

# SUSTAINABILITY STAGES MODEL

ROADMAP FOR INTEGRATED SUSTAINABILITY

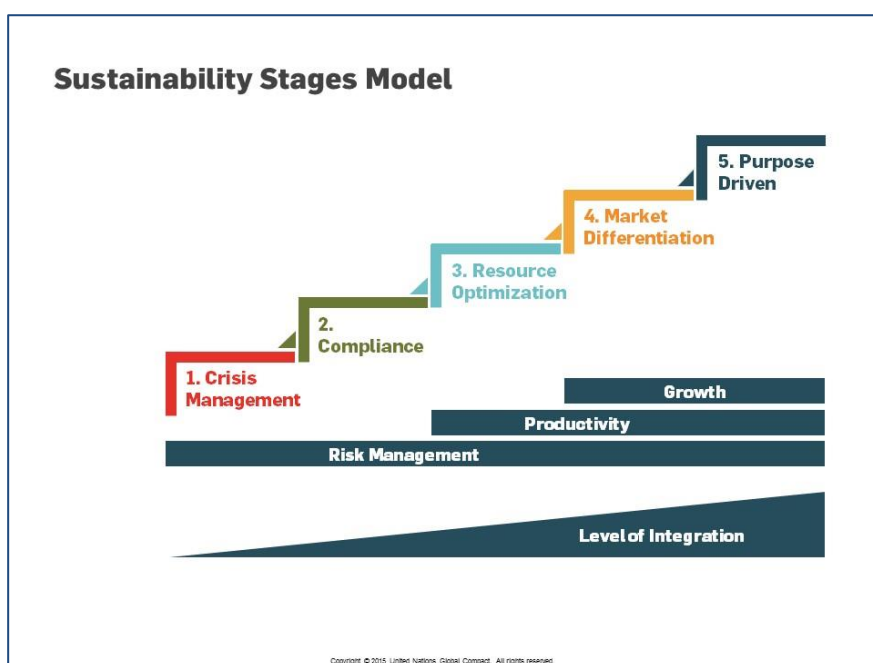
## THE MODEL

Though every company's sustainability journey is unique, many companies evolve through similar stages with similar characteristics, priorities and opportunities to create value.

Underpinning the Roadmap for Integrated Sustainability project, and in particular the Roadmap Self-Assessment tool, is a Sustainability Stages model, which represents a typical journey of sustainability integration in five general stages. Progressing through the stages, the model describes how companies generally move from a mostly reactive approach to sustainability aimed at protecting the brand and reducing risks to a more proactive and strategic approach, where sustainability becomes a source of resource optimization and value creation.

The model implies that companies typically advance upwards—though iteratively—through the stages over time. Many companies have individual businesses, projects, or functions spread across two or more phases but exhibit a “center of gravity” or mean around one stage. Many times leading or lagging examples from the mean can be attributed to individual leaders that are either particularly inspired by or skeptical of sustainability as a business value driver or imperative.

The model can be helpful in analyzing the current stage—and the desired stage—of sustainability integration within the company. Most importantly, in the context of the Roadmap project, the model helps identify corporate functions within the company that are most important to engage as the company advances through the different stages, and what contribution each function can and must make to sustainability integration at each of the five stages.



The model presented here and underpinning the Roadmap Self-Assessment is adapted from the work of Bob Willard appearing in his book, *The New Sustainability Advantage*. The integration into the model of the three financial value drivers—growth, productivity and risk management—is adapted from the UN Global Compact's Value Driver Model.

## STAGE 1 – CRISIS MANAGEMENT

In the first stage, the company's license to operate may periodically or permanently be threatened by legal enforcement actions or public outcry caused by a violation of regulations, laws, international non-binding minimum standards, social norms and stakeholder expectations. In this stage, companies typically have an entirely reactive approach to sustainability, focusing on short-term problem solving, minimizing legal liability and protecting to the extent possible the company's brand

## STAGE 2 – COMPLIANCE

and reputation. The company actively fights against any form of social and environmental legislation and uses exploitative practice to avoid the consequences of non-compliance.

In this stage, the business manages its liabilities by ensuring compliance with the law and all labour, environmental, health and safety regulations. It also manages longer-term risks related to international non-binding standards on, for example, labour, environment, health and safety issues. Initiatives to improve environmental and social performance are managed as costs with little perceived value beyond compliance with objective standards, and investments beyond compliance and small-scale philanthropy are difficult to justify, even if corporate sustainability is given lip-service.

### STAGE 3 – OPTIMIZATION

Moving into the third stage, the company realizes potential gains beyond compliance and risk management. It focuses on reducing costs and increasing productivity, while reducing its negative impact on society, through, for example, waste reduction, energy efficiency, water stewardship, women empowerment and better workplace standards. While significant savings opportunities are often found, even in the short run, these initiatives tend to be marginalized from leadership and strategy and implemented by specialized functions within the company. At this stage, the company also realizes opportunities to improve to reduce uncertainty and strengthen its reputation through social and environmental projects and marketing, and it seizes opportunities to strengthen employee engagement and retention through small-scale but highly visible sustainability projects, including community service projects.

### STAGE 4 – MARKET DIFFERENTIATION

Transitioning from stage 3 to 4, the company's attention to sustainability fundamentally shifts. Instead of cost and risk, sustainability is viewed as investments and opportunities, and the emphasis is now on sustainability-driven innovation, differentiation and growth. Step-change innovation in products and business models begins to take the stage from the continuous improvement-mentality of the previous stages. The company seeks to outperform competitors through more sustainable materials, cleaner products, more inclusive business models and by entering or creating new markets for innovative solutions for sanitation, health, safe food and clean water. It explores partnerships with diverse stakeholders and public policy advocacy as a source of innovation and market creation.

### STAGE 5 – PURPOSE DRIVEN

In this, the highest stage of sustainability integration currently imagined, sustainability issues have become inseparable from the core vision, mission and brand of the company. Stage 5 companies are driven by a values-based commitment to improving the state of the world and the business model is entirely linked to a pertinent social need and the opportunity to address one or more social or environmental challenges. As in stage 4, companies in stage 5 also use sustainability as a source of competitive advantage, market creation and growth, so the difference between the two is mostly linked to motivation. Stage 4 companies integrate sustainability into core strategies with a view to be successful businesses, also in the long run, whereas stage 5 companies consider sustainability an objective in its own right and become successful businesses with a view to deliver social value at even greater scale. While the practical differences in business model may be minimal between stage 4 and stage 5, purpose-driven companies are more likely to spot and seize new opportunities for shared value and less likely to be distracted by short-term gains from unsustainable business practices and products.

### TAKING THE 'STEPS'

The transformations taking place as the company moves through the stages are not trivial and have a lot to offer in understanding the role that different functions can play in advancing sustainability integration.

Most importantly, a fundamental shift takes place from Stage 3 to Stage 4, as the company moves from a risk and productivity mindset of incremental change, or doing "less bad", to a mindset of capitalizing the strengths of the business to create shared value. At this point, the Sustainability function—including specialized environment, health and safety teams—must transform itself to provide strategic leadership, technical expertise and coordination to engage priority functions across the company. To be successful in stage 4 and 5, sustainability must be fully integrated into all key functions, including into R&D, Human Resources, Marketing, Brand, PR, Sales and Customer Service, which all tend to have limited engagement in earlier stages.

Some functions, like Finance, Legal, Government Relations and Public Affairs have important roles to play across all stages. However, the nature of their engagement changes substantially from the earlier, more reactive stages to the point where sustainability is proactively built into value creating strategies and operations for each of those functions.

## INTEGRATING AND GOVERNANCE PROCESSES

It should be noted that in early sustainability stages—before its relevance to innovation and growth is widely understood—informal and well-intentioned barriers can sometimes emerge to insulate the company's core functions from any external "distractions". In these early stages, Sustainability teams can be positioned within a range of other functions (marketing, legal, operations, etc.) and be expected to stay in their supporting role to help reduce risk, interact with new stakeholders, and suggest ways to improve productivity, but they should not meddle in the important affairs of the business. As sustainability matures, its prominence and strategic value increases shifting its earlier defensive role into a proactive coordinator and facilitator of innovation, relationships and growth.

Especially important in making the transition from "Optimization" toward "Market Differentiation", the CEO, Executive Management, Board engagement, and structured cross functional sustainability steering committees can play critical integrating and governance roles. These roles include: communicating a compelling case for change; reinforcing sustainability's overall priority; setting goals; overseeing integration in priority functions; and coordinating functional roles and priorities.

One cannot overstate the importance of the substantive and symbolic role the CEO and other executive leaders play in setting vision, reinforcing sustainability's relative priority and modeling new desired behaviours. Without this leadership, strategic integration and governance processes (whether performed by existing or new structures), it will difficult for sustainability to move from the periphery to reach its potential to help the company respond to and thrive in the broader and quickly shifting competitive landscape of the 21st century.