Resilient companies survey • First edition • December 2012

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Paving the way to a sustainable future

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We live in a world in which sustainability can no longer be viewed as a 'nice-to-have' or a 'green' issue managed by an isolated unit within a business. Rather, sustainability – which involves managing risks and opportunities affecting long-term viability – needs to be integrated into every facet of an organisation and its approach to doing business. There is much focus on 'reporting', but this is only as good as the 'doing' and addressing this is not without its challenges for companies today.

In this survey, we aim to assess how well sustainability is being embedded in the strategy, risk management and daily operations of the top 100 companies listed on the JSE. The results will provide a point of reference for subsequent research in years to come.

The 2012 survey is the first in an annual series aimed at gaining insight into the progress being made in integrated management and highlighting how respondent companies are approaching the challenges they face.
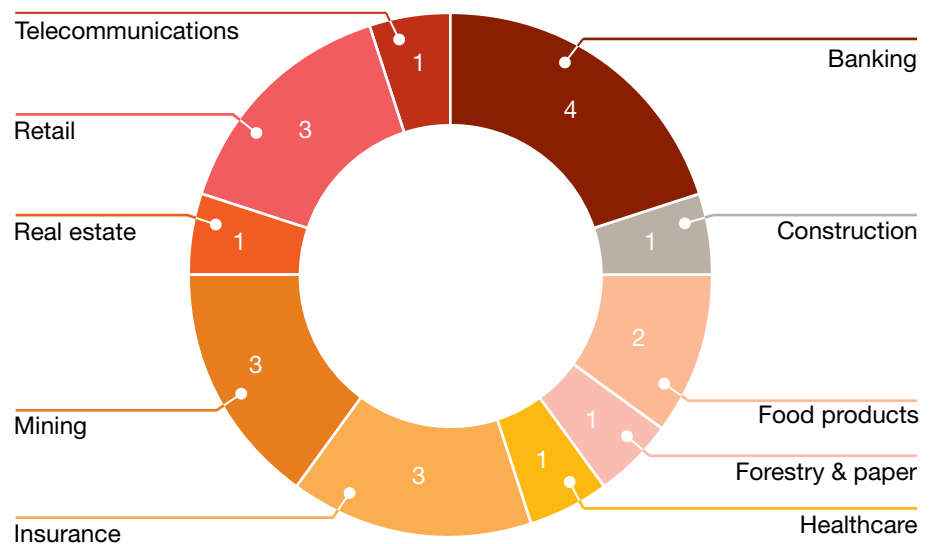
Profile of respondents

The top 100 companies by market capitalisation, as listed on the JSE on 31 July 2012, were invited to participate in the survey. Of these, 20 companies provided a complete response to all survey questions within the survey time frame. These twenty responses form the basis for this report.

Figure 1.   Respondent's industry

Base: 20

All but one respondent company are included on the JSE Socially Responsible Investment (SRI) Index. This points to the value of the SRI in encouraging companies to address material sustainability risks and opportunities proactively, which makes it possible for the personnel involved to respond promptly to this and other requests for information. Encouraging responses were received across a broad range of industries.

Highlights
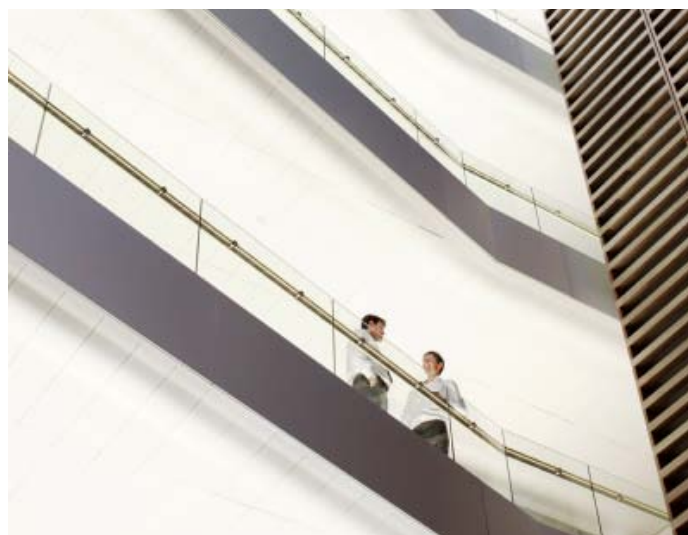
Our basis for interpreting the survey results is an understanding that sustainability is a business strategy that drives long-term growth and profitability. This is achieved by managing for maximum value across all stakeholder groups. Following on from this, integrated thinking and reporting require having governance, systems and processes in place that support line functions in their ability to identify risks holistically, manage performance and report on material issues that are of significance to management, the board, investors and other stakeholders.

This section provides a high-level summary of the overall survey results. Individual questions are outlined in further detail in the sections that follow.

Driving integrated management

A company's definition of sustainability is dependent on its corporate values and leadership philosophies. It must also articulate what value the sustainability strategy is expected to bring directly or indirectly to the bottom line.

Governance systems and processes are needed to support this integrated approach to risk identification, rating and management and to demonstrate how this impacts on the company's ability to meet its strategic goals successfully.

Survey results show that several motivations, which are not core to company strategy, still play an important role in driving the process of integrating sustainability into companies. These include good corporate citizenship and reputation.

The motivation that ranked third, strategic risk, is recognised as being central to effective integrated management.

While the majority of companies have implemented board sponsorship of sustainability, not all respondents have fully unpacked or articulated sustainability as encompassing the long-term value of their business. There is also an even split between companies that have fully incorporated sustainability risks into their risk management process, and those that have not yet done so.

The survey findings point to the importance of investing in stakeholder education and emphasise the need to enhance demand for sustainable services and products.

Respondent companies have done much work in laying the foundations of integration, but even in the most advanced organisations, there is still more to be done in embedding integrated thinking into the DNA of businesses.

Measuring integrated management

The capability of obtaining reliable, relevant data and being able to contextualise the information and report it in a holistic, yet succinct, manner internally and externally, are the hallmarks of a successful sustainability strategy and a well-run, competitive company.

The necessity of tracking progress is evident in the feedback of most respondents, who say that their efforts are showing results.

However, for a sizable portion, the integrity of data used for decision making could be undermined by a low level of board/EXCO accountability, the absence of robust definitions, policies and procedures, and the lack of data, as well as not making full use of data through interpretation, corrective actions or protecting information through backup systems.

Greater focus on improving job descriptions/terms of reference and associated performance incentives would help to entrench the behaviours companies need to measure their progress reliably.

Communicating integrated management

The integrated report aims to be the definitive document for fostering confidence and trust among all material stakeholders – be they investors, current and future employees or affected communities – while remaining to-the-point and reader friendly.

The majority of respondents confirm that a formal process for identifying and categorising their stakeholders has taken place. This being said, they also indicate that limited focus has been placed on enhancing stakeholder inputs and improvements for employees, products and suppliers. This is notable, since the resilience and sustainability of businesses and the societies in which they operate depend on participation and collaboration in a company's full value chain.
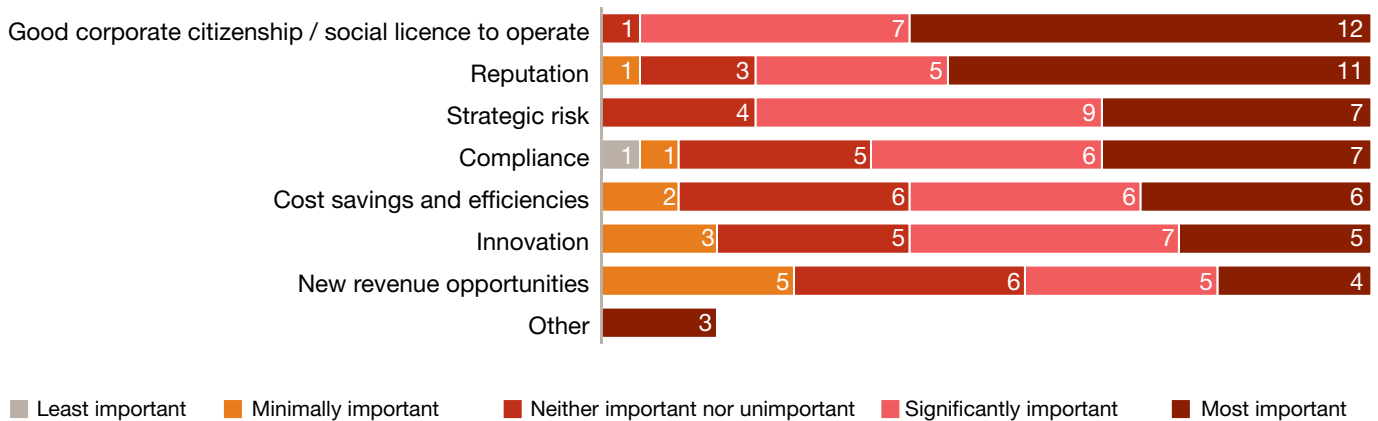
Driving integrated management

> *The initial focus of our sustainability strategy is on driving efficiency, transformation, product-related opportunities and challenges, and supply chain initiatives into an integrated sustainability programme, in order to create enduring economic value. – Respondent*

Key motivations for addressing sustainability in business

Based on respondents' feedback, the most important factors driving the integration of sustainability in business strategy and process are noted in order of importance as:

- Good corporate citizenship / Social licence to operate;
- Reputation;
- Strategic risk;
- Compliance;
- Cost savings;
- Innovation; and
- New revenue opportunities.

Figure 2.   Key motivation for addressing sustainability in the company

Category	Least important	Minimally important	Neither important nor unimportant	Significantly important	Most important
Good corporate citizenship / social licence to operate			1	7	12
Reputation		1	3	5	11
Strategic risk			4	9	7
Compliance	1	1	5	6	7
Cost savings and efficiencies		2	6	6	6
Innovation		3	5	7	5
New revenue opportunities		5	6	5	4
Other			3		

Base: 20

Responses to this question draw attention to the fact that although they are not core to either achieving or hindering company strategy, doing and being seen to be 'doing the right thing' were recognised as the most significant motivators for addressing sustainability.

Strategic risk, which ranked third, is central to effective integrated management in line with the philosophy of the *Code of Governance Principles for South Africa 2009* (King III).

Interestingly, the two motivations that ranked lowest, innovation and new revenue, relate to opportunities that result from effective integrated management. These opportunities are currently not being recognised nor their benefits realised by the majority of companies surveyed.

Sponsorship/ownership of sustainability matters

The majority (67%) of companies have implemented board sponsorship of sustainability, with only a few companies applying ownership at the management or operational level. This is seen as a positive indication of the effective mainstreaming of sustainability, as the 'tone at the top' is central to determining the actions and options implemented within the company concerned.

**Figure 3.   Level of sponsorship/ownership of sustainability matters in the company**

Operational departmental head 0
Head office/group managers 2
EXCO 4
Board 14
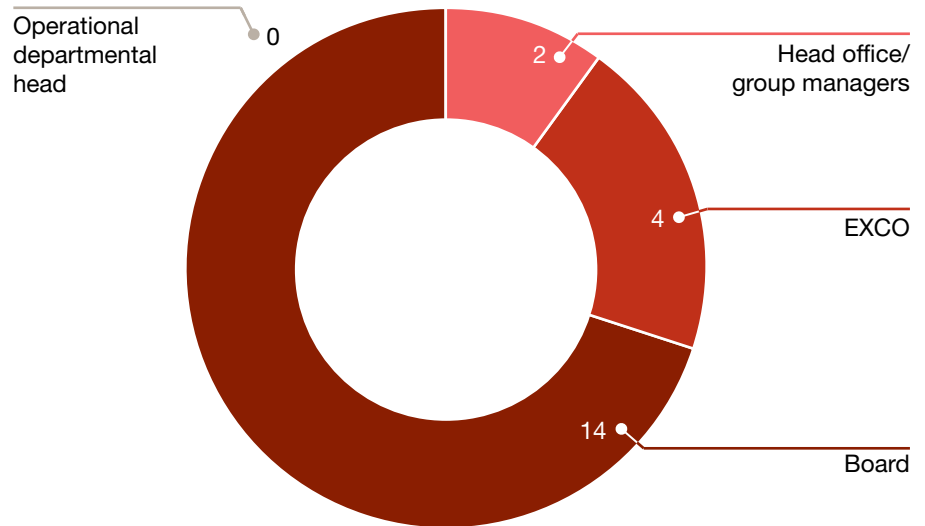
Base: 20

Role of sustainability issues in strategic discussions and direction

While 71% of respondents report that sustainability issues are central or major considerations in their company's strategic discussions, the remaining 29% report that they play a less important roll. In these companies, sustainability has not been fully recognised, articulated or understood as providing an essential framework for the long-term value and viability of a business. The business models in place in such companies are therefore less influenced by the concept of integrated management and reporting, which moves away from the triple bottom line approach to sustainability management and reporting.

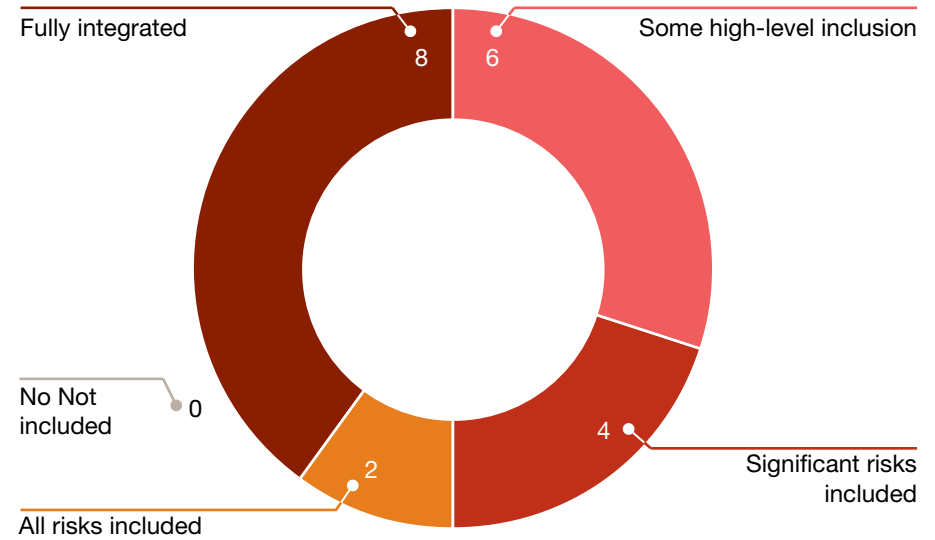**Figure 4.   Role of sustainability in strategic discussions and direction**

Central role 2
Minimal role 1
Some role 4
Major role 13
No role 0
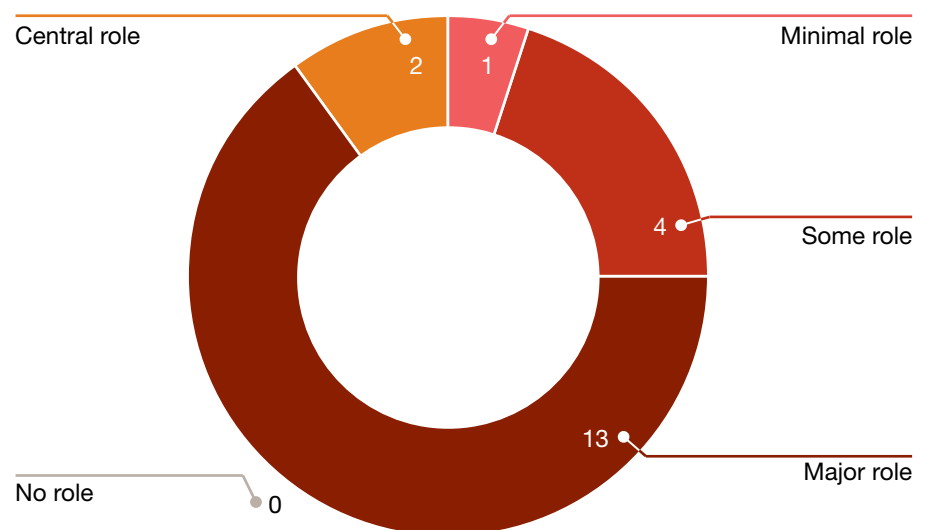
Base: 20

Incorporation of sustainability issues into risk management

There appears to be an almost even split between companies that have fully incorporated sustainability risks into their risk management process and those that have not yet done so. This is an area requiring major improvement and a fundamental shift in understanding. Instead of being seen as a separate and secondary issue, sustainability needs to recognised as a core priority and included in all businesses processes and practices.

Figure 5.   Extent to which sustainability issues are incorporated into companies' risk management process

Fully integrated — 8
Some high-level inclusion — 6
No Not included — 0
All risks included — 2
Significant risks included — 4

Base: 20

Systems to drive mainstreaming of sustainability

Systems to bring sustainability into the mainstream are most established in terms of the allocation of responsible people to the task. Most respondents confirm that budget has been set aside, with a minority also having incentives or performance measurements in place. Partial implementation is taking place across the majority of companies.

While budgets are beginning to be allocated for the purpose of embedding sustainability into business processes, the effectiveness with which this budget is spent may be hindered by individuals' lack of ownership and accountability or a lack of focus on providing responsible individuals with the performance criteria against which they will be measured and incentivised.

Figure 6. Systems to drive mainstreaming of sustainability

	No	Partially	Yes
Budget		9	11
Responsible people	1	5	14
Incentives or performance measurement	4	8	8

■ No   ■ Partially   ■ Yes
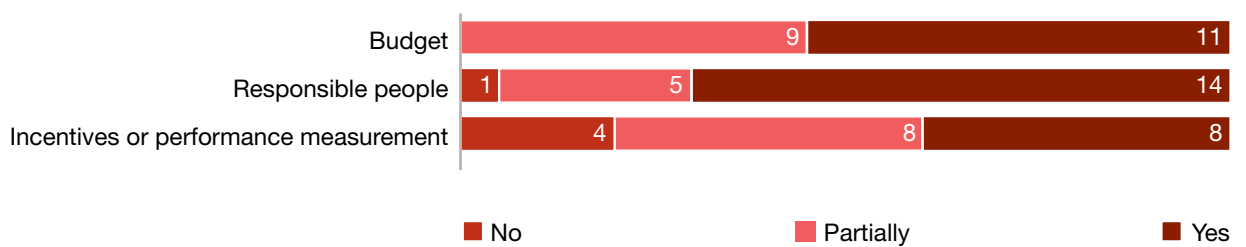
Base 20

Critical factors needed to change the way sustainability is approached and embedded in business

A business' ability to respond to the current challenge of how to address sustainability risks and opportunities is linked to the factors that support and facilitate changes necessary within society and the broader economy. In order of priority, the following factors were highlighted as important for encouraging further mainstreaming of sustainability:

- Informed investors and analysts;
- Access to a skilled talent base and informed customers;
- R&D/innovation capability and access to green technology; and
- Access to the green economy.

These results point to the importance of investing in the education of stakeholders and emphasise the need to enhance demand for sustainable services and products. Informed investors and analysts are ranked most critical, and despite the United Nations Principles for Responsible Investment (UN PRI) and the Code for Responsible Investing in South Africa (CRISA code), the critical scrutiny needed to drive top-level support for the mainstreaming of material sustainability risks and opportunities is still not being asked by this category of stakeholders.

The top-ranking categories inform the suggestion that the maturing of a green economy in South Africa is a by-product of the actions taken in response to well-informed investors, employees and customers, rather than being the foundation for driving integrated management and reporting.

A factor raised by several respondents as critical to the successful mainstreaming of sustainability is an enabling regulatory environment. Businesses express the need to know upcoming regulatory changes in order to plan for the long term. There is room for greater collaboration and participation between business and government role-players to ensure effective public-private partnerships (PPPs) and the overall growth of the economy.

> *While many policies and processes are in place, it takes longer for them all to be embedded.*
> *– Respondent*

Figure 7.   Changes needed to transform the way companies approach sustainability
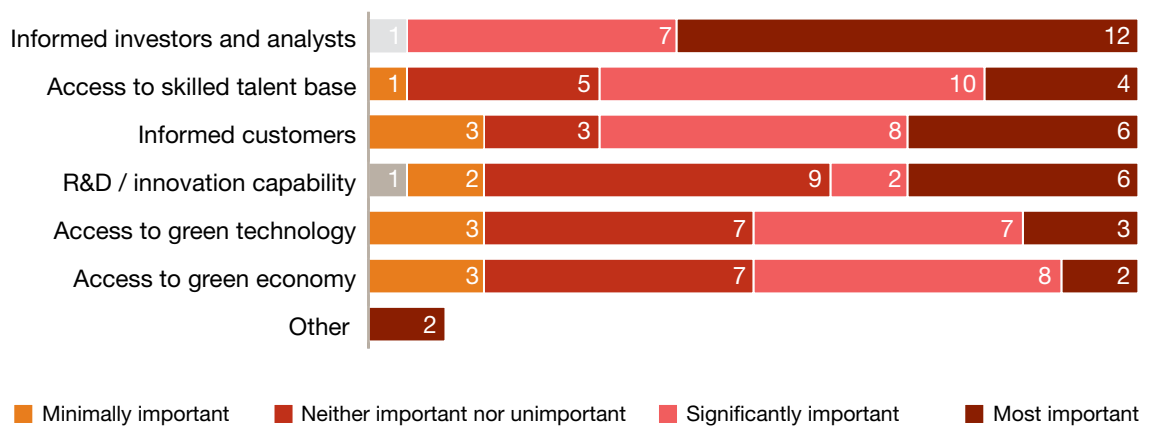
Base: 20

Current integration of sustainability into business processes

Regardless of the external factors mentioned above, and how well they have supported mainstreaming of sustainability to date, survey responses show that progress is being made to integrate sustainability management into business processes.

There was great diversity in responses to this question, highlighting different maturities of integration into business processes across the responding companies. Despite this variation, progress was reported consistently in the following areas:

- Mission and values;
- External communication;
- Internal communications;
- Operations;
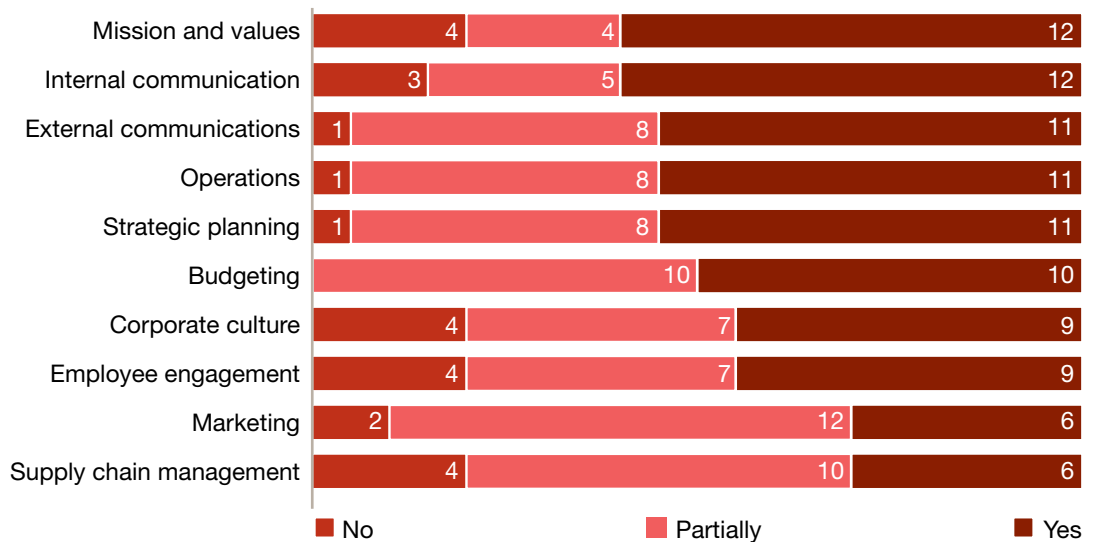- Strategic planning; and
- Budgeting.

Respondents also highlight that further emphasis on integration is required in the areas of:

- Marketing;
- Corporate culture;
- Employee engagement; and
- Supply chain management.

It is evident that work has been completed on the initial foundational stages of the integration journey – specifically regarding vision, communications and strategic planning – but there is still much more to be done in embedding integrated management into businesses' DNA and building that into the culture and behaviour of employees and suppliers. It would be exciting to see greater 'doing' within businesses in relation to employees and suppliers, and this driving communications, rather than vice versa.

> *We are making uneven progress and still fighting the perception that sustainability costs money.*
> *– Respondent*

Figure 8.   Business processes sustainability has been integrated into

| Process	No	Partially	Yes
Mission and values	4	4	12
Internal communication	3	5	12
External communications	1	8	11
Operations	1	8	11
Strategic planning	1	8	11
Budgeting		10	10
Corporate culture	4	7	9
Employee engagement	4	7	9
Marketing	2	12	6
Supply chain management	4	10	6

Base: 20

Measuring integrated management

Key performance indicators (KPIs) to measure, monitor and implement improvements regarding material sustainability issues

The necessity of tracking progress is evident in the feedback of most respondents. Most (60%) report that their efforts to measure and respond to material sustainability issues are showing results. The remaining companies (40%) report further work needs to be completed to make their monitoring programme most effective.

Figure 9.   Extent to which KPIs have been developed to measure, monitor and implement improvements for material sustainability issues
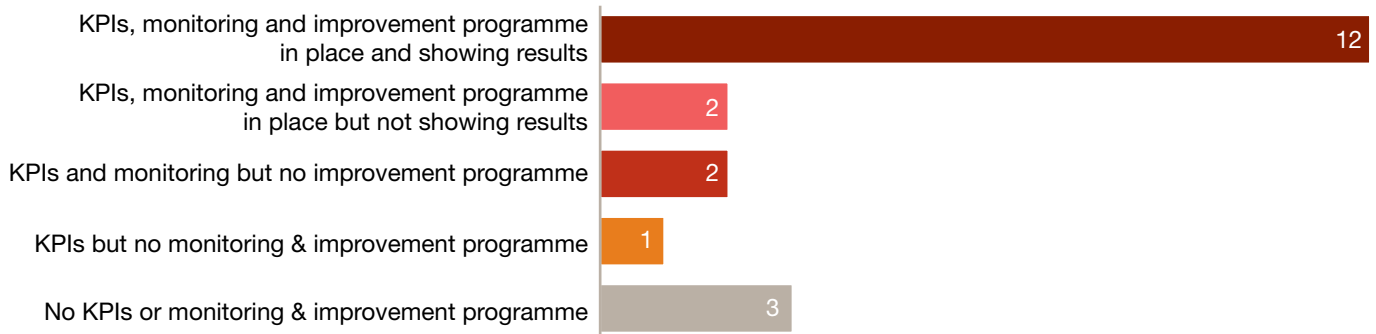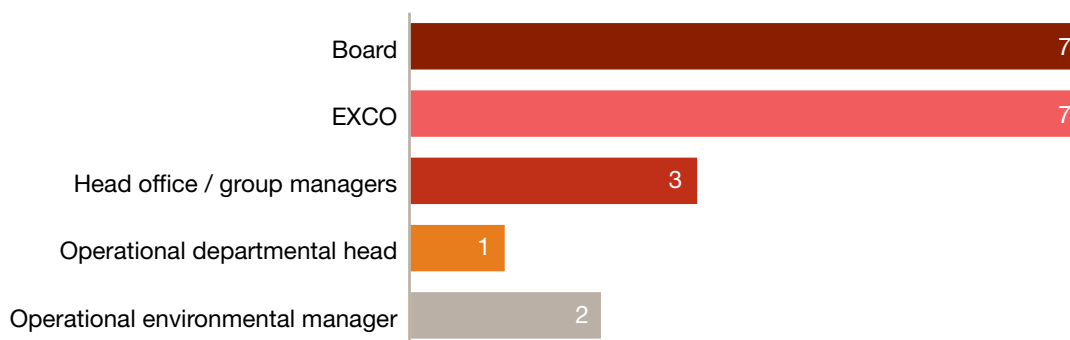

Base: 20

Responsibility for material sustainability KPIs

While the majority of respondents (70%) state that either the board or EXCO monitor and manage material KPIs, the remaining respondents (30%) confirm that this responsibility is held by management at the operational level. King III strongly recommends ensuring board and committee responsibility for integrated management of material sustainability risks and opportunities.

Figure 10. Levels at which material sustainability KPIs are monitored and managed


Level	Value
Board	7
EXCO	7
Head office / group managers	3
Operational departmental head	1
Operational environmental manager	2

Base: 20

Documentation of definitions, policies and detailed procedures for managing material sustainability KPIs

Effective implementation of a KPI monitoring programme is dependent on a robust understanding of each KPI policy, definition and detailed data collection/ review procedure being in place. Of the responses received, 25% of companies report that only high-level documentation, or draft definitions and policies, have been established. These companies are yet to achieve the level of full implementation reported by the remainder of respondents (75%), who confirm that, at a minimum, definitions and policies have been implemented across their operations.

The implications of not having robust definitions, policies and procedures in place are that the integrity and accuracy of KPI data can be called into question. Consequently, the use of such data for decision making by both management/ leadership and external stakeholders can be undertaken with far less confidence.

Figure 11. Extent to which definitions, policies and detailed procedures for recording, analysing and managing material sustainability KPIs have been documented

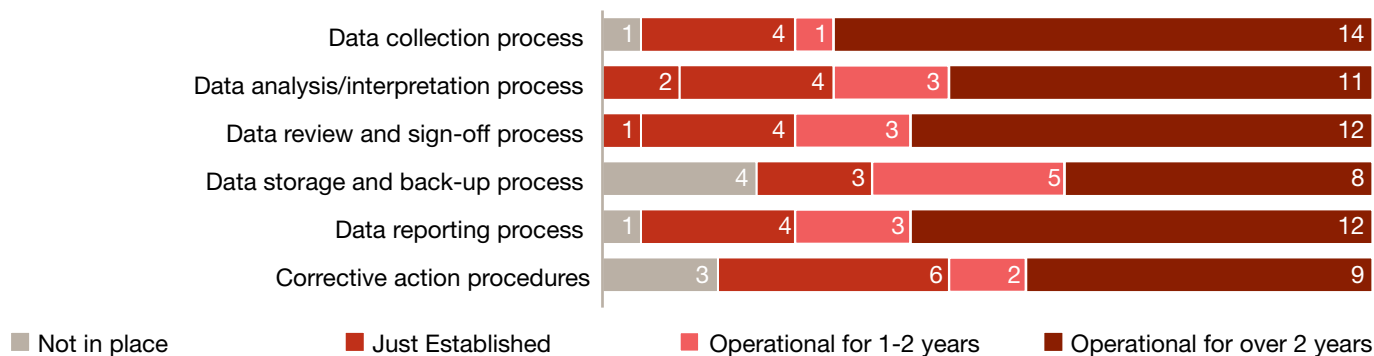| Category	Value
Definitions and policies and detailed procedures have been documented and implemented	8
Definitions and policies have been documented and implemented	7
Draft definitions and policies have been documented but not implemented	1
Some high-level documentation	4
Not documented	0
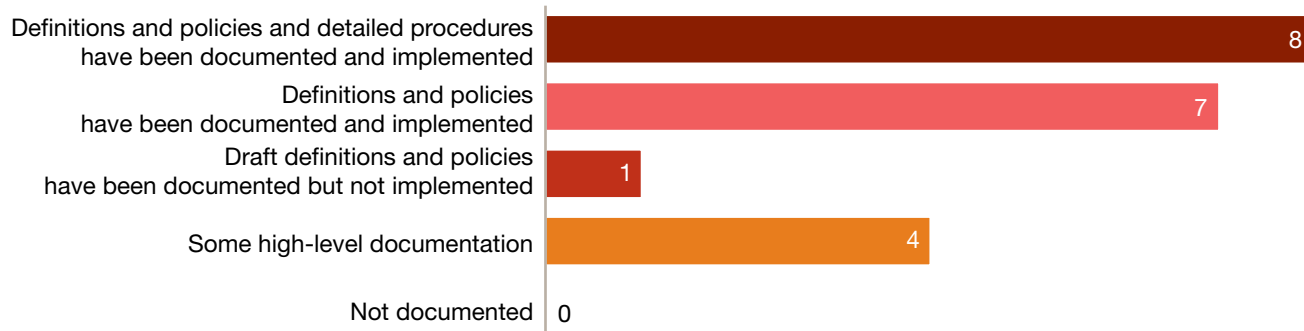
Base: 20

Level of maturity of sustainability performance management

Most respondents report that they have been taking action for more than two years and the systems they have in place are therefore assumed to be maturing. There are, however, still a relatively high proportion of companies with less mature systems, particularly in the areas of data storage, backup processes and corrective action procedures.

The responses indicate that while data collection is taking place, several companies are not yet using it to the fullest extent through interpretation and by effecting corrective actions. Few companies have implemented data storage backup systems to protect the integrity of the data reported. This undermines their ability to make decisions using their KPI data.

Figure 12. Current level of maturity for sustainability performance management

Legend: ■ Not in place ■ Just Established ■ Operational for 1-2 years ■ Operational for over 2 years
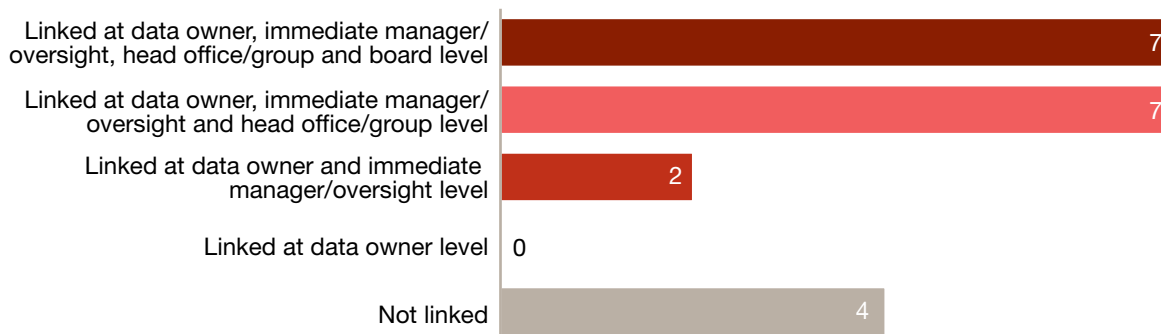
Base: 20

Extent to which individual job descriptions and/or the terms of reference for management and oversight bodies are linked with accountability for measurement, monitoring and improvement of material sustainability issues and KPIs

Job descriptions/terms of reference form a practical method with which to ensure responsible individuals understand their role in the KPI data reporting process.

While the majority of respondents indicate that senior members in their organisation have this responsibility included in their job descriptions/terms of reference, several highlight that no formal accountability is in place across the full chain of leadership.

Poor attention to this aspect affects progress in strategic areas and risks identified, ultimately compromising the integrity of KPI data, as employees and/ or their management do not see it as part of their day-to-day role.

Figure 13. Extent to which individual job descriptions and/or the terms of reference for management and oversight bodies are linked with responsibilities and accountability for measurement, monitoring and improvement of material sustainability issues and KPIs
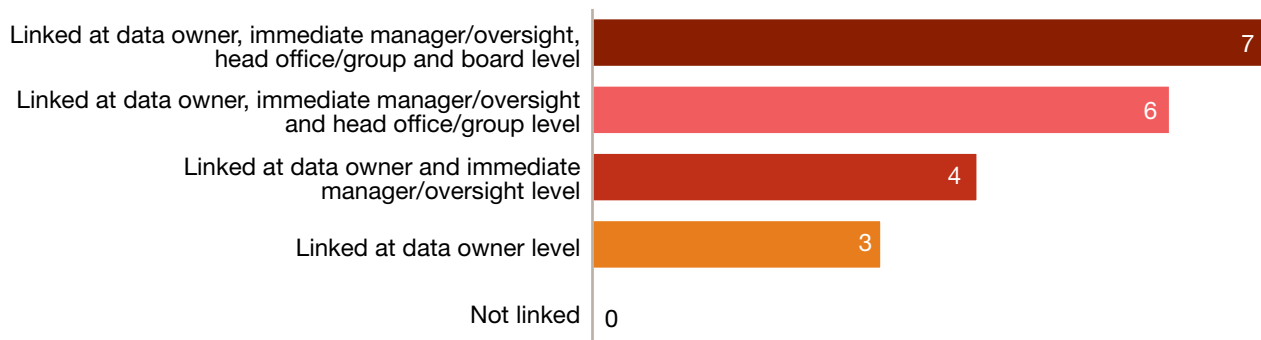

Base: 20

The link between balanced scorecard or other performance management systems and accountability for material sustainability issues and KPIs

We believe progress on material KPIs should be incentivised to ensure that positive progress and action is rewarded. Individuals act on what they are measured against – so linking individuals' job descriptions and performance scorecards for material sustainability issues should be seen as best practice.

Currently, 35% of respondents do not link performance scorecards to job descriptions for material sustainability KPIs beyond the responsible individuals at an operational level. This approach is unlikely to encourage the behaviour required to drive improvements on these issues.

Figure 14. Extent to which balanced scorecard or other performance management systems are linked with responsibilities and accountability for measurement, monitoring and improvement of material sustainability issues and KPIs

| Category	Value
Linked at data owner, immediate manager/oversight, head office/group and board level	7
Linked at data owner, immediate manager/oversight and head office/group level	6
Linked at data owner and immediate manager/oversight level	4
Linked at data owner level	3
Not linked	0

Base: 20

Communicating integrated management

Formal identification and categorisation of stakeholders

The increasing importance of dialogue regarding material sustainability issues appears to be recognised by most respondents with 80% confirming that a formal process for identifying and categorising their stakeholders has taken place.

Figure 15. Formal identification and categorisation of stakeholders

Partially
4

No
0

16
Yes
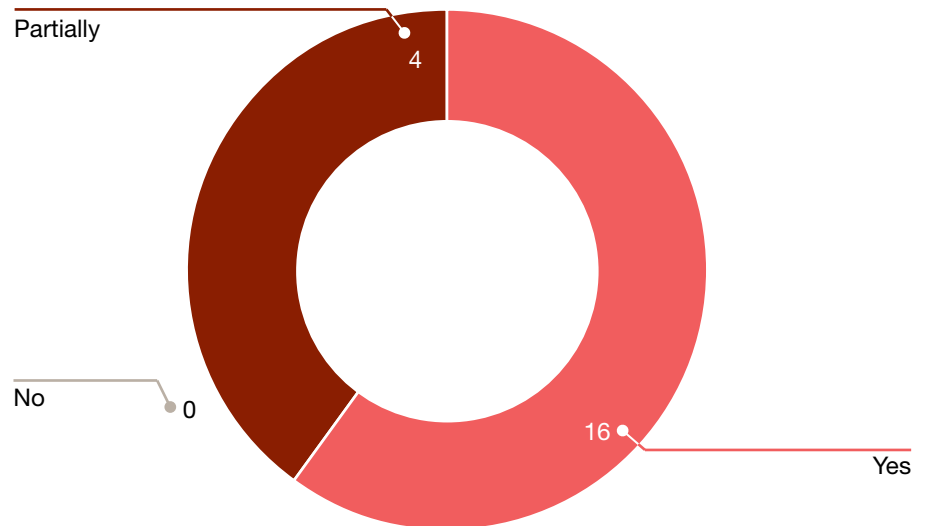
Base: 20

Extent to which stakeholder issues, concerns and/or expectations are taken into account in business processes

Most progress in understanding and integrating stakeholder feedback has taken place in the processes for external reporting, risk management, strategy and regulatory compliance.
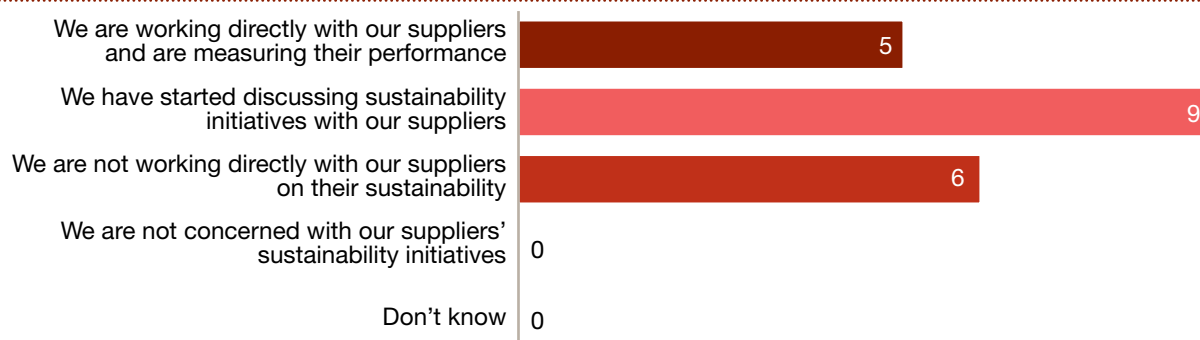
Less consideration of stakeholder concerns has been given in areas of human resources, product development and supply chain management.

These results highlight that the full value chain is not currently being explored.

External reporting appears to be driving behaviour, and therefore less focus is being placed on enhancing stakeholder inputs and improving such aspects as human resources, products and suppliers.

The resilience of businesses and the societies in which they operate depends on embedding stakeholder interests throughout the value chain.

Figure 16. Extent to which stakeholder issues / concerns / expectations are taken into account in business processes
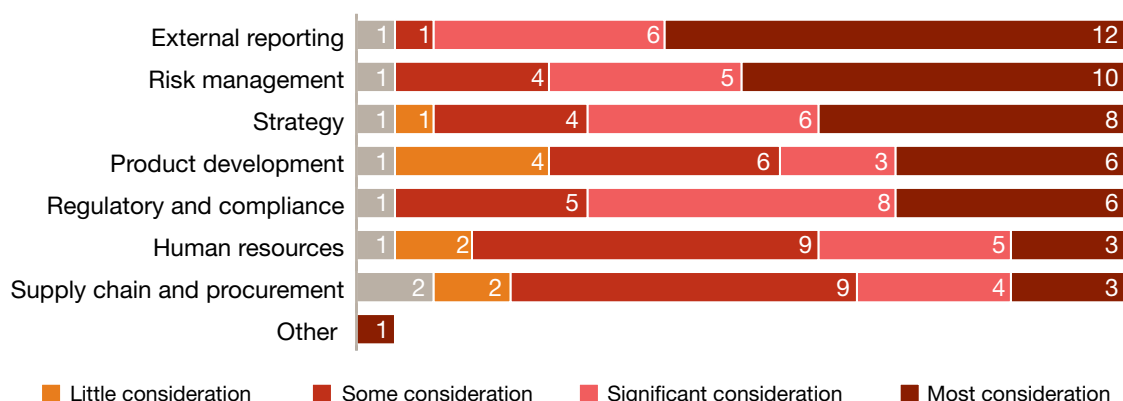
Category	Value
We are working directly with our suppliers and are measuring their performance	5
We have started discussing sustainability initiatives with our suppliers	9
We are not working directly with our suppliers on their sustainability	6
We are not concerned with our suppliers' sustainability initiatives	0
Don't know	0

Base: 20

Engagement with suppliers regarding sustainability initiatives

Most respondents appear to be in the early stages of collaboration with suppliers, which is a positive indication of improvements in each company's value chain. However, 30% state that there is currently no engagement regarding suppliers' sustainability issues. Not managing or responding to material sustainability issues in the supply chain is recognised as a risk to business as it could have cost, supply interruption and reputational repercussions.

Figure 17. Level of engagement with suppliers regarding their sustainability initiatives

Process	Least consideration	Little consideration	Some consideration	Significant consideration	Most consideration
External reporting	1		1	6	12
Risk management	1		4	5	10
Strategy	1	1	4	6	8
Product development	1	4	6	3	6
Regulatory and compliance	1		5	8	6
Human resources	1	2	9	5	3
Supply chain and procurement	2	2	9	4	3
Other			1		

Base: 20

> We recognise that success cannot occur in the absence of care for social and environmental systems upon which all our operations depend and we see this as the foundation for an exciting learning journey, together with all our stakeholders. — Respondent

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