fertilizer Production and Use" and Agricon /

University of Kiel trials of the Yara N-Sensor™ precision farming tool). In 2013, fertilizers sold under the company's Carbon Footprint Guarantee were used instead of conventional fertilizers, which resulted in

the reduction of 500,000 tons of emissions of CO2 equivalents.

## Challenges and buy-in

Although there was strong CEO and management support for Creating Impact, Yara's repositioning around sustainability was not without its challenges.



## *Consolidating disparate activities across the business*

Yara's sustainability initiatives had been a set of disparate activities within the business that needed to be pulled together under one umbrella. Although only one staff member officially changed teams as a result of the new strategy, that staff member—Tollefsen—led an internal restructure that changed how various teams reported to one another. Through the process, his goal was to ensure that Yara's sustainability efforts were tied to core business functions.

## *External communication*

The shift to Creating Impact was difficult to communicate externally, due in large part to the highly complex value chain with which the company operates. Previously Yara was positioned as a chemical company that converted nitrogen from the air as the world's largest producer of fertilizers. With its Creating Impact strategy, the company has had to reposition itself as a world leader in sustainable agriculture and environmental solutions. Yara has strived to show measureable results on how it creates value for society.

Some stakeholders have perceived that there is a mismatch between sustainable agriculture and increased food supply since increasing food production can pose threats to the environment. Yara works actively through its external communications and branding efforts to advise how increased yields and improved environmental performance can be aligned. Yara both hosts and participates in high-level events to clarify its position, and its scientists publish research and collaborate with colleagues to advance this knowledge base. To facilitate communication with non-scientists, Yara publishes magazine articles and web stories clarifying how a knowledgeable application of the right crop nutrients (fertilizers) can sustain high yields. Other writings have focused on how knowledgea-

ble application of crop nutrients can help reduce run-off and reduce pressure for deforestation.

## *Securing internal buy-in*

Some within the company and on the Board of Directors—including Tollefsen himself—initially were reluctant to accept the Creating Impact strategy. Tollefsen had come from a more traditional business background and previously had thought of sustainability as “window dressing.” Over time, however, he saw the business benefits—especially in global markets—that resulted from taking a longer-term view. Finance also was reluctant at first, concerned about how to balance shareholder value against stakeholder value. Ultimately, once they saw the business benefits that resulted from Creating Impact, many within the company embraced this new approach.

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## **Future considerations**

Yara currently is in the process of embedding Creating Impact into its core business strategy, and will continue to do so over the next two to three years. Measuring both the business and social/environmental impacts continues to be challenging and will need to balance operational Key Performance Indicators (KPIs) such as a 9 percent reduction in greenhouse gases, 47 percent SO<sub>2</sub> emissions, 11 percent NO<sub>x</sub>, and a target of zero injuries or incidents in production, with more strategic metrics to drive greater impact.

Going forward, under the leadership of new CEO Torgeir Kvidal (who was appointed in October 2014), Yara's senior management team will be responsible for stewardship of the Creating Impact strategy. The Board of Directors will support management's work to refine its KPIs and embed sustainability into future business plans.



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