RESPONSIBLE BUSINESS

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TRANSFORMATION

Corporate purpose requires a mindset shift

A business's purpose must be core to its commercial offering, but requires company-wide transformation to deliver impact

Jim McClelland

Tough talk is over for responsible business. With big issues such as climate breakdown, plastic pollution and modern slavery making headlines every day, surely the time to act is now?

According to Dr Wayne Visser, professor of integrated value and sustainable transformation at Antwerp Management School, the question is not whether companies act, but how.

"It matters whether their responsible action is defensive, charitable, promotional, strategic or transformative," he says. "Most are in the first four stages, when what we need is transformation."

The responsible business community is not short of progressive real-world trailblazers, whether it is BASF using value-to-society metrics, Randstad developing a future resilience index, Caterpillar remanufacturing or Philips leasing light.

All share fundamentals of approach, says Professor Visser. "What differentiates the pioneers from the pretenders is admission and ambition: admitting the scale and urgency of the problems, plus the complicity of business; and setting ambitious purpose-driven strategic goals," he says.

Purpose cannot be mere corporate window dressing, though; it must be core to the commercial offering, adds Tara Prabhakar, global qualitative director, Insights Division at Kantar.

She says: "For brands to become truly responsible, they must be authentic and that means making purpose part of their business strategy. One company getting this right is shoe brand TOMS, whose business model sees social contributions coming out of the profit and loss, rather than being conditional on success."

However, as Kantar's *Purpose in Asia* research shows, issues that matter to people vary drastically country to country. So customising purpose to local needs can help ensure greater impact across different communities.

Ms Prabhakar says: "TOMS takes the approach of 'giving locally, globally' to best represent causes customers care about. So, while the focus is on gun control in the US, in India it's safer birth services, elsewhere it's making it easier for children to go to school."

Sustainability should effectively be written into the job description for the board of directors of a 21st-century company, argues Alice Korngold, president and chief executive of Korngold Consulting, and chair of Better World Leadership.


Artur Debat/Getty Images

"Companies grow value by applying their unique expertise and capabilities to find innovative solutions to social, economic and environmental challenges," she says. "Sustainability – from a global problem-solving point of view – is not separate from company strategy, it is integral to it."

Leadership itself is also changing, says Ms Korngold, author of *A Better World, Inc: How companies profit by solving world problems*... where governments cannot. "Studies show that boards comprised of people from diverse backgrounds and perspectives are more successful financially," she points out.

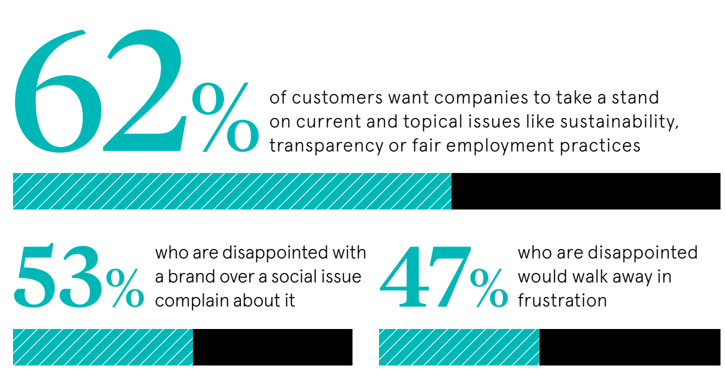
McKinsey & Company's *Delivering through Diversity* study found that companies in the top quartile for gender diversity on executive teams were 21 per cent more likely to outperform on profitability, and those for ethnic and cultural diversity were 33 per cent more likely.

Cultural change cannot just start and end in the C-suite, though. First on the to-do list for a responsible business turning words into action should actually be to edit its terminology, says retail expert and consumer champion Martin Newman.

"You can be responsible, but you have to be accountable and accountability suggests you're taking action," he says. "It has to be both a top-down and bottom-up approach. That means having a code of conduct for suppliers, one they can use to ensure their supply chains are also being socially accountable."

Reframing can help, says Ioannis Ioannou, associate professor of strategy and entrepreneurship at London Business School.

"To be able to adapt successfully, businesses should frame these challenges as both a threat and an opportunity: a threat because the effort and resources required are huge, and the task at hand challenging; an opportunity because these issues can be reconceptualised as profitable business opportunities."



Accenture 2018

Indeed, thought leaders in responsible businesses have been winning plaudits for communicating with purpose and boosting profits. The Don't Buy This Jacket campaign run by Patagonia on Black Friday was a spectacular success and tasty marketing of plant-based burgers helped the stock of Beyond Meat rocket 163 per cent on market debut.

Momentum, however, can all too easily start a bandwagon. When the United Nations Conference on Trade and Development revealed the UN Sustainable Development Goals (SDGs) might need between $5 and $7 trillion of investment and spend, many winced at the scale of the challenge. Others less selfless were perhaps tempted to pitch for the business.

Greenwashing, now rainbow-washing in the era of 17 colourful SDG icons, is a serious concern, warns Professor Visser.

"The problem with the SDGs is that most companies are either ignoring, spinning or cherry-picking them. They are just cataloguing what they already do against the list of 17, rather than integrating SDGs, or using them to innovate or transform," he says. Even the head of the International Accounting Standards Board has described greenwashing as rampant.

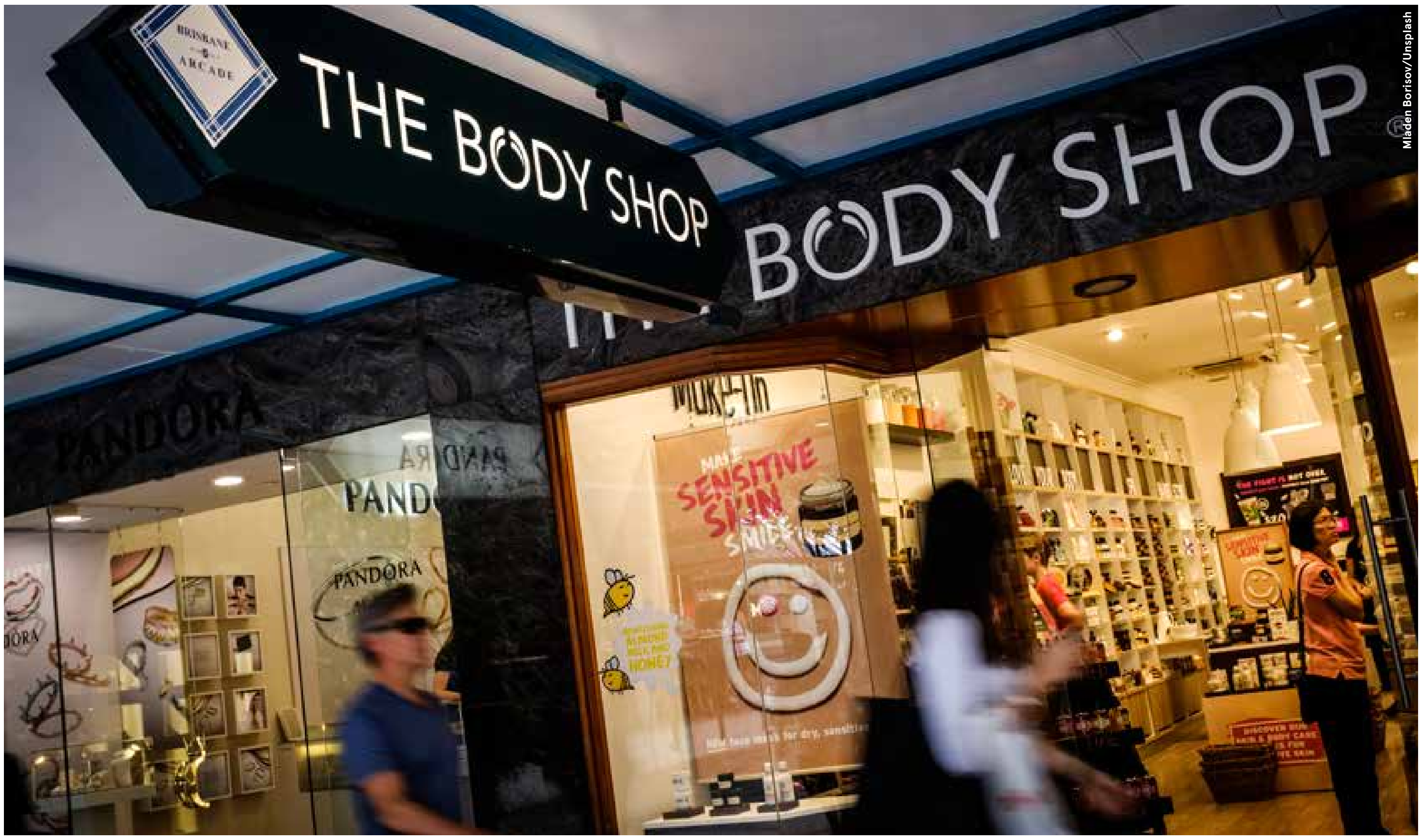
Arguing in favour of a government watchdog, Leigh Taylor, head of sales and licensing at cleantech pioneer Econic Technologies, says product companies should be required to substantiate or validate their green credentials.

"There needs to be a link between green claims and advertising standards to prevent products and processes being marketed as something they are not," he says.

"The government needs to sit up, catch up and legislate. It is not just that the government could end greenwashing; it is incumbent on them to do so."

Against a backdrop of activism on the streets, however, market evolution has arguably already begun a process of natural selection. A pincer movement of public scrutiny and shareholder pressure is putting the squeeze on the charlatans and laggards. The writing is on the wall.

Professor Ioannou concludes: "A shift towards responsible business is the mother of all disruption. And companies that fail to genuinely prepare for it by adapting their policies, practices and organisational design, or try to take shortcuts by repackaging what they do, are going to be the first ones up for replacement."



Mladen Borisov/Unsplash

GREENWASHING

Making an impact beyond the PR hype

Companies are often accused of greenwashing if their corporate social responsibility programmes fail to live up to the hype. To make a meaningful impact, they must measure what they're doing and be transparent when things don't go to plan

Rossalyn Warren

Corporates like a good cause. Not only do they want to offer good products or trusted services, but they also aspire to be forces of social change. Still, how companies prove they're making a tangible difference is an increasingly difficult challenge.

After all, social impact measurement is no easy feat. For one, it's costly. It also requires consistent and dedicated research that can last years. There's also no universal set framework for all corporates to follow. And on top of everything else, concrete, tangible change isn't always easy to quantify.

The push for greater accountability has become especially pertinent in light of public concern over climate change. The climate crisis is now part of daily conversation and political debate. It's an issue big enough to push pupils to boycott school and protesters to shut down city streets on a weekly basis.

Now, if a company claims to have green credentials, consumers want evidence. A study released in April by the Carbon Trust found a majority (66 per cent) of consumers confirm they would feel more positive about companies that can prove they are making efforts to reduce the carbon footprint of their products. This would include introducing a recognisable carbon label on products.

And if a corporation fails to live up to its green public relations hype, it's at risk of being accused of greenwashing.

This is far from a new concept. First coined in the 1980s in response to the oil industry's PR blitz, greenwashing now applies across multiple industries, including fashion, beauty, food and technology. With consumers becoming more acutely aware of environmental issues, businesses cannot risk simply to turn the company logo green and dust off their hands.

Ramifications of greenwashing vary. For the more blatant attempt to blur a business's environmental harm, it led to big financial hits and long-term brand damage. But for the less egregious examples of greenwashing, it's not always required brand control or triggered a dent to profit margins.

> Businesses don't always want to talk about what they want to do in case they get chastised because they've failed to follow through

Clothing store H&M is vocal in its efforts to push its environmental credentials. Indeed, the company has a Conscious clothing collection made using sustainable and recycled materials, and has led a major recycling initiative, collecting 1,000 tonnes of used clothes and offering discounts to those who donate their old clothes at its stores.

But even with its commitment to social impact, H&M has been criticised for diverting consumers attention away from its environmental harm through high-profile campaigns.

With its recycling project, critics claim even if 1,000 tonnes of clothing is recycled, this roughly equates to the same amount of clothes a brand of H&M's size produces in a matter of days. So while the recycling initiative may be positive, critics say it's insignificant in H&M's wider, global operations.

In other instances, even the most supposedly green initiatives can be accused of greenwashing. The Rainforest Alliance certified green sticker, which is on products from coffee to bananas, is meant to convey a message of environmental and social responsibility. However, the on-the-ground reality has been found to contradict what the sticker suggests.

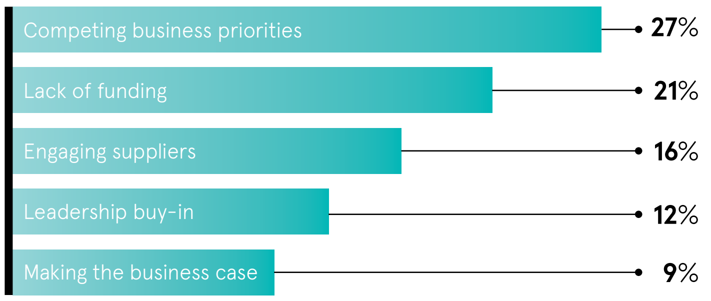
In 2014, Water and Sanitation Health, a US non-profit organisation, sued the Rainforest Alliance, citing unfair and deceptive marketing practices. It claimed the Rainforest Alliance certified Chiquita farms were marketed as sustainable. Instead, the lawsuit alleged the farms contaminated drinking water with fertilisers and fungicides, and air-dropped pesticides dangerously close to schools and homes.

For some businesses, being "green" isn't just a trend. Since its inception 40 years ago, The Body Shop has advocated social and environmental causes. The international beauty store has opened 3,000 branches in 69 countries while leading ethical campaigns focusing on where it can make a practical difference.

But even a company as green as The Body Shop still faces questioning over its environmental credentials. The store recognises the need to focus on how to adapt to a changing world. "Moving forward, we want to think differently on sustainability," says Christopher Davis, international director of sustainability at The Body Shop. "Why? Because the

BIGGEST CHALLENGES FOR COMPANIES DELIVERING A SUSTAINABILITY PROGRAMME

Survey of senior leaders with responsibility for sustainability/energy



Carbon Credentials 2018

66% of consumers would feel more positive towards companies that can demonstrate efforts to reduce the carbon footprint of their products

YouGob/Carbon Trust 2019

10% of businesses have set carbon emissions targets

Carbon Credentials 2018

planet and society are fast facing a crisis and we need to act now."

One way The Body Shop is doing this is through science-based, social impact measurement guidance. The business's corporate social responsibility (CSR) efforts are guided by measurable and science-based goals from the Future Fit Business Benchmark, a framework with a forward-thinking approach that recommends practice according to the best available science.

"What we do is seek to be as transparent as possible and accept that while we are not perfect, we are always working to improve," Mr Davis adds. "We want to make sure we are listening, learning and bringing new perspectives into the company."

So how can companies prove they're actually doing what they say they are? While there is no one-size-fits-all practice, a number of frameworks, models and measurement tools are useful to help track and verify the impact of its projects and investments.

Some of the recognised standards include the Global Reporting Initiative, a standards organisation that helps businesses understand its impact on issues such as climate change, and the Dow Jones Sustainability Index, which offers benchmarks for sustainable business practices, and the World Benchmarking Alliance.

There's also the B Corp certificate given to businesses that meet the highest standards of verified social and environmental performance and the United Nations Sustainable Development Goals, which are increasingly being used as markers for effective social impact measurement.

Beyond this, there are some clear, evidence-based ways businesses measure environmental credentials. These include calculating carbon emissions, through the Carbon Disclosure Project, or the Greenhouse Gas Protocol. Companies can also track their energy use, wastewater, pollutants and electronic waste across its operations.

In addition, effective social impact measurement means accounting for other factors that may have influenced the element being measured. Corporates need to ask themselves to what extent can a change be attributed to the activities of its business's CSR efforts or investments.

Of course, corporates can face heavy scrutiny over failed green projects and investments. The term "greenhush" is used for when corporates refrain from discussing green credentials to avoid being criticised for any failures. If a company fears the accusation of greenwash, then why would they shout about it?

Amanda Powell-Smith, chief executive of Forster Communications, is an expert in CSR working in the field for more than 20 years. She says while businesses may fear publicising goals in case they fail to meet them, transparency is better than doing nothing at all.

"Businesses don't always want to talk about what they want to do in case they get chastised because they've failed to follow through," she says. "We should be encouraging corporates to say, 'We have new targets, but we didn't meet them because of these reasons and that's why we're going to be trying this new idea next'."

While standards and benchmarks are not a foolproof way for a corporate to measure every level of its impact, they offer a constructive guide. Despite the challenges, corporates are working hard to measure their projects and investments, particularly with evidence-based methods.

Ms Powell-Smith says standards and benchmarks encourage corporates to work openly and honestly, and with accountability at the core of their aim. She says social impact measurement shows the possibilities of influencing social impact, not the limitations.

"Showing the progress and journey from the start is where impact measurement is really important," she concludes. "It can show people what we can learn from and what's possible to achieve."

Commercial feature

Why only 2% of sustainability programmes succeed

One-off projects and public relations initiatives are almost guaranteed to fail. The key to success lies in linking your impact to the bottom line

Society is demanding more from corporations and chief executives than ever before. The new standard for success includes more than financial performance; companies must have a positive impact on the world.

And yet only 2 per cent of corporate sustainability programmes achieve their goals, according to consultancy Bain. It's a figure to make you rub your eyes in disbelief.

Even the most high-profile schemes have struggled. The CocoaAction alliance of the world's leading chocolate companies generated flattering headlines when it was launched, intending to improve the livelihoods of 20 per cent of cocoa farming families. But so far there's no hard evidence the alliance is helping households escape poverty.

Companies from Walmart to Disney and Target have made public commitments to sustainability, only to find themselves ill-equipped to deliver. This is the norm, not the exception.

So, what's going wrong? Researchers at Palladium, a global impact firm working in 90 countries across the public and private sectors, interviewed 30 chief sustainability officers to find out. The reasons cited for underperformance included poor integration with the company's core business and the difficulty of engaging with key stakeholders in local communities.

But analysis pointed to something much deeper: a lack of ambition. Companies are simply not thinking big enough.

Christopher Hirst, chief executive of Palladium, explains: "A new school may be needed in an impoverished community and look great in a corporate social responsibility report," he says. "But it's not enough to pull smallholder farmers out of poverty or improve their supply chain in a material way. The drivers of inequality are complex and local context is crucial. Bolt-on initiatives and one-off contributions barely nudge the needle."

When organisations think big, they can deliver fantastic results. Here's an inspiring example. Peru has many small and struggling cocoa farmers, many of whom are ageing while younger Peruvians aren't keen to join the sector. The Peru Cacao Alliance was founded in 2012 to reimagine the whole system. Funding was provided by USAID alongside private sector investors, and Palladium shaped the strategy and execution, recruiting more than 30 partners across the industry. The alliance educated farmers to improve land management and yield, addressed the supply chain, scrutinised markets and contracts, and introduced new technologies.

The results? "The size of the average farm in Peru has tripled," reports Mr Hirst. "Yield has doubled. Farmers are moving out of poverty. The younger generation is getting involved. Peru rose from the tenth largest speciality producer of cacao in the world to the second. It's seen as a model programme for nurturing smallholders in emerging markets."

This linking of corporate sustainability goals with commercial goals is key and another factor unearthed by Palladium's research. Social impact can't be pursued just for public relations and it can't be a cost centre. These initiatives have to contribute to the company's core strategy, business processes and ultimately the bottom line or risk joining the 98 per cent that fail.

"With the right approach, companies can see greater business results through social impact," says Mr Hirst. "In London, we've connected social entrepreneurs with the capital they need to succeed. In Uganda, we helped one of the world's most active micro-lenders establish itself as a bank. We're helping an Indian province to fund healthcare for mothers with results-based return on investment for investors. In each case, the financial results go together with social impact, ensuring the long-term prosperity of the projects and the sustainability of the organisations involved."

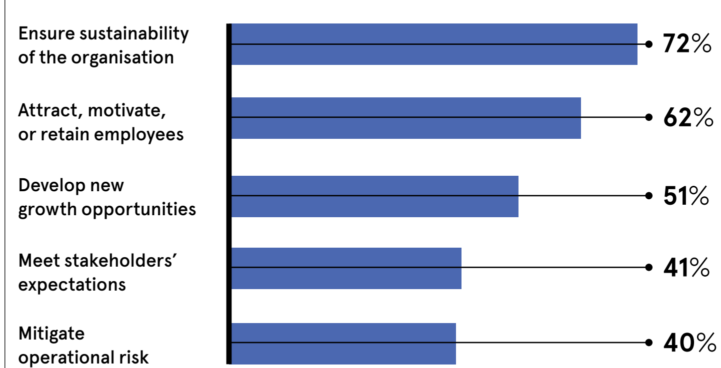
Naturally, many companies will need help adapting to these principles. Mr Hirst suggests companies work with an established partner that can bring experience, local knowledge, governance frameworks and the ability to execute on a bold strategy to ensure success.

"We believe a better world is possible for everyone and that the starting point is an understanding of how everything is interconnected. No one can progress unilaterally," he says.

"If your company shares this view and wants to make a real impact, we should work together. By thinking big, there's no limit to what we can achieve."

WHY SHOULD ORGANISATIONS PURSUE SOCIAL IMPACT ALONGSIDE FINANCIAL RETURNS?

Global business leaders surveyed by Palladium recognise the connection to their bottom line



> With the right approach, companies can see greater business results through social impact

Palladium is in the business of making the world a better place. Founded in 1965, it employs more than 2,800 experts in 90 countries across the globe, working with clients of all types. To find out more please visit thepalladiumgroup.com

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MAKE IT POSSIBLE

SOCIAL ENTERPRISE

Social enterprises need a business brain

The majority of social entrepreneurs struggle to make a living from their ventures, so how sustainable is the social enterprise as a business model and why does it present such a challenge?

Mark Hillsdon

The idea of running a business that has a strong social mission, is launched from a solid ethical platform and proudly commits to reinvest profits for the greater good, is an attractive proposition. But is it a model for a sustainable business?

Despite the growing popularity of social enterprises, UnLtd, a foundation for social entrepreneurs, says one of the biggest challenges to setting up a social business is actually making a living and earning enough money to stay in business for the long run.

"Commitment to ethics can make everything more expensive and time consuming," explains Michelle Wright, founder of Cause4, which helps charitable organisations to change and grow. "It's not impossible, but running a social enterprise isn't for anyone looking for an easy life."

Mark Sesnan, managing director of GLL, a charitable social enterprise launched in 1993 to take over the running of leisure services in Greenwich and which now operates 250 different facilities around the UK, says: "You have to forsake the idea that you are ever going to make yourself a multi-millionaire. But hopefully you get satisfaction from trying to do the right thing and do it well."

Mr Sesnan, who has also mentored other social entrepreneurs, believes successful social businesses are built on a solid, sustainable plan.

"You can't actually add social value if you don't have a sustainable business in the first place," he says. "It's not just about having good ideas; it's also about having a business brain."

Dr Gabriella Cacciotti, assistant professor of entrepreneurship at Warwick Business School, says the most successful social enterprises are those set up with a very clear goal. "Our research found that social entrepreneurs who started their venture with a very broad sense of purpose, such as 'I want to change the world', found it very hard to establish a sustainable business model.

"A narrow purpose is much easier to turn into concrete business practices, which are more likely to form a sustainable business model."

Mr Sesnan agrees. "Idealism; there isn't much room for it really," he says. "You have to be realistic and practical."

Last year's Hidden Revolution, a report by Social Enterprise UK, showed that despite the difficulties, there are more than 100,000 social enterprises contributing £60 billion to the UK economy and employing two million people.

It also showed that 47 per cent of social enterprises grew their turnover year on year compared with 34 per cent of small and medium-sized enterprises.

"There's nothing wrong with making money," says Neil Woodbridge, chief executive of Thurrock Lifestyle Solutions, a community interest company that delivers adult social care. "It depends on what you do with it and how you're making it.

"The challenges [for social enterprises] are actually the same as for any other business; not-for-profit doesn't mean you don't like profit, it means you're not led by profit."

Cause4's Ms Wright says: "The best social enterprises think commercially from the start. They have founders who recognise the principles of business and generating profits for investment are at the heart of the social or charitable proposition."

Rosie Ginday, who runs Miss Macaroon, a patisserie in Birmingham which offers training and jobs for long-term unemployed young people, says: "There's been a bit of a misconception that social enterprises have that 'charity café-type' quality," she says.

Her company, which uses a Pantone matching system so she can match macaroons to a customer's colour choice, has won contracts with the likes of Google and KPMG.

It's profits that drive the business, Ms Ginday says. "Without any profits we can't run the training courses and we can't provide that in-depth support for the young people we work with," she says.

An area where social businesses struggle is finding finance. Many social enterprises are established as a company limited by guarantee, which makes things difficult for investors. "What do they buy into if they can't have a share?" Ms Wright explains.

Crowdfunding is growing in popularity and at the other end of the scale are social bonds, which are an effective way of raising large amounts of money. However, Ms Wright adds:

Birmingham patisserie Miss Macaroon offers training and jobs for long-term unemployed young people

UK SOCIAL ENTERPRISES BY THE NUMBERS

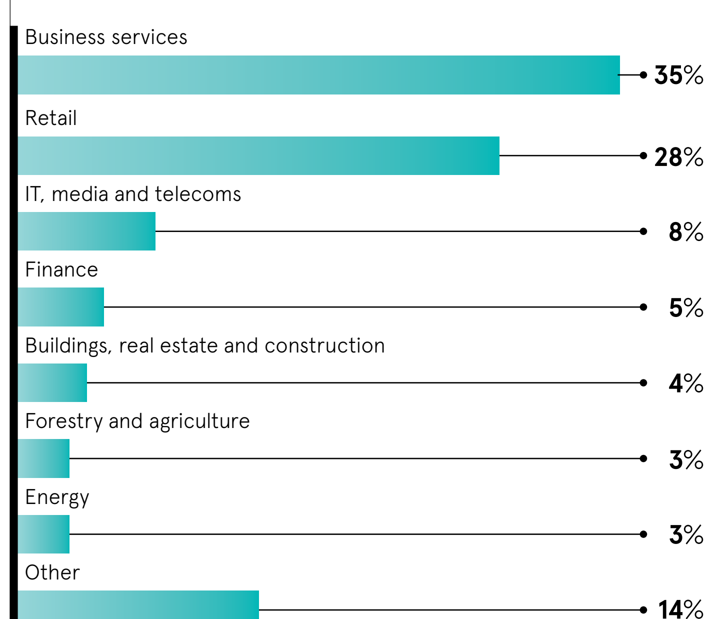
100k
number of social enterprises

£60bn
contribution to the economy

2m
number of employees

Social Enterprise UK 2018

CERTIFIED B CORPS BY INDUSTRY WORLDWIDE



Generation Foundation 2017

RJT Photography/Alamy

Womenswear brand Eileen Fisher has been a certified B Corp since 2015

Do B Corps have the answer?

The B Corp, or benefit corporation, was launched in the United States in 2006, based on the idea that businesses needed to start balancing what they do with the impact they make, no longer seeing profit as their only driving force.

There are now around 2,400 worldwide and over the last 12 months there has been a 50 per cent increase in the number of companies applying to complete the tough assessment, which looks into five key areas of business including workers, community and environment.

Last year, B Corp's own research revealed that a UK B Corp enjoys a year-on-year growth rate of 14 per cent, 28 times higher than the national rate of 0.5 per cent.

Michelle Wright's business Cause4 was one of the first to become a B Corp in the UK. "As entrepreneurs, we're told bigger is best, that we should concentrate on growth at all costs, and we should be measured on turnover and the numbers of staff we employ. But that approach can lead to misery, burn out and poor mental health," she says.

"Many modern organisations have stripped the satisfaction out of work, making the worker no more than an anonymous cog in a huge machine.

"B-Corp status has helped us redefine success. We now ignore the 'bigger is best' mentality and focus on human relationships, and from that springs the ethical response about how we go about our business, look after our staff and culture, and ultimately get happier."

"There isn't enough capital at the right time that's affordable and appropriate to social entrepreneurs."

Spring Impact, formerly the International Centre for Social Franchising, runs the Scale Accelerator in partnership with the National Lottery Community Fund. It's designed to help social enterprises grow and develop through an intensive programme of support, which can better position them to gain backing from innovative funders.

"The number of social enterprises is increasing and it's a business model being explored by a range of organisations," says Spring Impact director Joe Kallarackal. "In the commercial sector, we are also seeing the emergence and demand for purpose-led businesses, with big corporates like Unilever identifying a mission-driven business model as the route to sustainable business."

Mr Woodbridge, who also runs the Thurrock School of Social Entrepreneurs, works with young people, many of whom have degrees and big debts, but are now part of the gig economy or doing shifts in the local supermarket. He says: "You say to them, 'What sort of work would you really like?' and the idea of working for a big corporate and spending 40 years there and retiring is long gone. What they talk about is wanting to make a difference in their job."

> **You can't actually add social value if you don't have a sustainable business in the first place. It's not just about having good ideas**

Dr Jackie Mulligan, founder of social enterprise app ShopAppy, which is helping to link local people with local producers and retailers, concludes: "The days of companies seeking profit at all costs are numbered and socially responsible businesses have much more chance of success.

"Ultimately, to be successful businesses need to deliver win-wins for customers, investors and the social good they are trying to achieve. A business model that serves all three demands will be sustainable, but striking the right balance is the big challenge." ●

Commercial feature

Real transparency unlocks renewable energy market

Green electricity is attracting strong interest from investors, producers and corporations, as business models mature. But with parties trading in a growing open market, they rely more than ever on accurate risk and price analysis

The market for renewable energy is undergoing significant change as government subsidies and support schemes are scaled back, in the context of budgetary pressure and a surge in new installations. As a result, new ways of trading green energy are taking over.

Investors in renewable energy markets have, in recent years, become much more exposed to open market forces; the lack of government support means investors no longer have guarantees and fixed prices they took for granted.

These changes have introduced many new challenges for producers of wind and solar energy, and the market can easily appear opaque to buyers and sellers, which need new ways to understand production, market forces and pricing confidently.

"Subsidies have been fuelling renewables for a long time, making them low risk," explains Michael Waldner, chief executive and co-founder of Pexapark, which provides consultancy and software to guide energy producers, investors and buyers.

"Today, if you invest in a renewables project you don't have the government price guarantee and you have to find the best deal in the market."

Buyers and sellers of renewable energy now rely on power purchase agreements (PPAs) to set key terms between them over the next ten to fifteen years and getting these right requires an in-depth market understanding.

"Everything can be negotiated from the volume and the price, to the credit and the regulatory terms," Mr Waldner explains. "Parties are seeking expertise in how to go about contract structuring, how to go about pricing and where to find buyers."

The need for a clear market view is ever-growing; numerous producers are quickly starting up, as technology slashes costs. Meanwhile, many large corporates, including the likes of Facebook, Google and Amazon, increasingly satisfy their high appetite for green electricity by purchasing directly from those producers, rather than traditional utilities. Some 5.4 gigawatts of energy was bought this way in 2017 alone, a 25 per cent increase on the previous year, according to Bloomberg New Energy Finance.

> **For investors, producers and consumers, introducing real transparency based on deep market understanding is the only way for successful deals to be negotiated**

Pexapark advises producers of renewable energy that need guidance and support as they take their projects from inception through to the point of selling megawatt hours on the open market. Using advanced quantitative models and industry expertise, it simplifies pricing and risk assessment. It also has an academy to tutor market participants on structuring and pricing PPAs, and reports on long-term pricing and opportunities. Equally, it helps companies source renewable energy and make the right arrangements.

The company has created its own cloud software PexaMonitor, which helps sellers analyse market risk exposure and costs in detail. Its other platform PexaConnect brings together buyers and sellers to facilitate trades. Mr Waldner explains: "Sellers can see all the interest on the buyer side, while corporations consuming the power can request a quote or request a proposal for specific packages of renewable energy."

Since its inception in August 2017, Pexapark's services and its software platforms have quickly gained traction in a market clearly in need of added transparency. Having grown its team to 24, half of whom are renewable energy market experts and the other half IT specialists, the Swiss firm is looking to expand further its workforce and grow beyond Europe.

Over the past year, Pexapark has:

advised over **3,000**MW of PPA transactions

educated over **250** energy professionals

grown into a team of **24** energy professionals and software engineers

Renewable energy markets continue to see fast-changing dealmaking, and risk and price assessment, and there will be significant transition in the coming years as participants get to grips with new opportunities. For investors, producers and consumers, introducing real transparency based on deep market understanding is the only way for successful deals to be negotiated.

To find out how to gain transparency in the open market for renewables please visit pexapark.com

PEXAPARK

ESG INVESTMENT

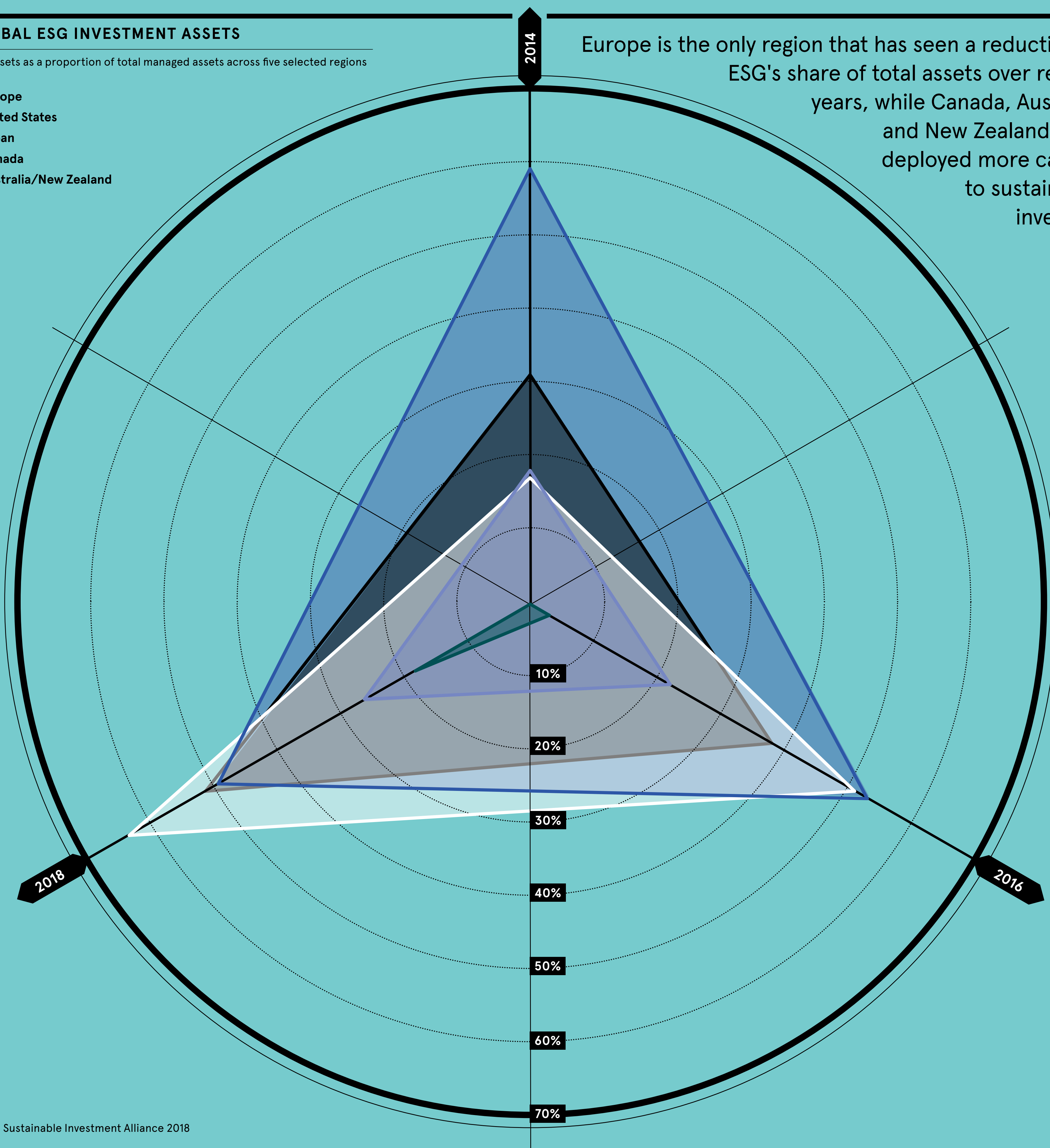
Environmental, social and governance criteria are now a component of investment strategies for four fifths of global institutional investors, but which regions are investing, and which areas of ESG investment are the most popular?

GLOBAL ESG INVESTMENT ASSETS

ESG assets as a proportion of total managed assets across five selected regions

- Europe
- United States
- Japan
- Canada
- Australia/New Zealand

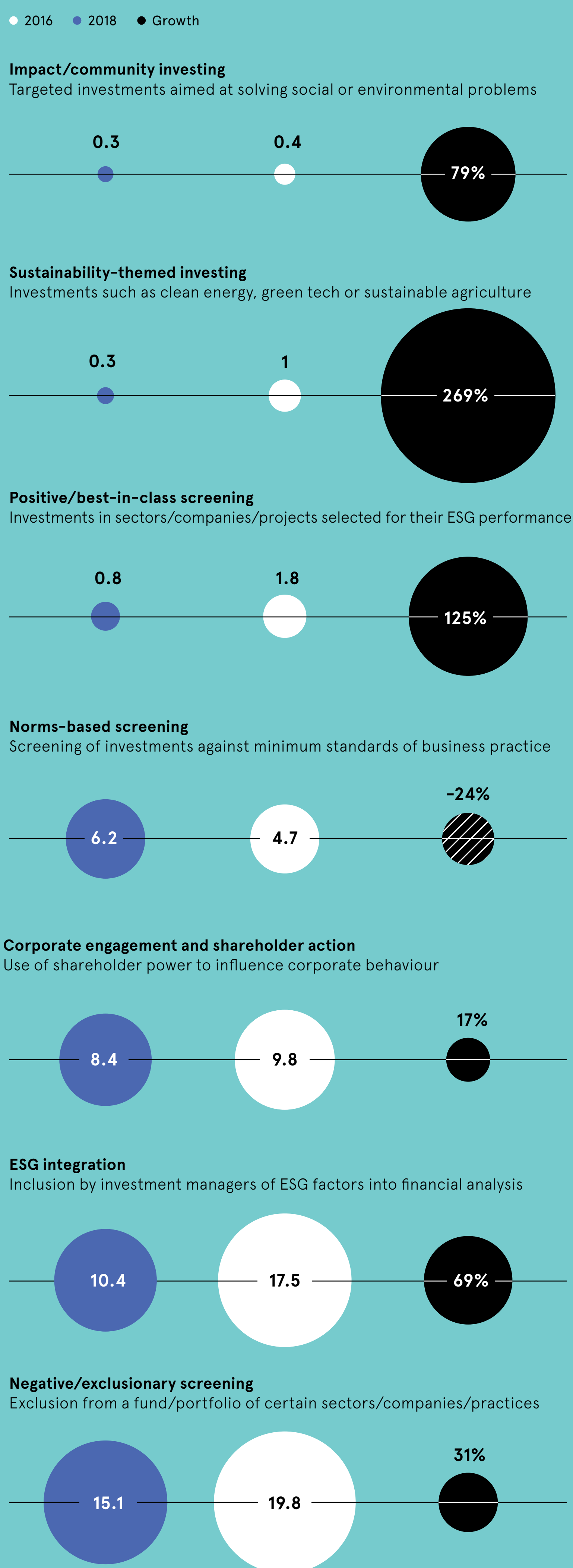
Europe is the only region that has seen a reduction in ESG's share of total assets over recent years, while Canada, Australia and New Zealand have deployed more capital to sustainable investing



Global Sustainable Investment Alliance 2018

GROWTH OF SUSTAINABLE INVESTING STRATEGIES

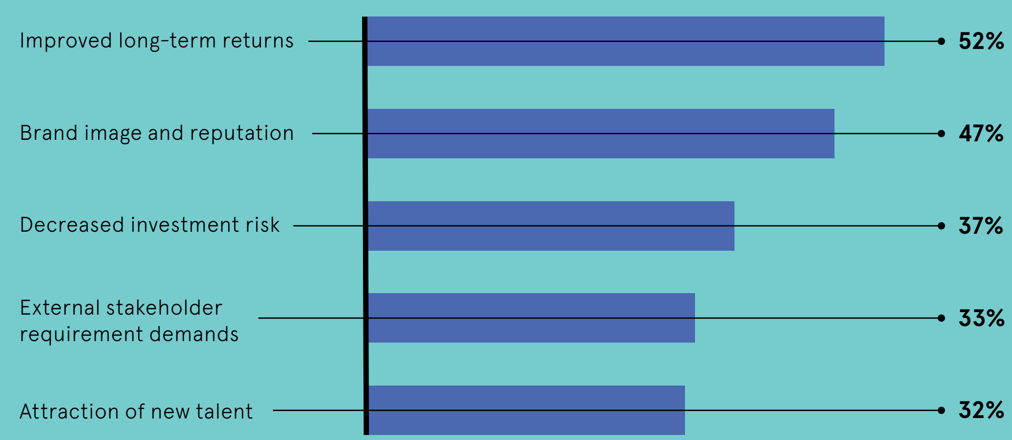
Value of assets across five selected regions ($trn)



Global Sustainable Investment Alliance 2018

TOP MOTIVATIONS FOR INTEGRATING ESG INTO INVESTMENT PORTFOLIOS

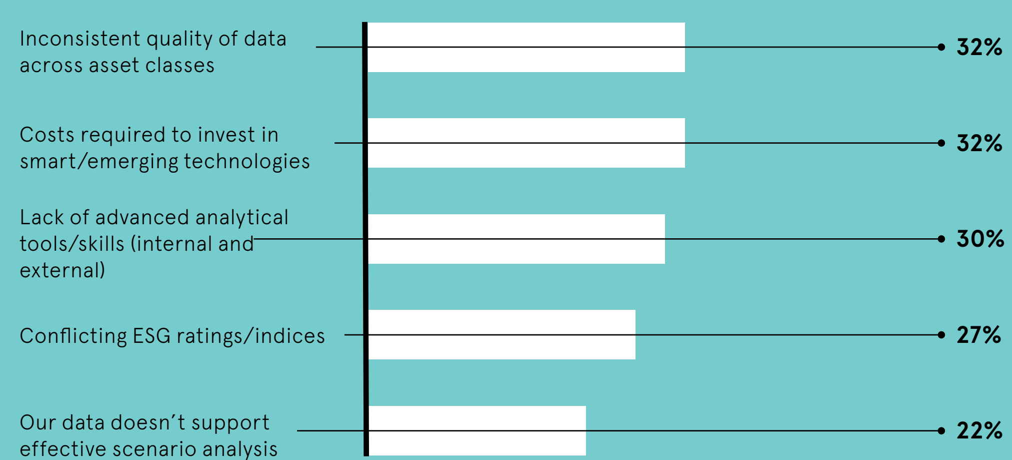
Survey of global asset managers and owners



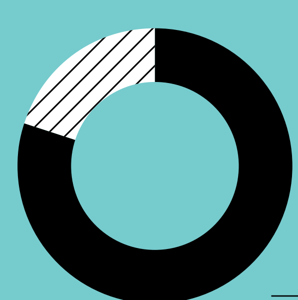
BNP Paribas 2019

BIGGEST BARRIERS TO GREATER ADOPTION OF ESG ACROSS INVESTMENT PORTFOLIOS

Survey of global asset managers and owners



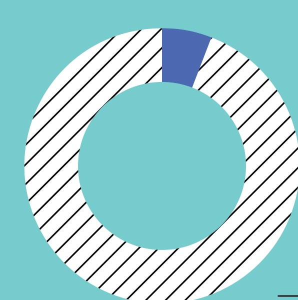
BNP Paribas 2019



80%

of global institutional investors say ESG is a component of their institution's investment strategy

State Street Global Advisors 2018



6%

say ESG is not a component but they are actively considering it

State Street Global Advisors 2018

Commercial feature

Energy from waste: sustainable business with fast-growing investment

Creating facilities that turn waste products into energy is a burgeoning industry, thanks to an innovative UK agri-food sector and strong profitability for the funders backing them

01

Anaerobic digestion (AD), a process that takes waste and through the build-up of bacteria in a closed system creates biogas, has demonstrable success as a green source of heating and electricity.

There are now more than 600 AD plants in the UK, covering on-farm, food processing and domestic food waste sectors, with 70 commissioned in 2017 alone. The industry is clearly well placed for an acceleration in growth, partly because of its effective processes, but also because it will contribute significantly towards decarbonising energy supplies and reducing the scale of waste taken to landfill.

These benefits are already seen as significant locally and nationally, but their importance is only likely to increase as government and businesses continue to put ever-greater emphasis on environmental issues. In addition to heat or electricity, new technology in the biogas industry means this green gas can also be used to make hydrogen and potentially diesel and aviation fuels, further capturing the attention of investors looking for strong growth.

"There are a whole host of areas in which we as a funder actively engage with technology providers to look at optimising and bringing new technologies to market, so every type of by-product that comes from waste can be exploited," explains Phil Gerrard, chief executive of Privilege Finance.

Privilege Finance is currently one of the foremost funders of energy-from-waste schemes in the UK. In partnership with its key funding partner Prestige Funds, it has invested more than £300 million to produce in excess of 60 megawatts of energy from AD projects. It understands the sector has huge untapped opportunities, including the potential to meet almost a third of domestic gas demand, given waste volumes across the country.

Opportunities from the technology are many: gains for investment backers, usable and sellable energy for food and agriculture businesses, decarbonisation of the National Grid, and reduction in the reliance on landfill sites from local authorities, food processors and agri-businesses.

Biogas facilities, once up and running, can give a year-round supply of energy that saves them money, while any excess energy generated can be sent to the National Grid for financial return. AD plants do not rely on weather conditions, unlike solar or wind farms, and this vastly affects their consistency of generation. "We can be looking at over 90 per cent uptime compared to wind turbines, which depend on the right conditions to be effective," says Mr Gerrard.

An example of the more than 30 plants Privilege Finance has invested in is Brigg Lane Biogas in Lincolnshire, a site that will process 75,000 tonnes of liquified food waste every year, which would have ordinarily gone to landfill. In context, this would be enough green gas to heat more than 6,000 homes.

02

> **With far fewer people funding the initial builds than the refinancing, there's a major growth opportunity in this market for funders with the commensurate experience and track record**

Benefits of reducing the disposal burden are also clear. In 2017, there were 7.4 million tonnes of biodegradable municipal waste in the UK. Within two years, Scotland is to have a complete ban on sending food waste to landfill and in England local authorities are coming under increasing pressure to reduce their own volumes of waste. The government's recent announcements will accelerate this process. Generators of waste, alongside local authorities, are therefore looking to change their practices.

AD has been embraced in other countries that have recognised its benefits both to communities and businesses. Given that, so far, the nature of investment in the construction side of the waste-to-energy sector has been relatively niche in the UK, there is a strong opportunity for smart mid-sized and large investors to make gains.

"In addition, much of the debt funding has been concentrated in refinancing facilities once they are running and looking to consolidate," explains Mr Gerrard. "With far fewer people funding the initial builds than the refinancing, there's a major growth opportunity in this market for funders with the commensurate experience and track record."

Privilege Finance is keen to broaden investor perceptions by demonstrating AD's track record, bringing in numerous backers with an appetite for high growth forms of green energy. To provide long-term opportunities, it takes a "project life cycle" approach through its unique financial product, SCOPE, designed to provide support from inception to completion, thereafter to commissioning and optimisation, and towards refinancing. It also appeals strongly to borrowers, such as farmers or landowners, as it does not tie up their core assets as security for loans.

Mr Gerrard is convinced that a tipping point is likely to be reached very soon that will see the waste-to-energy sector become a strongly appealing area of activity for large investors as they see the returns available and the number of both food and agribusinesses looking to implement the technology.

"In the market over the last two or three years, we've provided finance to about 40 per cent of the anaerobic digestion new builds in the UK," says Mr Gerrard. "We're looking to bring more debt funders into this construction market to help kickstart the number of plants being developed, and help the government and the grid to meet their decarbonisation and waste reduction targets.

"This is a well-established technology and growing sector that is ideally placed to help countries and governments achieve significant inroads into reducing food waste and decarbonising their economies over the next five to ten years. With the right finance and the integration of new technology, there is clearly massive potential for the sector to play a central role in the green energy revolution."

01
AD can play a pivotal role in decarbonising the national grid

02
Energy from waste projects can help reduce the scale of biodegradable waste taken to landfill

30%

of current domestic gas demand could by met by the AD industry

1.2m

number of homes that AD has the capacity to power

600

AD plants in the UK

ADBA

To date, Privilege has delivered...

£330m

worth of investment into the UK AD and biogas industry

Privilege is the only company of its kind in the UK to offer energy to waste project finance without tying up core assets

To find out more about sustainable opportunities with energy from waste please visit www.privilege.finance

CARBON EMISSIONS

Low-cost ways to reduce your carbon footprint

No matter their size, companies are concerned about social responsibility and what they can do to lower their carbon footprint. But taking action doesn't have to be expensive...

Rich McEachran

Clothing

"Simple, convenient measures are the most effective when on a budget, especially for re-educating staff and encouraging behaviour change," says Dr Krista Bondy, associate professor in corporate social responsibility and environmental management at the University of Bath.

"For example, staff need to feel comfortable at work, but encouraging them to wear jumpers during the cold months means you can run the heating at a slightly lower, but consistent, temperature."

This will also reduce the need to plug in portable space heaters around the office to keep employees warm.

Carpooling

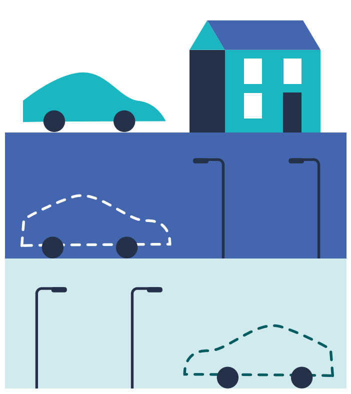
"We've recently been encouraged by one of our directors to give up our individual cars and pool together, making use of just one vehicle that will be shared between all staff," says Freddie Supple, who works freelance at Currency Online Group.

The online currency services company currently has a team of fewer than ten employees, which Mr Supple concedes makes it easier for them all to agree. As teams grow in size, it can be harder to encourage employees to buy in to carpooling. If this is the case, motivate them by offering prizes to the person who logs the highest number of miles travelled over a certain period, he adds.

Virtual meetings

Some corporate travel is unavoidable, especially for international business, but where possible take the bus or cycle. Don't use a car to go a few miles for a 30-minute meeting when it can be done over Skype, says Dr Bondy.

Video conferencing platforms, such as BlueJeans, make it easy for companies to monitor their business carbon footprint, and track the emissions prevented and travel costs saved in the process.



Telecommuting

The 40 to 50-hour week is still the norm for many employees. But if every worker in the United States spent half their week telecommuting, it would reduce carbon emissions by 51 million metric tonnes, according to Global Workplace Analytics. This is equivalent to taking all commuters off New York's roads.

Consider each employee's position and responsibilities, and whether they really need to be in the office by 8am each morning, says Dr Bondy.

Tea rounds

"We try to make tea and coffee in batches and do a tea round for everyone at the same time. It's a small, but nice, gesture that helps to save on electricity and is a good excuse for colleagues to offer to make each other a hot brew," says Mr Supple.

A tea round is no mug's game. It costs 2.5p on average to boil a full kettle, according to npower. While this sounds minimal, when you factor in companies can have anywhere from 100 to 1,000 employees making themselves more than one brew every day, it all adds up.

Cycling

At Forster Communications, the senior management team are big advocates of sustainable transport. So much so that included in its employee benefits programme is a scheme where workers are rewarded with five minutes additional holiday for every journey cycled or walked, so-called pedal points.

"There's also a 50p reimbursement for every mile cycled to meetings," says Kate Parker, the company's human resources and sustainability lead. "It definitely incentivises behaviour change. As a result, around a third of our employees now regularly cycle or walk to and from work."

Whatever the rewards, employees need to see clear demonstration of how changing their behaviour will benefit them, says Ms Parker.

Meat free

Advocating meat-free days in the office is a good way to reduce the business carbon footprint. "If employees are entertaining clients or organising catering for events, encourage them to choose the local vegetarian or vegan option," says Dr Bondy.

Research by academics at the University of Oxford, published in 2016, found that if everyone became vegetarian, food-related emissions would drop by 63 per cent by 2050. And if they went vegan, the drop would be nearer 70 per cent.

Last year, co-working giant WeWork announced it was taking meat off its menu and employees are no longer able to charge meals containing meat as a company expense.

Reusable cups

Employees often bring takeaway drinks to the office and each time a plastic cup is likely to be thrown away. According to the BBC's Reality Check team, 99.75 per cent of plastic cups in the UK are not recycled because there are only a limited number of specialist recycling plants able to process them.

So another measure to reduce the business carbon footprint is to offer employees reusable coffee cups. This will reduce both the company's own waste and the number of plastic cups ending up in landfill, says Dr Bondy.

It's also worth getting rid of any disposable cups and plastic cutlery in the staff canteen; employees should be encouraged to bring their own cutlery to work instead.

RESPONSIBLE MARKETING

What B2B brands can learn from conscious consumerism

Consumer-facing brands are reaping the benefits of brand loyalty and retention through their efforts to become responsible businesses, so is there an opportunity to be had in responsible marketing for business-to-business companies?

Belinda Booker

Business-to-business (B2B) marketing is about to get all touchy feely. New research conducted by global B2B marketing agency gyro shows business purchasing decisions are being made in exactly the same way as consumer purchases: emotionally. A staggering 62 per cent of executives rely on intuition and gut instinct.

"These facts always astound me because often people are buying multi-million-pound products and services for their companies," says Emma Rush, president of gyro UK. "But what we see is they are behaving like human beings; as such more agencies and marketeers are recognising the need for emotion and storytelling in B2B."

Part of giving buyers a good feeling about your company means running it in an ethical and socially responsible manner, and being vocal about the good things you do. gyro is increasingly being approached by B2B organisations for help establishing a purpose-driven brand.

"We're noticing a significant shift in the briefs we're seeing through, especially in manufacturing and construction," says Ms Rush. "Businesses are becoming aware of the business benefits of responsible marketing for growth."

In fact, Ms Rush believes B2B purchasing has reached a tipping point, driven by the changing workforce, with millennials rising up the ranks and now entering leadership roles.

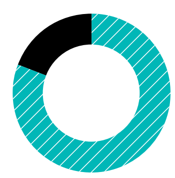
"By 2020, millennials will be 50 per cent of the global workforce," she says. "We think that purpose-driven workforce is now having more power in the decision-making process, which in turn is impacting the growth of B2B responsible marketing.

"We're seeing much more bottom-up decision-making with employees being more involved in the research and recommendation process. We know that 85 per cent of buying starts with online research and younger, more junior people will be part of the research process."

It's not just about selling your products or services to this new audience; it's about selling your company as a great place to work. As Kirk McDonald, chief marketing officer (CMO) at AT&T Advertising & Analytics, says: "Boomers worked for companies, Gen Xers work for people, millennials and Gen Z work for purpose."

Human resources managers agree. A recent survey by B2B International shows 81 per cent believe ethical and environmentally sustainable initiatives are important to them in their position. Brand values, mission and purpose are listed in the top five reasons people are attracted to work for their organisations.

> Boomers worked for companies, Gen Xers work for people, millennials and Gen Z work for purpose



81% of B2B HR managers believe ethical and environmentally sustainable initiatives are important to them in their position

B2B International

"Making sure their brands attract purpose-driven employees is a critical thing, especially in the software space," says Ms Rush. "Because of this we believe responsible marketing in B2B will very quickly be accelerated."

According to Professor Mollie Painter, who leads the Responsible and Sustainable Business Lab at Nottingham Business School, Nottingham Trent University, being able to demonstrate responsible business practices is a key competitive advantage for B2B companies.

"It's becoming part of the tender procedure to disclose this kind of behaviour," she says. "Small and medium-sized enterprises are more likely to win bigger contracts from other companies when they can display these attributes."

Professor Painter adds that environmental, social and governance issues also play an important role in securing investment. "Institutional investors are becoming much more savvy about where they put their money and they're looking to these B2B relationships to signal where risk lies," she says.

"If you look at socially responsible investing, there are the UN principles for responsible investment. If you sign on to this, the idea is the investment vehicles are designed to make sure there are no social and environmental risks.

"There's real divestment if these things are not taken into account. As well as the negative screening part, there's the positive screening, where there would be more investment in businesses that take care of these imperatives."

While business-to-consumer (B2C) is streets ahead when it comes to responsible marketing, the strategy is gaining traction with B2B organisations. A marketing trends survey run by B2B International of 300 marketing managers from large global companies shows a 17 per cent uplift in responsible marketing since 2016.

"In 2019, environmental positioning had the biggest change of all the areas, with 20 per cent of marketing directors now mentioning it as a key strategy. That's still too low, but it's a significant shift," notes Ms Rush.

She says B2B marketers should look to their B2C counterparts to learn how to become more customer centric. "B2B organisation tend to be very sales and product led, and historically marketing has been seen to be servicing that part of the business," says Ms Rush. "But marketing is actually all about being customer centric. You need to think about the importance of responsible buying because marketing is a reflection of how the audience buys."

William Douglas, CMO at real estate services company JLL, where he is also Europe, Middle East and Africa board member with responsibility for sustainability, says creating an emotional connection is just as important in B2B marketing as in B2C.

"Your clients need to feel something for your company," he concludes. "They need to feel like you are 'with them' before they make big decisions that have an impact on their business and their career. But also it's building a brand that means something for your employees, which in B2B is often your largest channel.

"Sustainability and a clear, authentic sense of purpose are now near the top of the list for attributes clients and prospective employees want to see in your brand."

Clem Onojeghuo/Unsplash

WHAT ATTRACTS CONSUMERS TO BUY FROM CERTAIN BRANDS OVER OTHERS

Percentage that agreed with the following attributes, beyond price and quality

Accenture 2018

OPINION

‘Governments alone cannot get us out of the state we are in’

Climate warriors come in all shapes and sizes these days. While the popular image of environmental activists persists, increasingly they are being joined by grey-suited businessmen and women whose personal conviction is matched by the hard-headed reality that solving our climate, biodiversity, hunger, poverty and pollution challenges is good for business as well.

As our inability to live within planetary boundaries has become increasingly clear, so has the fact that governments alone cannot get us out of the state we are in. Business can, and should, play its part. But there is another reason which is becoming increasingly evident: smart companies realise we need their ideas, products, services and technology solutions to fix these problems.

Not all work aimed at solving the problems afflicting our environment and society can be addressed by businesses seeking profit. But our work convening private sector leaders to take on other challenges has been instrumental in driving much-needed impetus towards meeting our climate commitments. As more and more companies sign up to secure long-term economic growth in a low-carbon world, we are seeing five areas where business is having an important impact.

Invest in nature-based solutions

Forests, soil, coastlines and the ocean provide a natural solution to carbon capture. They are one of few technically available options to deliver net negative greenhouse emissions at scale, at lower costs and faster speeds than other carbon reduction options. Marine Protected Areas are essential for ensuring the fishing industry has healthy stocks by preventing resource depletion, protecting endangered species, making ecosystems more resilient to climate change and safeguarding thriving biodiversity. They also promote economic growth through farming and sustainable tourism.

Price carbon

Climate failure is an economic failure. Pricing it provides a straightforward adjustment. The more expensive greenhouse gas emissions become, the more likely companies are to invest in cleaner production and reduce their emissions. Although businesses can’t make the rules, they can use the existing carbon market to their advantage and help shape carbon markets we need in the future. Governments can use revenue from carbon-pricing schemes to invest in clean development such as research into fuel cells or renewable energy subsidies.

Harness technology

A 2018 Global Climate Action Summit report outlines that technology has the potential to reduce 70 per cent of emissions and 50 per cent of this could be delivered by 2030 through diffusion of existing technology. It is not just the climate challenge technology is helping, it is helping to tackle illegal fishing, increase the traceability of materials, and enabling better management of forests using satellite imagery and on-the-ground sensors.

Invest in low-carbon energy

The Global Climate Action Summit report indicates we are only beginning to see the benefits from years of investment in clean technologies. For example, a 23 per cent rise in solar power between now and 2030 – roughly half the rate at which it is growing currently – will translate to a 50 per cent reduction in CO_2 emissions from electricity generation.

Embrace circular economy

The circular economy, which designs products in a way that enables them to be reused rather than thrown away, is entering the business mainstream. Currently only 9 per cent of the global economy is circular, but there is huge potential to do more. A recent World Economic Forum report found that we lose $62 billion in landfill annually, three times the value of all the silver produced in a single year. New business models, such as the sharing economy, may mean we don’t need to own as much stuff as we did in the past. Some products can become services, so we pay for their use, but at the end of their life they can be taken back for recycling. ●

Emily Farnworth
Head of climate change
World Economic Forum

Commercial feature

Lab of Aromata, a portfolio company of Ambienta

Sustainability gives an investment edge

The business case for sustainability does not usually begin in private equity, but when the numbers add up it should

Ambienta is the largest pan-European firm focused on investing in businesses with a sustainability edge. It pursues a specialised environmental growth strategy, investing into niche leaders in resource efficiency and pollution control. Its ten-year track record proves that combining sustainability achievements and outstanding financial returns (over 20 per cent) is possible.

As a leading European private equity manager, the firm boasts a track record of thirty-one investments across eight countries. It has €1.2 billion in assets under management, the largest such capital pool in Europe, plus a blue chip, international investor base representing more than €10 trillion.

The firm sees sustainability as a universal theme across sectors and its investments span industrial, services and consumer goods companies, from natural flavours for the food industry (Aromata) to sustainable packaging for cosmetics (Pibiplast) and machine vision technologies (ImageS).

This strategic focus and proven expertise in environmental sustainability issues is Ambienta’s key differentiator, says head of sustainability and strategy Fabio Ranghino.

“Over ten years, Ambienta has always invested in products and services that deliver both solid, measurable environmental impacts as well as growth prospects and returns,” he says. “As a source of long-term competitive advantage, sustainability drives value. We are successful because of our focus on sustainability, not in spite of it.”

Impact and returns

The results generate strong returns for the planet, too. These returns are measured each year through Ambienta’s proprietary ‘Environmental Impact Analysis’ against 11 key performance indicators.

As of 2018, the cumulative environmental benefits from Ambienta’s investments accounted for roughly six million tonnes of CO_2 emissions reduced and 170,000 tonnes of pollutants avoided. In other words, the portfolio generated total materials savings equivalent to the weight of 630,000 SUVs, conserved energy to power approximately 4.3 million refrigerators for a year and saved as much water as 97 times the annual consumption of New York City.

Naturally aligned with United Nations Sustainable Development Goals, this strategy represents a key driver for successful exits. 2018 saw the sale in Germany of Oskar Nolte, an environmentally friendly water-based wood coatings supplier for the furniture industry, plus Lakesight Technologies, a leader in machine vision learning, which generated ten-fold returns and an internal rate of return of more than 50 per cent.

In light of its expertise, Ambienta has partnered with Sky Ocean Ventures in its journey to protect marine environments from plastic pollution.

Responsibility to create shared value

Such sustainability-driven success, however, happens neither overnight, nor by accident. Founded on robust principles and practices, Ambienta’s approach to portfolio growth recognises the relationship between long-term investment performance and the integration of environmental, social and governance (ESG) issues.

6m
tonnes of CO_2 emissions reduced

280,000
tonnes of materials recycled

130bn
cubic metres of water saved

‘ESG in Action’ is Ambienta’s proprietary approach to using ESG integration as a shared value-creation tool across stakeholders. Ambienta commits to following the United Nations-supported Principles for Responsible Investment, as a well as aligning with the Ten Principles of the UN Global Compact, when managing its portfolio.

When it comes to individual portfolio companies, ‘ESG in Action’ can inspire profound shifts in performance. Safim, a €52-million specialist in hydraulic components, became one of the first five companies in Italy to achieve the TUV ISO 45001 occupational health and safety standard and was among the first 100 in Europe. Ambienta helped double production and boost personnel by 58 per cent.

For 2019, Ambienta has raised the bar still higher, committing all new portfolio companies to achieve internationally recognised ISO certification and undertake carbon footprinting.

Accolades and awards

This depth of engagement around sustainability is reaping rewards for Ambienta, most recently named Continental Regional Private Equity House of the Year by Real Deals. This accolade follows a streak of awards, including Private Equity International’s Firm of the Year in Italy and Swen Capital’s 2018 ESG Best Practices Honours.

Ambienta strategy is a proven winner, says managing partner and founder Nino Tronchetti Provera. He concludes: “Ambienta has consistently shown that sustainability-driven businesses are more competitive than their peers. Investing in them can deliver both top-tier financial returns and environmental impact gains. It is investing the way it should be.”

To find out more please visit www.ambientasgr.com

AMBIENTA
Environmental Investments

CONFLICT MATERIALS

Cobalt: the dark side of a clean future

An estimated 35,000 children work in perilous conditions to extract cobalt from the ground in the Democratic Republic of Congo. So what will the impact be on these exploited workers from rapid advances in electric cars, which are heavily reliant on this conflict mineral?

James Gordon

Yanick Kalumbu Tshiwengu, a former child miner from the Democratic Republic of Congo (DRC), is lucky to be alive. When he was just 11 years old, Yanick went to Kolwezi to mine cobalt. Every day he descended several metres underground into makeshift tunnels and perilous shafts dug out by the miners, never knowing if we would see daylight and his family again.

With no protective clothing, accidents were common. Several of his friends died underground. Yanick narrowly escaped with his life on two occasions, once when an excavator began closing the entrances to the pit shaft, blocking his escape route, and when a landslide caused a collapse. Like many of his friends, he began sniffing glue and gasoline to banish his fears, but this could not block out the painful memories that continue to haunt him.

"It was a living hell," he says. "As children we were exploited and worked in very dangerous situations. We saw things that no child should see. There was a culture of rape and violence. Girls often fell victim to rape, which as children we were powerless to prevent. Sometimes lives were lost for a few francs. No good can ever come from the mines and I'd like to see them all closed so no child has the same experience as me."

Sadly, it is unlikely that Yanick, who is now 18, or the other estimated 35,000 child miners who work in western Congo's hazardous artisanal mines, will get their wish. Why? Because the DRC, a nation the size of western Europe, mines 60 per cent of the world's cobalt of which 20 per cent is extracted from the same unregulated small-scale mines where Yanick risked life and limb, all for less than $2 a day.

Secondly, demand for cobalt is set to increase. This rare metal already powers our mobile phones, laptops and tablets. However, cobalt is also a key component of electric car batteries. So over the next decade, with Bloomberg New Energy Finance forecasting that 33 per cent of all vehicles will be electric by 2030, automakers will need to increase their supply dramatically.

But there lies the problem. In doing so, how can manufacturers be sure that the cobalt which finds its way into their cars is not tainted with the blood of child miners? It is a question that Amnesty International, the world's leading human rights organisation, has been asking for some time.

01
A digger climbs through a copper and cobalt mine in Kawama, DRC

02
Yanick, who is now at secondary school, says working at the mines was a "living hell"

In 2016, after a nine-month investigation, it published a report which revealed that seven of the world's leading electric vehicle manufacturers, including Fiat-Chrysler, BMW and General Motors, had failed to carry out due diligence over their cobalt supply chains in line with the international standards elaborated by the United Nations and Organisation for Economic Co-operation and Development (OECD).

Campaigner Lauren Armistead, a lead researcher on the study, says that while there is no legal requirement for companies to report publicly on their cobalt supply chains, "unless they do this, there's no way to be sure the cobalt in their products is abuse free".

She explains: "It's very simple. The OECD Guidance on Responsible Supply Chains states that businesses have a responsibility to carry out due diligence on their mineral supply chains. That means being able to trace their supply chains back to the smelters and refiners.

"Companies must then publish their assessment whether the smelters and refiners in their supply chain are carrying out due diligence that conforms to the OECD benchmark. Any risks or abuses found must be disclosed along with clear steps on how they can be mitigated. We found that none of the seven had published this information."

Three years on, according to Ms Armistead, little progress has been made. In October 2018, for example, Amnesty International wrote to Daimler, Renault, Volkswagen, General Motors, Tesla, BMW and Fiat-Chrysler about potential human rights abuses in their supply chains. All responded except Tesla, but Ms Armistead says only three of the carmakers have taken welcome first steps. Renault has identified its suppliers of cobalt, while BMW and Daimler have published details of their smelters and refiners.

But starting with the launch of its fifth-generation electric vehicles in 2020, BMW says it will take further steps to ensure due diligence. For the first time, it has pledged to buy in cobalt for new vehicle projects itself and make it available to the supply chain.

Kai Zöbelein, sustainability spokesperson for BMW, explains: "To meet our due diligence obligations, we have decided to initially source this cobalt from suppliers in Australia and Morocco for our next

Making supply chains more transparent

It's a technology which its proponents say provides absolute visibility in even the most complex supply chains, not to mention guarantees immutability of records. But could blockchain really help automakers, operating in kleptocratic states like the Democratic Republic of Congo, to ensure the cobalt they receive is ethically sourced?

Volkswagen, one of seven carmakers listed in a critical Amnesty International report, is working with Minespider, a Berlin-based startup, on a pilot project to track the supply of the lead used in car batteries.

So could blockchain protocols like this one help manufacturers take conclusive steps to mitigate risks and abuses in their mineral supply chains?

Nathan Williams, Minespider's founder and chief executive, says: "Absolutely, there is no longer any reason why minerals should be sold anonymously. With blockchain, we can finally know the entire history of our raw materials. The supply chain of the future is a transparent one."

Investing in the 'right thing to do'

A mecca for tourists, Saint Lucia is famous for its alluring beaches, emerald seas and sulphur springs. But it is also home to the Rabot Estate, one of the most enterprising and ethically minded cacao plantations in the world.

Owned by Hotel Chocolat, it is very much the centrepiece of the UK chocolatier and cocoa grower's Engaged Ethics Cacao programme.

Although it costs several million pounds each year to run, Hotel Chocolat's chief executive Angus Thirlwell says the programme, which has been paid for by productivity improvements in its UK manufacturing arm, "is worth every penny".

He says: "Our brand strength continues to grow and many farmers engaged in the scheme are flourishing."

Mr Thirlwell says 200 independent growers have become members of the scheme since 2004.

"We've created around 500 jobs on the island, which has increased GDP by 8,000 per cent. We're very proud of this and it provides clear evidence that taking a sustainable approach to business is always the right thing to do."

battery-cell generation. The mines in these countries operate in line with our sustainability standards and there are no issues with working conditions, such as child labour."

But Ms Armistead says "walking away from the problem" is not the solution. "Companies cannot just impose a de facto boycott on the DRC's cobalt, especially when they have been sourcing cobalt there. That would be a terrible blow to a country and region that relies on mining for income.

"Supply chain due diligence is not about avoiding risk altogether, but addressing it. Instead companies like BMW have a responsibility to investigate their supply chains to identify, prevent and address human rights risks and abuses in its cobalt supply chain, no matter where it is sourcing from. Failure to do so only paves the way for human rights abuses."

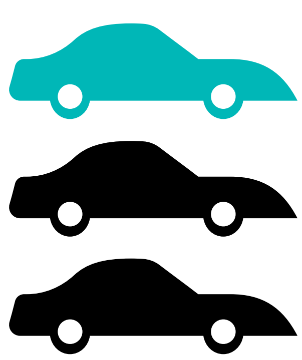
Back in Kolwezi, thanks to international charity the Good Shepherd International Foundation, which is running community intervention activities in the region, Yannick was able to leave the mines. He's now at secondary school and making up for lost time.

His experience left him with mental and physical scars, but the mines have not robbed him of hope and aspiration. "I dream that one day I'll become a leader," he says. "I want to change things in my country, and bring about a better future for all children and their families."

"How can manufacturers be sure that the cobalt which finds its way into their cars is not tainted with the blood of child miners?

1 in 3

vehicles will be electric by 2030



Bloomberg New Energy Finance 2017

Commercial feature

Sustainability strategy: no longer sustainable?

Companies have always had to adapt to external change, adjusting strategies back towards long-term goals, says **Huw Maggs**, deputy managing director and head of strategy at Salterbaxter

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 significantly in the next few years 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 we face, and the role of business in their creation and resolution.

Strategic planning requires businesses to consider numerous moves ahead. This has always been a challenge but, as the World Economic Forum observed in the run-up to its Davos summit in January, the accelerated pace of change is making it virtually impossible to plan ahead. This is particularly acute for strategic planning around sustainability issues and calls for new approaches.

WAKE-UP CALL FOR BUSINESS

Take single-use plastics. A single 2017 documentary led to a global backlash with the potential to reduce the average earnings of consumer plastic packaging manufacturers by 14 per cent.

We have subsequently seen more than 250 packaging producers, brands, retailers and recyclers, representing 20 per cent of all plastic packaging produced globally, sign up to the Ellen MacArthur Foundation's global commitment with implications not only for individual packaging portfolios, but the entire global plastic packaging system.

Another example is climate change. The divestment movement of the last three to four years, now totalling $6.24 trillion, has built awareness and momentum behind more widespread action.

We've seen big strides from companies and institutional investors, and the spark that could light the touch paper of large-scale public interest may be just around the corner.

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.

In May, the United Nations issued a stark warning to policymakers across the planet, urging them to step up efforts to reverse the alarming decline of the natural world and the knock-on impacts to economies, food security and global health. Could biodiversity be the next big burning issue?

It's impossible to ignore the pace and scale at which sustainable development challenges have entered the mainstream consciousness over the last 18 months.

SHIFTING FORCES

All this points to another important signal of what lies ahead. At the centre of this change is a powerful group of young people born after the mid-nineties. They are the fabled next generation that we've been talking about for the last 30 years. For them, issues like climate change or water scarcity will play out in their lifetime.

This generation and those following behind are making their voices heard and are increasingly voting with their wallets; by 2020 they will account for 40 per cent of global consumers.

This has captured the attention of the media creating a feedback loop and amplifying social and environmental issues like never before. Investors are also taking note; Citibank's 60-page 2018 report exploring the risks and opportunities for plastic producers from seismic shifts in consumer demand points to investor sensitivity around the single-use plastics issue.

Investors are now far better equipped to translate this into action and not just through active ownership. Sustainable investing has grown increasingly mainstream and investment managers can now quickly align their clients' portfolios away from unsustainable companies or sectors.

Companies need to be more in tune with external events than ever before as non-governmental and mainstream agendas continue to align and grow.

Not only must companies get much better at anticipating how the landscape is likely to evolve over longer timeframes, they must also set themselves up to predict and respond over shorter wavelengths. Wherever possible, they must be willing to get out in front of issues and actively shape a progressive future agenda.

It's this skillset, which enables companies to thrive in the new and unknown, that sits at the heart of the Salterbaxter's Active Strategies approach.

"This is about future-proofing strategies so they are set up to drive long-term business transformation in line with future external shifts

IS YOUR BUSINESS PREPARED FOR A ZERO-CARBON WORLD?

In October 2018 the Intergovernmental Panel on Climate Change (IPCC) confirmed that we must reduce global emissions by 45% by 2030 to avoid a climate crisis. This timeframe is within the business planning cycle of most companies and requires urgent and, in some cases, radical action.

Companies have a responsibility to respond to this clear message and commit to a zero-carbon future by setting science-based targets. Over 550 companies have already committed.

Companies that have the capabilities to transition to a zero-carbon economy will gain a competitive advantage by becoming more efficient and more resilient.

Creating a roadmap to reduce your emissions requires you to address the risks that businesses in your sector will face as the economy transitions to a zero-carbon world. It's an opportunity to be bold and show leadership, particularly if all the solutions are not yet known.

There will be opportunities to reduce costs, become more efficient and more circular, and grow new revenue streams. If you don't make the most of these opportunities, your competitors will.

At Carbon Credentials we're working with leading companies to set and achieve ambitious climate targets by changing behaviours, influencing supply chains, and introducing efficient technologies. We helped Tesco to become the first corporate in the world to set a science-based target consistent with limiting warming to 1.5°C.

To download our guide to setting science-based targets visit: carboncredentials.com/sciencebasedtargets

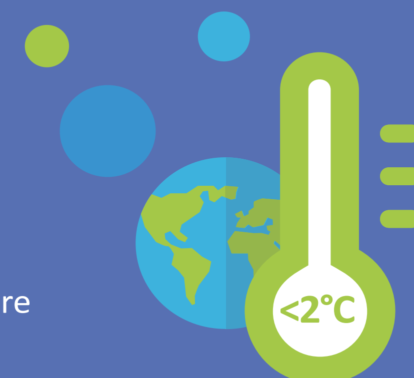
THE CASE FOR SETTING

SCIENCE-BASED TARGETS

What are science-based targets?

Science-based targets translate the level of climate action needed globally to align with the Paris Agreement into specific targets for your organisation.

Targets are considered **'science-based'** if they are in line with the emission reductions required to keep global temperature increase well-below 2 degrees.



Why set a science-based target?

- ✓ Limit climate change
- ✓ Gain competitive leadership
- ✓ Strengthen brand reputation
- ✓ Reduce risk
- ✓ Drive new opportunities
- ✓ Reduce costs

550+

companies have officially committed to setting science-based targets, and the number is growing every week.

200+

companies have had targets officially approved by the Science Based Targets initiative (SBTi).

"Science-based targets have helped us, for the first time, to align our efforts to act on climate change with those of the global community."

Tesco

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