Nexus Discovery Events 2021: The year of sustainability

January 2021: From talk to real transformation
Executive Summary

Our planet, societies and businesses are at a crossroads. Globally, there is a growing awareness of devastating climate impacts that are unfolding and stark disparities in social and political equity. COVID-19 has thrown the interlinked issues of climate, health and social equity into an ever sharper and more unforgiving focus. It is clear the time for real sustainability transformation is now.
The current sense of urgency cannot be underestimated or ignored. Consumers are demanding more and using their buying power to secure change. Capital is also on the line as investors are increasingly scrutinizing companies’ environmental, social and governance (ESG) practices. No board, top team or wider organization can ignore unchecked unsustainable practices. Research increasingly reveals a direct positive link between the strength of a business’s sustainability agenda and its valuation price. In short, it is now more profitable to drive a sustainable business forward than to run one that is not.

Businesses must, therefore, adapt their current practices or actively shape new solutions. Sustainable business entails balancing short-term goals and horizon-led exploration. The starting point is to ask which sustainability megatrends hold the greatest potential and then move towards them throughout the whole organization.

In the short term, this means applying sustainable processes and clear sustainability metrics to every function in the organization and expose them for any material risks. In the long term, it means identifying and building out a potential transformation of the entire business model.

At IMD, we believe nations, societies, organizations, and individuals must come together to construct a sustainable future that meets the needs of all stakeholders. To show its commitment to sustainability, all IMD’s Discovery Events for 2021 are dedicated to this theme. In this first event, we focus on the move from sustainability talk to real sustainable business transformation.

IMD develops business leaders who transform organizations and contribute to society. Our faculty members offer real-world learning backed by academic research as we accompany business leaders through industry disruption and innovation, critical self-reflection, and organizational transformations on the path to doing well by doing good.

We invite you to join with us as we challenge what is and inspire what could be.

Several key ESG issues are represented in the word cloud created by event participants using the IMD Sustainability Signals™ pedagogical tool. The word cloud signifies a wide range of sustainability trends participants felt would influence their businesses over the next five years.
Renewal and sustainability

Businesses, must actively engage in renewal. Focusing on how to achieve this, offers a pathway to long-term success and to corporate sustainability.

Knut Haanaes, Professor of Strategy, Lundin Sustainability Chair

“We found something quite interesting. These companies were able to stay outside-in driven, even when they were successful. That is, they didn’t become introverted. We didn’t necessarily find first movers here, but we always found the early movers, quick movers, rapid movers. They learned, they developed capabilities and suddenly, [what was the next frontier] was the new reality,” said Haanaes.

Haanaes’ subsequent research revealed further strategic similarities in the approaches of these long-term success stories. Namely, “Sustainability is the way companies and civilizations can survive over the long term. It is also a strategy for people, profit and planet,” said Knut Haanaes, Professor of Strategy, Lundin Sustainability Chair, IMD.

In his introduction, Haanaes outlined research undertaken on the long-term success of 50 well-known companies and brand names. He and his team found that for over 50 years these brands’ ability to deflect market challenge and disruption through renewal played a significant role in their success. But that was not all.
they could exploit short-term efficiencies by maintaining an internal focus on productivity, clarity of direction and discipline while also explore innovation in the long-term through empowerment, an external view of the changing market and flexible adaptation.

“Of all the companies we studied, we found many were great at innovation, others were great at efficiency, but very few were great at both simultaneously. Only 2% managed to do both exploring and exploiting which is the essence of renewal,” said Haanaes.

The need for such tangible renewal strategies has never been more important, said Haanaes as he referred to the configuration of three forces that would challenge businesses to drive sustainability forward over the coming years. First, he said, a wave of companies were already committed to it as a business strategy. Second, consumers, particularly millennials, were demanding more scrutiny and action on sustainability, and thirdly, investors were increasingly assessing their investees in terms of sustainability.

Frameworks such as the International Financial Reporting Standards (IFRS) provide a standardized set of accounting principles through which companies can disclose their financial performance. Once standardized on ESG metrics, cross company comparisons would increasingly impact investment decisions.

“This marks the emergence of real strategies, not just declarations. ESG is a fascinating area because we need ESG to be part of accounting; we need it to be part of regulation. And we need to measure it in a way where I can compare you to your competitor. And that is happening very fast now,” said Haanaes.

ESG has become a major topic, Haanaes said, with investors increasingly considering companies’ ESG positions when deciding where to place their capital. Boards also face risks through a failure to consider and address continuing unsustainable practices. Finally, he pointed to research that indicated a positive direct link between sustainability practices and company valuations. In short, sustainability is simply good business.

Looking forward to the United Nation’s Climate Change Conference, COP 26, in Glasgow, UK, he said: “With the new US government re-signing up to the Paris Agreement, we will have new winds in the sails when it comes to the global framework. I’d say this: this decade will be a breakthrough. Many of you are part of it. Consumers will create the competition and business will have to adapt. I am very excited about what we can achieve now.

Only 2% of companies were found to be able to deploy a long-term, exploratory dynamism while also maintaining focus on short-term success strategies.
Sustainability transformation: how to get on with it

Sustainability is no longer a debating point for businesses. It is now a must. Our first three Chief Sustainability Officer (CSO) panelists discussed their organizations’ approaches to building credible, sustainable businesses. James Henderson, Professor of Strategic Management, IMD chaired the discussion and shared his views on how sustainability is now more about practice rather than theory.

Representing three diverse businesses that ‘walk the talk’ on ESG, our panelists first discussed how the COVID-19 pandemic has put a spotlight on sustainability. Sustainability has increasingly become high on the agendas of not just the CSOs but also Chief Financial Officers (CFOs) and senior management teams.

For Cecilie B. Heuch, EVP, Chief People and Sustainability Officer at Telenor, the pandemic has clarified the social purpose of the business. “From enabling home schooling and remote working to helping authorities trace the wider spread [of the virus], the whole industry got a renewed sense of purpose of how it serves society,” she said.
Ensuring cross-organizational buy-in is vital in implementing a sustainability strategy. As mature sustainability businesses, the panelists from Telenor, Stora Enso and SGS were clear that a top-down approach from senior leadership proves most impactful across the enterprise. Coupled with bottom-up innovation, this creates the necessary momentum to drive sustainable business transformation.

“What strikes me most is that, when forced [during lockdowns], we can be more efficient; we can find ways of operating from remote; we can stop travelling and reduce the CO2 costs of travel. And when we focus on the restart, we must keep all the learnings taken from this,” said Rüfenacht.

The pandemic’s amplification of social impact was one of the key shifts within sustainability for Annette Stube, EVP Head of Sustainability at Stora Enso. Under the spotlight of the virus, she said, the importance of community investment had gained prominence.

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“Today, when I make a strategy for zero emissions, I would never do it without having a ‘just transition’ angle to it. We should ask ourselves continuously: if we push this button, who will suffer from it? Our general interest in this is to ensure we have stable societies to operate in and I think COVID has really shed a light on that,” she said.

“Despite the differences in the three businesses’ sustainability focus, there are clear commonalities among them regarding the ‘how’,” Henderson said. “Stora Enso represents primarily the E [environment] in ESG, with renewable packaging materials products that are far more sustainable than those of the leading incumbents. Network operator, Telenor, focuses on the S [social] aspect of ESG, by reducing income inequality in local and national economies through connectivity. Finally, SGS embeds sustainability in its core service offerings: safety audits, certification, and the communication of ESG commitments by its clients,” he said.

Sustainability needs a top-down and bottom up approach

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“At Telenor we have a specific Sustainability and Compliance Committee, which is highly unusual and means that these issues are looked at continually. And this drives the ‘how?’ of sustainability because we need to be extremely concrete: what are the areas within which we are working? What are our initiatives? What are our objectives? We have to be very specific, and we have to deliver,” said Heuch.

By far the biggest shift in sustainability is how close it has moved to P&L functions over the past 5-10 years. While at A.P. Moller–Maersk, Stube’s role moved in order to become a direct report to the CFO. This collegiate partnership turned out to be highly productive.

“We established a common language and interest around enterprise management because that’s the responsibility of both CFO and CSO. Having that angle to drive processes through and get things implemented, to ask what to focus on what was and wasn’t important proved to be effective and gave tangible results,” she recalled.

Rüfenacht’s approach at SGS, involved assessing the ESG metrics of every country operation in order to pinpoint issues that
need to be addressed, for example, gender representation in Korea. Once identified, the problem could be tackled effectively over time and with clear communication and commitment.

Such internal partnerships are also crucial for investor relations, as CFOs face a broad range of detailed questions on every aspect of their firm’s environmental, social and governance impact. “It’s getting very complicated,” explained Rüfenacht. “Every investor is coming from a different angle and gets very specific; we talk about human rights, we talk about climate change, but on the other hand, there’s diversity, there’s gender, and all those topics have to be somehow addressed, and do not fall within [the traditional] CFO’s remit.”

Ecosystem partnerships are vital

Finally, forging external alliances and partnerships across the ecosystem was also seen by the panelists as an effective way to raise awareness, drive industry change and create measurable impact. For Heuch, the pandemic has illustrated just how effective a multi-stakeholder approach can be. “We need more partnerships and, to have a good multiplier effect, we need to build ecosystems around our initiatives. And that has happened more in the past year. Also, with the COVID crisis, we worked with the authorities, NGOs, and other private companies. And this offered a view of how we could work in a wider ecosystem than we have previously with the E, with the S, and with the G,” she said.

While at Maersk, Stube referred to the company’s Zero Carbon Shipping initiative that is bringing players together from across the maritime transportation ecosystem including fuel providers, ports, energy companies, commodity companies, and engine manufacturers. The intention is to shift the industry toward more sustainable zero carbon fuels.

Yet, at the heart of evolution lies transformation. For business, renewed purpose such as Zero Carbon Shipping enables the transformation required to meet the challenge of this new terrain. Increasingly, in the era of sustainability, it not only crucial, but also key to business survival.
### Key focus points

1. Sustainability is no longer a sideline. It is a business imperative. Establish where your enterprise can be most effective in the sustainability space. Once clarified, this territory can renew purpose and be used to transform the business.

2. Aim to be a net positive company by applying KPIs across the business and pinpointing where improvements can and will be made.

3. Purpose can unify and motivate an organization across all its functions. Such cross-department buy-in is essential to drive sustainable business.

4. External partnerships can drive industry-wide compliance and change, ensure that supply chains are cleaned up, and allow collaboration on social impacts.
ESG and sustainability – the changing role of finance

Chief Finance Officers view sustainability as the key to a successful business strategy and investment potential. Our panelists discussed how business is pivoting to meet the sustainability challenge.

“Ten years ago, it would have been hard to imagine that chief financial officers would be professionally engaged in the topic of sustainability. However, in 2021 sustainability is a major lens through which strategic decisions and efficiencies are scrutinized and the pressure for this comes from both consumers and investors,” said Professor Knut Haanaes, Lundin Chair of Sustainability at IMD, in his introduction to the three panelists. Calling upon each to share their experience and insights on how corporates have increasingly embraced sustainability as a business strategy, Haanaes welcomed the acceleration in sustainability across industries.
Julia Wittenburg, Director, Sustainable Finance Development, Bank J. Safra Sarasin has witnessed this progressive shift among investors over the past 20 years. Regulations around governance, independent auditing and oversight have been successively tightened in response to financial scandals over the past two decades, she said. However, as Wittenburg recalled, a new impetus began five years ago.

“I was in the US and companies back then weren’t looking at ESG issues. However, a trend from Europe saw investors focusing on environmental, social, and governance factors, and questioning investee companies on their risk management in this space. That trend has changed the scene, and now, funds like State Street, Vanguard and BlackRock, they’re all taking these issues more seriously and integrating ESG into their investment processes,” she said.

The landscape has, therefore, changed quite fundamentally and, as investors have continued to apply scrutiny on the ESG practices of potential investee companies, sustainability has moved further into the territory of CFOs. Both Carla De Geyseleer, CFO of Swedish automotive company Volvo and Teitur Poulsen, CFO of Sweden-based oil and gas company Lundin Energy have experienced that shift in their corporations.

For both, their roles in corporations that are existentially challenged by the growing calls for CO2 reductions lends a sense of urgency to their efforts to firstly transform and to also drive innovation across operations to mitigate the net carbon footprint of their organizations.

“As a company Volvo realized very quickly that sustainability is business critical. The automotive players that are not going for transformation will have a very short future. First, because customers will not buy cars that are not electric and secondly, it will be very hard to find financing for the development of [non-electric] cars,” said De Geyseleer.

As an oil and gas company the terrain is trickier for Lundin. As global energy needs increase, 80% of global energy comes from oil and gas. However, Lundin has transited to more efficiency in the production per barrel and for Poulsen, the positive pressure applied by government is the major reason for its success.

“In Norway, we have the world’s highest CO2 tax. So, all investment decisions follow from that premise. Because of the tax, if you fast-forward two years from now, 95% of all our oil and gas production in Norway will be powered from renewable electricity from onshore. Our CO2 footprint is 4kg/barrel produced whereas the world global average is 17-18kg/barrel. And it is not a cost burden to have achieved these metrics; it is an economic benefit for us to achieve these metrics because of Norway’s CO2 tax,” said Poulsen.

Positive constraints, therefore, in the form of government intervention can play a motivational role for companies to assess their operations and roll out systemic changes to benefit their both profit margins and the planet. For both CFOs, the increasing scrutiny from investors represented a similar pressure and one that required a robust and credible response to secure finance.

Poulsen described Lundin’s success at gaining significant capital investment – even during the COVID crisis – as the result of the company’s sound metrics and investment record of accomplishment.

“The key element in our success was our ESG credentials. We were putting hard dollars behind the words and we are actually making money on those dollars. So, it is key for the stakeholders, whether it’s banks or whether it’s equity investors, to know that management is incentivized to allocate capital [according to sustainable principles]. There isn’t a single meeting happening today without the issue being discussed,” he said.
De Geyseleer emphasized the issue by stressing that metrics had to be sound. By applying frameworks to all its investment and having the frameworks independently assessed or validated, a corporation can begin to embed a sustainable business model. However, the commitment does not end there. “You need to follow up to make sure that commitments are actually happening and to report them with transparency,” she said, “It’s a very different definition of commitment these days, compared to 10 years ago, but we have no choice: if this is a serious issue for society, it’s a serious issue for business,” she added.

Finally, De Geyseleer, Wittenburg and Poulsen discussed fundamental shifts in business models driven by megatrends such as the circular economy and waste reduction. All agreed that it is vital for businesses to understand their place within such trends and change their models accordingly. Looking at new models for mobility, such as car sharing, or optimizing recycled materials in the production of new products and cleaning up supply chains are all part of the sustainability agenda for business.

“It is a completely integrated process now. There is no room for silo thinking. It’s a culture change and a mindset change that can’t happen overnight,” said Poulsen.

De Geyseleer and Wittenburg both agreed that boards should also play a greater role by developing the expertise and skills required to drive conversations with senior management around sustainability. Ultimately, Wittenburg said, increasing regulations are inevitable and those businesses that have started to create robust sustainability agendas will be ahead of their competitors when those positive constraints hit.

Ensure frameworks are credible

Sustainability and ESG are interlinked but distinct features. ESG can help a business to pursue a sustainable agenda by enabling granular indices and metrics against which its continual progress can be assessed.

CFOs are increasingly engaged with ESG criteria across the business operations to pinpoint and drive opportunities and assess and address greater impact on all three indices.

Internal partnering between Finance and Sustainability functions is increasingly important in terms of ensuring all business strategies are sustainable. Further, investors demand full-spectrum reporting on every aspect of ESG to mitigate risks and release capital.

Boards need to be engaged with sustainability in their given industries, develop skills and expertise that can drive the business further, faster in its sustainability journey.

Key focus points

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IMD will launch its first program in Leading Sustainable Business Transformation this September. Describing the course ethos, James Henderson, Professor of Strategic Management, IMD, said:

“Leading Sustainable Business Transformation is what we define as an anchor program. With this course we hope to accelerate change by seeing, inspiring, and enabling the possible on sustainability. We will start with the ‘why?’ and the ‘what?’ of sustainability and from there move into the ‘how, who and when?’”

The program aims to create competencies in how to vision organizational change, influence across teams and drive organizational sustainability. Additional courses on topics such as sustainable finance, marketing, and supply chains will then be added.

“IMD’s purpose is to challenge what is and inspire what could be and to develop business leaders who transform organizations and contribute to society. The Leading Sustainable Business Transformation program is aligned with our core purpose and intends to inspire and equip a new generation of business leaders to innovate new sustainable business models,” said Olynec.
Led by Haanaes and Henderson, the program will consist of three modules.

**Module 1**
Module 1 takes a hands-on approach to offer insightful learning experiences and develop competencies. Discovery visits will allow participants to witness ‘sustainability on the ground’ and gain insights from industry leaders on issues such as resource efficiency, the circular economy, technology innovation, new financial approaches, and social impact. The experiential learning will be distilled to create a vision for sustainability, leveraging IMD research resources such as Sustainability Signals™, the Timeline tool, and mini-cases. By the end of the first module, participants will have identified how to embed sustainability into strategy and corporate change and be able to diagnose the steps needed for real transformation.

**Module 2**
Module 2 will build the leadership capabilities required to enable challenging stakeholder dialogues, create organizational purpose and operationalize the sustainability strategy. Participants will engage with finance, marketing, and operations to embed sustainability in key areas of the organization. They will also develop skills to build stakeholder relations and a wider community engagement that can enable incremental improvement in sustainability.

**Module 3**
Module 3 will enable organizational change to strengthen sustainability performance. We will focus on leadership, rewards, capabilities, partnerships, governance, and ecosystems. The aim is to enable and empower participants to make sustainability happen in their organization and broader ecosystems. The outcome will be an actionable understanding of how to connect the dots and make real change happen.

“Sustainability is a megatrend for business and it is also a societal good. Remember, there is no Planet B. What we hope to contribute with the Leading Sustainable Business Transformation program is the next generation of business leaders who are convinced of the need for sustainable business and have the leadership skills to drive their enterprises forward,” said Henderson.
Access the very latest in management thinking with these intensive workshops led by IMD Faculty. Gain practical insights from real-world experience and cutting-edge research, network with other global executives and leave with fresh ideas you can implement in the business straight away. This year’s events are themed around sustainability.

**Discovery Events**

Learn, network and exchange

<table>
<thead>
<tr>
<th>Event Title</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Impact of Sustainability on Marketing’s Future</td>
<td>February 11–12, 2021</td>
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<tr>
<td>Financing4impact: a primer on sustainable investment</td>
<td>March 11–12, 2021</td>
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<tr>
<td>Making Sustainability Sustainable: The Role of Nonmarket Strategy</td>
<td>April 22–23, 2021</td>
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<tr>
<td>Corporate “Digital” Responsibility for Competitive Advantage: Digital Ethics and Sustainability</td>
<td>May 7, 2021</td>
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<tr>
<td>The Future of D&amp;I</td>
<td>September 2–3, 2021</td>
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<tr>
<td>Winning Sustainability Strategies</td>
<td>October 7–8, 2021</td>
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<tr>
<td>The Need for Innovation Speed</td>
<td>November 4–5, 2021</td>
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<tr>
<td>From Global to Regional to Local, Restructuring Supply Chains for Long Term Sustainability</td>
<td>November 25–26, 2021</td>
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</tbody>
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