

- Overview
- Tools and guidance
- Practical examples



# GOVERNANCE

---

STRATEGIC PLANNING, BUDGETING AND FORECASTING



**Introduction**

**Process**

**Governance**

- Overview
- Tools and guidance
- Practical examples

**Performance management**

**Technology and Data**

**Maturity and reference**

# GOVERNANCE

Governance sets the boundaries within which people operate. Presented below is a structural approach to governance, which can be used to facilitate integration of sustainability into strategic planning, budgeting and forecasting processes. Good governance is particularly important to achieve an integrated approach. This is due to the cross cutting nature of sustainability factors which require collaboration between different parts of the business to respond effectively. In this section guidance and case studies will be provided against each of the six key governance areas.



What did organizations say were their key governance challenges?  
How will this guide help? ↗

- Overview
- Tools and guidance
- Practical examples

# GOVERNANCE: KEY CHALLENGES

## Organizations said...

*“Integration becomes very challenging when there is a lack of leadership buy in, as it leads to a lack of acceptance from the rest of the organization, and a singular focus on shareholder value.”*

*“Environmental and social factors are often not seen as being as important as other financial measures, and therefore the team’s focus is on short term goals and KPIs to increase shareholder wealth.”*

*“We notice that there is a lack of appetite for regular reporting of sustainability performance considerations across business units and functions, in part because of the absence of clear criteria for providing comparable and standardized performance information and systems in place for efficient collation of data.”*

*“There is no wide scale adoption, or a central view of all sustainability matters, and consequently social and environmental factors are perceived as a separate issue or are integrated at different levels across the teams.”*

*“Among different teams in our business units and functions there is a lack of understanding, alignment and agreement when it comes to considering the proper integration of sustainability within core financial processes, probably due to the diverse nature of sustainability.”*

## We need...

Leadership to demonstrate commitment and drive the required change in the organizational culture.

Linkage of current financial performance to longer term performance of the organization.  
Performance and benefits of non monetary KPIs to be tracked and communicated with internal and external stakeholders.

Agreement of the key sustainability metrics, and the required level of data accuracy for them to be considered reliable for the end users to inform their decision making.

Leadership to demonstrate commitment and drive the required change in the organizational culture.  
Agreement of the key sustainability metrics, and the required level of data accuracy for them to be considered reliable, for the end users to inform their decision making.

Agreement of common definitions/terms to make it clear what we mean by sustainability to increase understanding, adoption and alignment.  
Clear demonstration of the link between social, environmental and financial value.  
Increased understanding of how different members of the finance team can support delivery of our sustainability performance.



**Introduction**

**Process**

**Governance**

- Overview
- Tools and guidance
- Practical examples

**Performance management**

**Technology and Data**

**Maturity and reference**

# GOVERNANCE: STRATEGIC MANAGEMENT

## 1. Mission, vision and strategy to enhance long term stakeholder value

The Board provides the ‘tone at the top’ through incorporating sustainability factors into the organizational mission, vision and strategy. They influence the culture by defining how the organization will respond to these factors, and through their ongoing strategic management approach.

### WHY DOES LEADERSHIP BUY IN MATTER?

Leadership buy in:

- provides Board and senior management advocacy around relevance of sustainability to the business;
- demonstrates to the entire business the importance and benefits of considering social and environmental factors within strategic planning, budgeting and forecasting;
- ensures Board oversight of the organization's integrated strategy;
- facilitates integration of sustainability considerations into all Board committees (e.g. audit, nominating, remuneration, etc.);
- plays a key role in overcoming resistance to change and scepticism over the benefits of integrating sustainability within financial processes;
- enhances integration of sustainability with the organization's processes and procedures; and
- sets the tone on the sustainability agenda for the rest of the business.

### PRACTICAL EXAMPLE

Almost twenty years ago we began to refocus our operations onto a much more sustainable and responsible footing in response to sustainability megatrends that we felt presented a significant opportunity – and threat if we didn't respond. We have moved away from fossil fuel based petro chemical businesses and turned to health, nutrition and materials sciences.

[See full case study for further information](#) 



- Overview
- Tools and guidance
- Practical examples



# GOVERNANCE: STRATEGIC MANAGEMENT

## 1. Mission, vision and strategy to enhance long term stakeholder value

### BUILDING SUSTAINABILITY INTO THE LEADERSHIP AGENDA

The theme of sustainable value creation should be integrated within business performance reviews and strategic discussions to build engagement and support from the Board and senior leadership team. The following highlights a selection of matters relevant to sustainability that might be considered in a typical Board meeting agenda:

TOPIC	TYPICAL SPEAKER	POTENTIAL MATTERS FOR PAPERS AND DISCUSSION	HOW SUSTAINABILITY FITS
Strategic initiatives	GEO/CFO/Corporate Strategy Director	<ul style="list-style-type: none"> <li>• Review of strategic initiatives across the business and their contribution toward achieving strategic outcomes</li> <li>• Analysis of returns from strategic initiatives</li> <li>• New initiatives in the pipeline and their projected benefits and costs</li> </ul>	<ul style="list-style-type: none"> <li>• Contribution of sustainability initiatives to strategic outcomes</li> <li>• Sustainability impacts of initiatives and business</li> <li>• Outcomes from sustainability initiatives</li> <li>• Communicate the benefits relating to sustainability initiatives along with all other initiatives</li> </ul>
Business performance	GEO/CFO	<ul style="list-style-type: none"> <li>• Update on long term outcomes set out in the organization's strategic plan</li> <li>• Update on year to date performance and comparison to budgeted key performance metrics</li> <li>• Forecast of key performance metrics for the remainder of the year</li> <li>• Success stories from across the organization</li> </ul>	<ul style="list-style-type: none"> <li>• Presentation of external impact assessment results, including opportunities identified as well as risks for consideration and management</li> <li>• Short term performance presented against long term performance budgets and forecast</li> <li>• Presentation on wider business performance e.g. staff wellbeing and skillsets, value chain and societal impacts</li> </ul>
Governance and compliance	Internal Audit Director	<ul style="list-style-type: none"> <li>• Review of key business practices and code of conduct</li> <li>• Compliance with applicable laws and regulations</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure sustainability considerations are included within policies, practices and code of conduct and report against them</li> <li>• Present performance against applicable laws and regulations e.g. workplace health and safety or environmental permit breaches</li> </ul>
New business	GEO/CFO/Relevant Functional Heads	<ul style="list-style-type: none"> <li>• Entry into new markets</li> <li>• Roll out of new products or services</li> <li>• Potential non organic growth opportunities (acquisitions, joint ventures, strategic alliances, etc.) and their impact on the organization's goals and desired outcomes</li> </ul>	<ul style="list-style-type: none"> <li>• Incorporate findings from external assessments into this discussion, along with sustainability mega trend impacts</li> <li>• Analyse sustainability risk and growth opportunity e.g. impact of new acquisition on sustainability targets</li> </ul>



- Overview
- Tools and guidance
- Practical examples

# GOVERNANCE: STRATEGIC MANAGEMENT

## 1. Mission, vision and strategy to enhance long term stakeholder value

### SPEAKING THE SAME LANGUAGE

Common terminology across the organization helps to build understanding and alignment, particularly in instances where cross functional collaboration (such as strategic planning, budgeting and forecasting activities) is required. Use of the same terminology allows finance teams to understand the key sustainability terms that are relevant for strategic planning, budgeting, monitoring and measurement of value.

Common sustainability concepts that should be used consistently across the organization include the following:

<b>Natural Capital</b>	<b>Social Capital</b>	<b>Human Capital</b>	<b>Sustainability Impact</b>
All renewable and non renewable environmental resources that provide goods or services that support the prosperity of an organization and society including air, water, land, minerals and forests.	The networks, relationships and connections between people, communities and institutions that organizations rely on, and contribute to through their activities.	People's competencies, capabilities, experience and level of motivation that support organizations to achieve their strategic goals.	Any environmental or social change, positive or negative, caused by an organization through its activities.
<b>Societal Value</b>	<b>Life Cycle Assessment (LCA)</b>	<b>Shadow Price</b>	<b>Sustainable Shareholder Value</b>
External direct and indirect non market consequences of natural, social and economic/financial capital impacts (sometimes known as stakeholder value).	A technique to assess environmental impacts associated with all stages of a product's life from cradle to grave.	A theoretical value or notional price, relating to an activity or impact not currently reflected in market prices.	The internal direct and/or indirect financial consequences of environmental or social issues in monetary terms (sometimes known as company value).
<b>Environmental Impact Measurement</b>	<b>Environmental Management Accounting</b>	<b>Dependency</b>	<b>Footprint (or Inventory)</b>
Measuring impacts at all stages of a product's life across the value chain using such approaches as Life Cycle Assessment and Inventory.	Involves combining financial costs and savings as well as quantitative information relating to the environment to enhance and inform decision making.	Identification and management of factors, of which the organization directly or indirectly depends, for example, agriculture is dependent on the natural process of pollination.	The sum total of a business' direct and indirect impacts e.g. carbon footprint.



- Overview
- Tools and guidance
- Practical examples

# GOVERNANCE: ALIGNING BUSINESS GOALS

## 2. Business goals that will enhance long term stakeholder value

### KEY GOVERNANCE FACTORS TO CONSIDER

Strong governance ensures goals are realistic and aligned with strategy. The ethical overlay provides a driver to consider wider stakeholders in goal setting.

Some key governance factors to consider in relation to setting, developing and delivering business goals are:

Determine **decision authority** and **accountability** for the goals. Define when a sustainability specialist needs to be involved in decision making and their authority in those decisions.

Provide **clear definitions and communication** of the goals so employees can understand the goals and be empowered to deliver on them. Communication of sustainable business goals can also enhance employee engagement, attraction and retention.

Ensure the goals are measureable and that processes are in place to ensure an **effective control environment**, akin to financial KPIs, for performance management against the goals.

Test the goals using **strategic risk analysis and scenario analysis** to ensure goals are realistic to achieve in the current and likely future operating environment e.g. in a more carbon constrained environment.

Ensure **clear alignment** to mission, vision and strategy; **consistent messaging** and use of language. Ensure procedures are in place to prevent short termism where detrimental to long term sustainable business goals.

Use a **timeframe** that is relevant to the exposures in the longer term life of the organization, and distil these into the strategic cycle timeframe.

See page 20 for further guidance on setting strategic goals 

### PRACTICAL EXAMPLE

At Unilever, we have a simple but clear purpose – to make sustainable living commonplace. We believe profitable growth should also be responsible growth, and that approach lies at the heart of the development of our strategic goals. We developed our goals through a process of actively engaging with our stakeholders. The detail on how we intend to deliver our goals is captured in the Unilever Sustainable Living Plan. It guides our approach to how we do business and how we meet the growing consumer demand for brands that act responsibly in a world of finite resources.

See full case study for further information 



- Overview
- Tools and guidance
- Practical examples

# GOVERNANCE: ORGANIZATIONAL STRUCTURE AND OVERSIGHT

## 3. Setting a structure for accountable strategic planning, budgeting and monitoring

### RESPONSIBILITY AND ACCOUNTABILITY

Setting oversight responsibility and accountability is key to ensuring successful implementation of strategy and adherence to budgets:

- Establish Board and sub Board level ownership with performance remuneration structures supported by integrated KPIs.
- Incorporate responsibility for sustainability factors into roles and responsibilities within the organization. These should be embedded within 'business as usual' processes and practices throughout the structural and functional segments of the business.
- Ensure finance teams appropriately cost strategies, allocate financial resources, effectively monitor performance, and demonstrate that the strategy itself drives sustainable long term value.

### PRACTICAL EXAMPLE

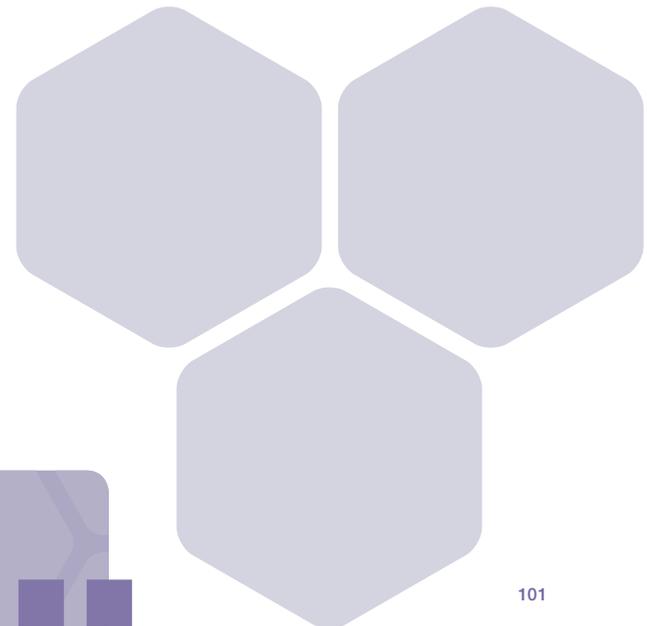
To set accountability for delivery against our sustainability targets and budgets, we have made explicit links from our Key Performance Indicators (KPIs) to the variable pay of our management board and employees. We use a selection of KPIs from our 2015 vision strategy that are well established within the business, and incorporate them into our performance management processes.

[See full case study for further information](#)



*“The clear alignment of our KPIs, with our strategy and the strong governance we have around them, means that we can use them for performance management purposes.”*

Geraldine Matchett, CFO, Royal DSM



- Overview
- Tools and guidance
- Practical examples

# GOVERNANCE: ORGANIZATIONAL STRUCTURE AND OVERSIGHT

## 3. Setting a structure for accountable strategic planning, budgeting and monitoring

### THE ROLE OF THE BOARD OF DIRECTORS

The board are ultimately accountable for the organization, for appropriate allocation of budgets to achieve strategic objectives and for monitoring performance against those objectives. The following diagrams outline where the role of the Board and the different functions of finance and beyond are impacted by an integrated approach.

#### BOARD LEVEL

Approves strategic plans and budgets and reviews forecasts. Monitors corporate performance.

#### Board of Directors

- Review and approve organization's sustainable business strategy
- Assess organization's performance against sustainable business strategy

#### CEO

- Develop, execute and monitor organization's sustainable business strategy and policies

#### BOARD COMMITTEES

Audit Committee	Nominations and Governance Committee	Strategy and Investment Committee
<ul style="list-style-type: none"> <li>• Understand risk and provide challenge on control environment pertaining to sustainability performance reporting</li> <li>• Review and approve integrated reports</li> <li>• Oversee compliance with regulations relating to sustainability</li> </ul>	<ul style="list-style-type: none"> <li>• Ensure Board has the right mix of skills and capabilities, including demonstrated competence in sustainability</li> <li>• Ensure the director orientation and education programme includes training on sustainability matters</li> </ul>	<ul style="list-style-type: none"> <li>• Oversee and monitor progress against the integrated strategy</li> <li>• Ensure that sustainability factors are considered in the review and approval of major investment decisions</li> </ul>
Remuneration Committee	Sustainability Committee	Risk Management Committee
<ul style="list-style-type: none"> <li>• Align remuneration policies and incentive compensation plans with sustainability goals that are challenging and lead to the creation of long term social, environmental and financial value</li> </ul>	<ul style="list-style-type: none"> <li>• Contribute to organization's strategic plan ensuring it reflects long term factors and constitutes a sustainable business model</li> <li>• Assess organization's performance against sustainability aspects of integrated strategy</li> <li>• Oversee the organization's compliance with safety, health and environment policies and regulations</li> </ul>	<ul style="list-style-type: none"> <li>• Monitor the organization's aggregate exposure to sustainability risks</li> <li>• Oversee the organization's risk management and business resilience policies</li> </ul>



# GOVERNANCE: ORGANIZATIONAL STRUCTURE AND OVERSIGHT

## 3. Setting a structure for accountable strategic planning, budgeting and monitoring

### ROLES AND RESPONSIBILITIES FOR SUSTAINABILITY IN A TYPICAL ORGANIZATION

BOARD LEVEL	
<b>Non Executives</b>	<ul style="list-style-type: none"> <li>• Bring independence, impartiality and wide experience, as well as provide oversight, governance and challenge to the executives</li> <li>• Emphasize ethical rigour and sound risk management practices to the Board</li> <li>• Challenge Board on integration of sustainability, time horizons used and stakeholder considerations</li> </ul>
<b>Executives</b>	<ul style="list-style-type: none"> <li>• Develop and execute sustainable business strategy, as well as set the tone of the organization and the level of sustainable business ambition</li> <li>• Drive all corporate operations, performance, compliance and management of stakeholders</li> </ul>

**FINANCE FUNCTION**  
Lead the strategic planning, budgeting and forecasting processes. Essential in integrating non monetary value into budgeting and forecasting processes.

- Integrate sustainability within performance management and financial reporting processes
- Embed sustainability data within management information platforms
- Advise on financial impact and risks from sustainability issues in decision making activities

Key finance skills at play are strategic financial planning, data and information analysis, preparation and communication of budgeting guidelines.

**OTHER FUNCTIONS**  
Assess individual functional unit responsibilities in light of the strategic objectives, relevant capabilities, available resources and budgeting guidelines. Determine opportunities to enhance non monetary value through functional roles. Identify suitable non monetary budgets and targets for the function. Provide input, validation, and agreement on assumptions and functional targets in strategic plans, budgets and forecasts.

Operations	Commercial	Sales and Marketing
<ul style="list-style-type: none"> <li>• Improve business resilience by building sustainable value chains</li> <li>• Maximize operational efficiency to minimize use of energy and non renewable resources</li> <li>• Secure renewable energy sources</li> <li>• Partner with suppliers to help deliver sustainable performance objectives</li> </ul>	<ul style="list-style-type: none"> <li>• Integrate sustainability factors into strategic research and development, and innovation activities</li> <li>• Ensure that business development activities contribute to sustainable business growth</li> </ul>	<ul style="list-style-type: none"> <li>• Improve customer value proposition by integrating sustainability within selling, distribution and promotional activities</li> <li>• Contribute to delivery of sustainable performance objectives by influencing customer behaviour</li> <li>• Communicate changing market conditions to support forecasting process</li> </ul>
Legal	Human Resources	Corporate Affairs
<ul style="list-style-type: none"> <li>• Assess impact of emerging and existing sustainability focused legislation</li> <li>• Provide legal support to business for strategic changes, e.g. new commercial arrangements and contracts or/and corporate communications</li> </ul>	<ul style="list-style-type: none"> <li>• Embed sustainability in performance evaluation and remuneration practices</li> <li>• Determine value of human capital and implement enhancement and protection plan</li> <li>• Build wellbeing and diversity and inclusion into business as usual</li> </ul>	<ul style="list-style-type: none"> <li>• Define and protect the organization's brand and reputation through strong sustainability policies and performance</li> <li>• Communicate the organization's position on sustainability issues to external stakeholders</li> </ul>



Essential Guide to  
**Strategic Planning,  
Budgeting & Forecasting**

**Introduction**

**Process**

**Governance**

- Overview
- Tools and guidance
- Practical examples

**Performance management**

**Technology and Data**

**Maturity and reference**

# GOVERNANCE: ORGANIZATIONAL STRUCTURE AND OVERSIGHT

## 3. Setting a structure for accountable strategic planning, budgeting and monitoring

### THE ROLE OF FINANCE IN RELATION TO SUSTAINABILITY

FINANCE FUNCTION		
Utilizing finance skills from across the function to take responsibility for sustainability factors in the strategic planning, budgeting and forecasting process and beyond.		
Financial Planning and Analysis	Treasury and Commercial Finance	Tax
<ul style="list-style-type: none"> <li>Lead the setting of strategic sustainability budgets and forecasts</li> <li>Extend financial structure and rigour of strategic planning, budgeting and forecasting process to natural, social and human capital</li> <li>Work with the business to understand performance variances</li> <li>Drive scenario analysis process, incorporating significant sustainability risks and opportunities, e.g. climate risk</li> <li>Work with the Commercial Finance team to develop and implement shadow pricing mechanism</li> <li>Advise business units on the financial impact and risks from sustainability issues when developing strategic plans and budgets</li> </ul>	<ul style="list-style-type: none"> <li>Work with finance providers (both equity and debt) to communicate the sustainable business model and long term resilience of the organization, with a view to accruing long term investors and finance at attractive rates</li> <li>Use capital management financing decisions to attract/accommodate new sources of potentially lower cost finance</li> <li>Work with Financial Planning and Analysis team to develop and implement a shadow pricing mechanism</li> </ul>	<ul style="list-style-type: none"> <li>Develop and communicate tax strategy, including ethical, transparency and societal contribution factors</li> <li>Ensure the organization is taking advantage of sustainability related tax incentives and credits</li> <li>Interpret and estimate cost of tax compliance for waste, emissions and water etc.</li> <li>Incorporate tax impact in strategic plans, budgets and forecasts</li> </ul>
Business Partnering	Financial Reporting	Corporate Development and Mergers and Acquisitions
<ul style="list-style-type: none"> <li>Analyse and interpret complex data streams and influence business partners to integrate the sustainability approach into the business and into partnerships with other organizations</li> <li>Engage business units in developing relevant budgets (e.g. carbon, water) and including sustainability related targets in the budgeting and forecasting processes</li> </ul>	<ul style="list-style-type: none"> <li>Interpret integrated and sustainability reporting standards developing business reporting policies and manuals</li> <li>Develop effective control environment for social and environmental data</li> <li>Ensure reporting platform enables timely measurement of performance against sustainability targets set out in strategic plans, budgets and forecasts</li> <li>Own the integrated reporting process for the business, for both internal and external reporting</li> <li>Work with Investor Relations, Treasury and Commercial Finance teams to engage with investors</li> </ul>	<ul style="list-style-type: none"> <li>Perform strategic analysis of sustainability related risks and opportunities</li> <li>Ensure sustainability factors are considered when assessing the commercial rationale for mergers and acquisitions, joint ventures, strategic alliances and other non organic growth strategies</li> <li>Ensure sustainability factors are included in due diligence activities when executing strategic transactions</li> <li>Assess impact of M&amp;A activity on achievement of sustainability targets</li> </ul>

Essential Guide to  
**Strategic Planning,  
Budgeting & Forecasting**

**Introduction**

**Process**

**Governance**

- Overview
- Tools and guidance
- Practical examples

**Performance management**

**Technology and Data**

**Maturity and reference**



- Overview
- Tools and guidance
- Practical examples

# GOVERNANCE: REPORTING FRAMEWORKS

## 4. Transparent integrated management reporting

### THE INTEGRATED MANAGEMENT REPORTING CYCLE

Finance systems and processes can form an initial framework upon which to build a transparent integrated management reporting framework by:

- Ensuring sufficiently robust control environment to drive complete and accurate reporting
- Evaluating integrated data and overview of supporting control environment for Board attention
- Performing internal audit over integrated control environment to independently test design and operating effectiveness of the controls and report findings to audit committee

The key phases of the integrated management reporting cycle are:



These will be explored in more depth in the forthcoming A4S Essential Guide to Integrated Management Reporting.

### PRACTICAL EXAMPLE

At Sainsbury's we use simple and visual integrated management reporting to increase the ability of the PLC and OPS Board to make quick, accurate decisions about future developments. An example is our refurbishing stores workstream where reporting of waste and store energy performance (before and after refit) is reported alongside sales and other key store metrics. To enhance decision making there are three cuts of energy data, one looking at a store level, a contractor summary, and a works type summary. These enable performance management to be put in place for both stores and contractors, with both being held accountable for their performance.

[See full case study for further information](#) 



- Overview
- Tools and guidance
- Practical examples

# GOVERNANCE: DECISION MAKING POWER AND PROCESS

## 5. Defining decision authority, delegations and processes

### MAKING COMPLEX DECISIONS

Strategic decision making in relation to sustainability factors can be complex, often incorporating input from both inside and outside the finance function by:

- Facilitating cross functional decision making with committees and steering groups
- Defining authorities, delegations and supporting processes to ensure these work effectively
- Determining a suitable approach to decision making depending on the choice of actions, and the method of evaluating the possible outcomes
- Putting safeguards in place to minimize unconscious bias or preference that may lead to unsustainable decisions

Business decisions can be strategic, tactical or operational, with strategic actions having an impact on long term outcomes. These influence how subsequent decisions are made and consequently often require an investment of time to make the right decision.

### LESS GOVERNANCE REQUIRED

Structured

Low risk

### MORE GOVERNANCE REQUIRED

Unstructured

High risk

Increasing complexity of decision



### PRACTICAL EXAMPLE

At Sainsbury's, our governance model reinforces and highlights the significance of integrating sustainability into every aspect of our business. Our Corporate Responsibility and Sustainability Committee is a Board level body chaired by a non executive director and oversees the company's performance against our 20x20 Sustainability Plan, which is an integral part of our corporate strategy. In addition, there is a Corporate Responsibility and Sustainability Steering Group chaired by our CEO. This in turn encompasses smaller Value Steering Groups, each of which supports one of the company's five value areas.

[See full case study for further information](#)



- Overview
- Tools and guidance
- Practical examples

# GOVERNANCE: DECISION MAKING POWER AND PROCESS

## 5. Defining decision authority, delegations and processes

### COMMON ISSUES IN DECISION MAKING

Decision bias and the psychology associated with making decisions can cause inappropriate business decisions to be made, i.e. decisions which are irrational given the information available at the time. Given the often long term and unfamiliar nature of decisions relating to sustainability, they may be particularly prone to psychological bias. Here are some factors to be aware of when making decisions that may impact accounting for sustainability.

	Potential issues	Illustrative scenarios
<b>Decision making ability</b>	<i>Overconfidence</i> – Most people are overconfident of their own decision making ability.	Insufficient impact analysis is performed in choosing between two strategic social capital initiatives. The decision is based on a quick analysis and mostly instinctive. The social return on investment potential is not achieved and social capital is devalued.
<b>Bias</b>	<i>Status quo bias</i> – People disproportionately stick with the status quo rather than consider or select alternative options.	Strategic options about new innovations, initiatives or approaches that work towards a sustainable business model are not embraced because no significant issues have arisen yet with the way things have always been done in the past. Competitors working on lower resource solutions gain market share.
	<i>Optimism bias</i> – People tend to overestimate the probability of positive events and underestimate the probability of negative events. Optimism bias also occurs when estimating how long things will take, and how much they will cost.	The probability of significant flood events is underweighted, thus scenario analysis is not considered necessary. Insufficient capital is invested in flood prevention and when preventable flooding does occur, the impact and cost are high.
	<i>Sunk cost bias</i> – The more you invest in something the harder it becomes to abandon it, even if it's no longer the rational option.	Significant infrastructure investment has been made in the past in a carbon intense process. Budget required to maintain the infrastructure is low, replacement budget is high but the forecast carbon and financial savings meet the investment criteria. There is a reluctance to write off the value of the current asset and invest more capital, despite this being a rational option.
	<i>Fooled by experience</i> – Decisions based on experience are inherently biased. This can lead people to reapply a previous decision despite circumstances or surrounding context being sufficient to warrant separate consideration.	Project tenders have always followed a standard budgeting approach, with a market leading success rate. The market context is changing, with increasing emphasis in the customer base on carbon reduction. Based on experience, the decision is made by commercial finance to keep the current, successful low cost budgeting approach. Business is lost to a competitor with a higher financial budget, but who introduced a carbon budget into their standard approach.



- Overview
- Tools and guidance
- Practical examples

# GOVERNANCE: DECISION MAKING POWER AND PROCESS

## 5. Defining decision authority, delegations and processes

### Potential issue

#### Preference

**Uncertainty avoidance** – Risk appetite can be impacted by cultural preference, with some cultures preferring to avoid uncertainty<sup>4</sup>. Decision making processes may need to be adapted in some regions to account for this.

**Group think** – This occurs when a group prefers harmony over critical evaluation, i.e. there is a reluctance to challenge a proposed idea. This is increasingly likely in collectivist societies<sup>4</sup>.

**Loss aversion** – People tend to prefer avoiding losses to acquiring equivalent gains. Changing the reference point so options are seen as losses as opposed to gains, or vice versa, will often change the decision made.

#### Time perspective

**Instinctive decisions** – When making quick decisions, subconscious intuitive simplifications are common and not always helpful.

**Temporal discounting** – The idea that a negative outcome in the future is not perceived as badly as a more immediate negative outcome. The further away the negative outcome, the less negatively it is perceived.

**Consideration of future consequences** – People vary in the extent to which they consider the future outcomes of their current behaviour depending on their personality.

### Illustrative scenarios

Group finance is encouraging innovation in cost effective ways to transition to low carbon across their global business. Country level management have autonomy over what they implement and how they allocate budget to do so. Some countries try ambitious, bold new options and make significant savings; others are much more conservative, investment is low and reductions are limited.

The operations director proposes strategic plans for a new gas fuelled CHP plant, forecasting opex savings of 15% and carbon savings of 10%. The instinctive view of the Board is to proceed with the investment; all agree as it saves money and carbon, what is not to like? The plan is not critiqued in detail and opportunities for significantly greater savings were missed.

In setting a carbon budget for a specific project, division management believe a level of 70% of former levels is achievable. In submitting the carbon budget to group finance, there is debate in the team whether to submit a budget of 60% of former levels (a stretch target, unlikely to be fully achieved), 70% of former levels (their best estimate) or 80% of former levels (an easy target, with low risk of failure). 80% was set, and slightly exceeded. The incentive and opportunity for greater savings were lost.

Climate change is generally perceived as a long term risk. This makes it easier not to act now despite knowledge of the likely consequences (some of which may be short term). Some people find it easier to ignore than others.

- Overview
- Tools and guidance
- Practical examples

# GOVERNANCE: DECISION MAKING POWER AND PROCESS

## 5. Defining decision authority, delegations and processes

### COMMON ISSUES IN DECISION MAKING

Organizations tend to have structured approaches for key decisions. This is relevant for strategic decisions, particularly where significant budgets need to be allocated for large investment decisions. The role of governance is to determine and define what structures are appropriate, and standardize where necessary, e.g. requiring use of multi criteria decision analysis. In this way the risk that inappropriate, irrational or erroneous decisions are made can be reduced. This is especially important where organizations, or individuals, can be held accountable for decisions and/or there is a risk of litigation.

Being able to demonstrate that a decision followed a formal process and was justified on the basis of the information available at the time can be very important.

#### Some potential ways to mitigate these factors include:

- Have someone disruptive in the team to bring 'opposite thinking'
- Get people to focus on possible failures and provide prospective hindsight
- Look at prospective outcomes from both a gain and a loss perspective
- Involve diverse stakeholders in decision making. This can be done by:
  - involving them directly in the process
  - using members of the team to role play as if they were specific stakeholders
  - engaging separately on potential options, e.g. in stakeholder workshops
- Be conscious of 'do nothing' decisions, e.g. not updating the strategy to a sustainable business model. Ensure an appropriate amount of rigour is applied to 'do nothing' decisions in the same way as to other key decisions. Is 'do nothing' justified?



**Introduction**

**Process**

**Governance**

- Overview
- Tools and guidance
- Practical examples

**Performance management**

**Technology and Data**

**Maturity and reference**

# GOVERNANCE: RISK MANAGEMENT FRAMEWORKS

## 6. Managing risk and uncertainty

Identification and mitigation of risk plays a significant part in responding to sustainability factors. Organizations should:

- Integrate sustainability risk into the corporate governance processes
- Incorporate oversight into the Audit Committee or Risk Management Committee agendas to enable them to play a key role in ensuring risks attributable to sustainability factors are appropriately identified, understood and managed

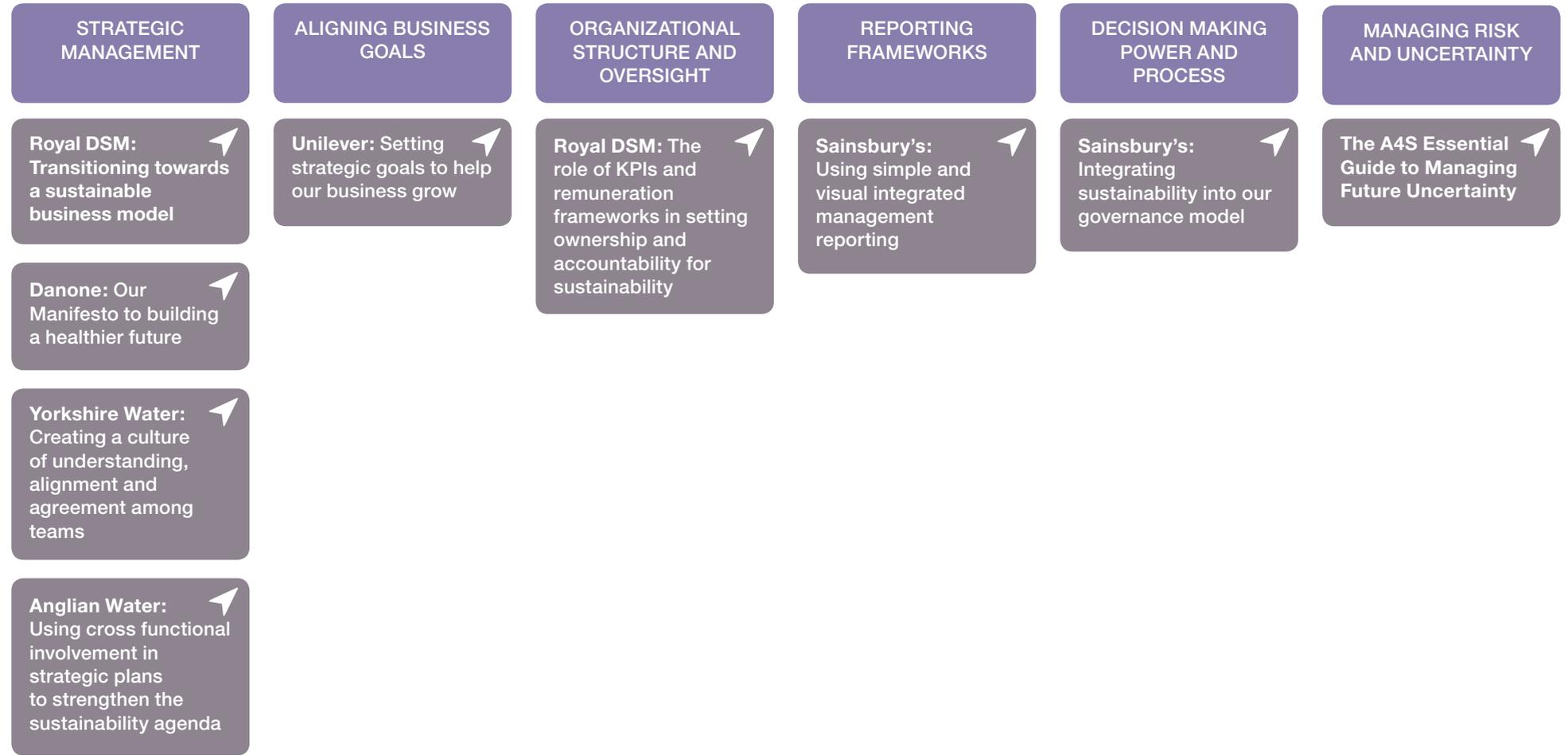
See the A4S Essential Guide to Managing Future Uncertainty for further guidance. 

The key phases of the integrated risk process cycle are:





# GOVERNANCE: PRACTICAL EXAMPLES



Essential Guide to  
**Strategic Planning,  
Budgeting & Forecasting**

**Introduction**

**Process**

**Governance**

- Overview
- Tools and guidance
- [Practical examples](#)

**Performance management**

**Technology and Data**

**Maturity and reference**





# GOVERNANCE: STRATEGIC MANAGEMENT PRACTICAL EXAMPLES

## Royal DSM: Transitioning towards a sustainable business model

Mission, vision and strategy to enhance long term stakeholder value

Essential Guide to Strategic Planning, Budgeting & Forecasting

- .....
- Introduction**
- .....
- Process**
- .....
- Governance**
  - Overview
  - Tools and guidance
  - **Practical examples**
- .....
- Performance management**
- .....
- Technology and Data**
- .....
- Maturity and reference**

Almost 20 years ago, we began to refocus our operations onto a much more sustainable and responsible footing in response to sustainability megatrends that we felt presented a significant opportunity – and threat if we didn't respond. We have moved away from fossil fuel based petrochemical businesses and turned to health, nutrition and materials sciences.

world. As part of our 2010-2015 strategy, the company took sustainability to the next level. In addition to fulfilling our own responsibilities towards society, we have successfully developed sustainability as a strategic growth driver.

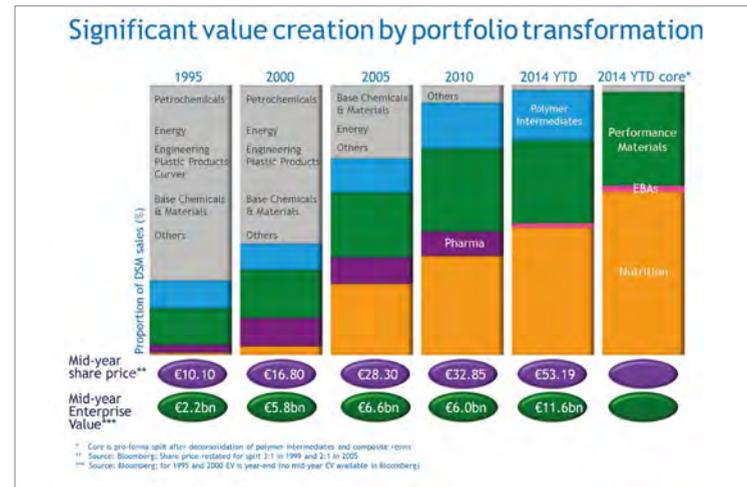
For us, sustainability is a key differentiator and value driver in our markets. We are uniquely positioned to capitalize on the many opportunities this presents across the value chain. As an integral part of the company's operations, strategic actions and decisions, sustainability guides the

activities of our global business groups. They are charged with continuously developing innovative science based products and solutions that contribute to a brighter future for people, while helping to increase our profitability.

In order to have commitment from shareholders for this business model, DSM focused on those investors who take the long term view.

At the heart of our mission is the core value of sustainability and a commitment to helping create a more sustainable

### DSM'S BUSINESS MODEL TRANSFORMATION



Extracts from 2014 Capital Markets Day Analyst presentation.



### MEGATRENDS DRIVING MORE SIGNIFICANT THAN EVER



- Overview
- Tools and guidance
- Practical examples



# GOVERNANCE: STRATEGIC MANAGEMENT PRACTICAL EXAMPLES

## Danone: Our Manifesto to building a healthier future

Danone is a global food company providing fresh dairy products, bottled water, and both medical and baby nutritional products. Our mission is to bring health through food to as many people as possible. Our cofounder and long time CEO, Antoine Riboud, said in 1972: ‘We only have one Planet Earth’. This ethos has been at the heart of the company’s culture for a long time. Since the early 1970s Danone has operated under what we refer to as ‘a dual project’, having both economic and social objectives has embedded nature into Danone’s genes.

In 2015 we published a new Manifesto which will be a guiding star to build a healthier future, and to enshrine the principles of co creation, local adaptation and continuous improvement. This Manifesto, which captures the ethos of Danone, is part of what drives Danone’s finance team and their cross functional colleagues to work together to find innovative, financially sound solutions for healthier customers and a healthier planet.

Mission, vision and strategy to enhance long term stakeholder value



This Manifesto belongs to every Danoner. By living our Manifesto, we carry forward our mission to “bring health through food to as many people as possible” and our dual project for business success and social progress, while reflecting our values of Humanism, Openness, Proximity and Enthusiasm. This Manifesto embodies our commitment to lead an Alimentation Revolution by supporting people to adopt healthier choices and lifestyles, and by caring about the health and wellness of Danone and Danoners, of our communities and our planet, of current and future generations.



*This Manifesto belongs to every Danoner. By living our Manifesto, we carry forward our mission to “bring health through food to as many people as possible” and our dual project for business success and social progress, while reflecting our values of Humanism, Openness, Proximity and Enthusiasm. This Manifesto embodies our commitment to lead an Alimentation Revolution by supporting people to adopt healthier choices and lifestyles, and by caring about the health and wellness of Danone and Danoners, of our communities and our planet, of current and future generations.*

### OUR BELIEFS

*As Danoners, we believe that*

**GOOD HEALTH IS EVERYTHING TO ALL OF US**  
Good health is a state of general well-being. It involves the mind as well as the body, and emotion as well as sensation.

**FOOD IS HEALTH'S MOST SIGNIFICANT PARTNER**  
Healthy eating and drinking is an essential part of life, to build and to maintain our well-being. From the earliest times, all over the world, people have always understood this and it is still true.

**HEALTH CANNOT LIVE LONG WITHOUT PLEASURE**  
Without appetite and delight, no-one would eat or keep eating well. Pleasure in food and beverage is a precondition of every healthy lifestyle.

**FOOD IS THE WARMTH BEHIND EVERY CULTURE**  
Healthy eating is an idea that goes beyond nutritional needs and appetites. Its richness is a part of culture – always different and always special – and worth taking the time to understand.

**THE WEALTH OF NATIONS GROWS FROM A HEALTHY PLANET**  
Everything we eat depends on the earth that it grows in or feeds on. As gardeners of this planet, we have a duty of care and a business-necessity to manage its resources responsibly and sustainably.

**RESEARCH IS OUR BEST ALLY**  
Food is more than nature. It is the outcome of human endeavour, combining technological progress with deeper understanding of its value and its potential.

**PREPARING FOR TOMORROW IS THE BUSINESS OF TODAY**  
New ways can and will be found, to better serve this generation and the next, and to bring healthy, affordable food and safe water to the greatest number, across the world.

### OUR COMMITMENTS

*As Danoners, we commit*

**FOR HEALTH AND WELL-BEING**  
We will stand next to everyone's quest for good health, by encouraging diets and lifestyles that bring the most benefit in people's lives.

**WITH THE BEST WE CAN DO, ALWAYS**  
We will stand by all our products and services, with pride and openness, as a guarantee of quality and integrity - whatever a consumer may choose, and wherever they may choose it.

**FOR EVERY PERSON, AT EVERY AGE, WITH PLEASURE**  
We will stand for the widest range of products and services to feed the needs and wishes of every person at every key stage of life, encouraging balanced nutritional habits or delivering specific health benefits.

**FOR OUR OWN HOMES**  
We celebrate our own diversity, and stand up for the principle that every culture has the right to enjoy its own way of eating and living well, by offering products inspired by and relevant for local needs and ideas.

**FOR OUR PLANET AND ITS LIVING HERITAGE**  
We will stand together for a healthy planet and devote all our energies to protect and preserve the abundance of life and the variety of nature, in all its forms and ecosystems.

**FOR WHAT IS INVENTED AND WHAT STILL NEEDS TO BE INVENTED**  
We will always respect our obligation to prepare the future through new, sustainable ways to provide healthy food and access to safe water for all, by bonding with communities and stakeholders. We will keep our place at the forefront of these efforts.

**NOT ALONE, BUT WITH PARTNERS AND FRIENDS**  
We are a collaborative Danone team. We will stand firmly by our belief that it is better to walk together and share benefits, by engaging with more consumers and more communities, in our common quest to find better health through better food and beverage, for the greatest number.

*Each of us has the power to make this happen.*



“We drafted a manifesto for alimentation that summarizes our convictions and commitments, spelling out our goals and staging just how we plan to act on our mission and work with all of our stakeholders.”

Emmanuel Faber, Chief Executive Officer



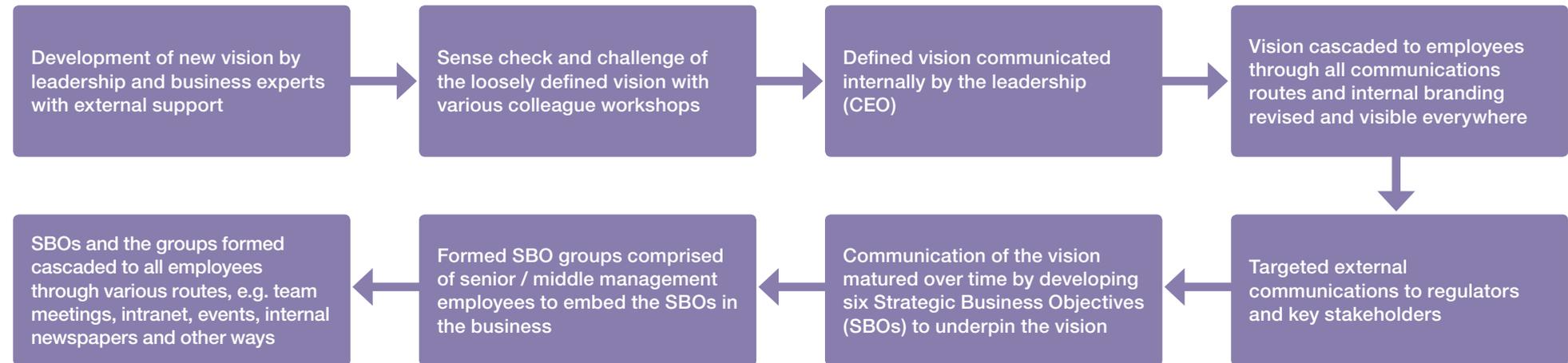
- Overview
- Tools and guidance
- Practical examples

# GOVERNANCE: STRATEGIC MANAGEMENT PRACTICAL EXAMPLES

Mission, vision and strategy to enhance long term stakeholder value

## Yorkshire Water: Creating a culture of understanding, alignment and agreement among teams

In 2010 Yorkshire Water launched a new company vision that incorporated sustainability at its heart: "Taking responsibility for the water environment for good". To encourage embedding the vision into our culture, we launched a communication programme that helped us to empower our colleagues to take personal ownership and accountability for our goals.



We integrated our vision and Strategic Business Objectives into performance management and reporting by developing a framework of short, medium and long term projects and targets which encompass all of our sustainability priorities, with progress linked to colleague reward incentives. We monitor and drive delivery of this framework through our scorecards, quarterly updates to the leadership team and through our integrated annual report.



- Overview
- Tools and guidance
- [Practical examples](#)



# GOVERNANCE: STRATEGIC MANAGEMENT PRACTICAL EXAMPLES

Mission, vision and strategy to enhance long term stakeholder value

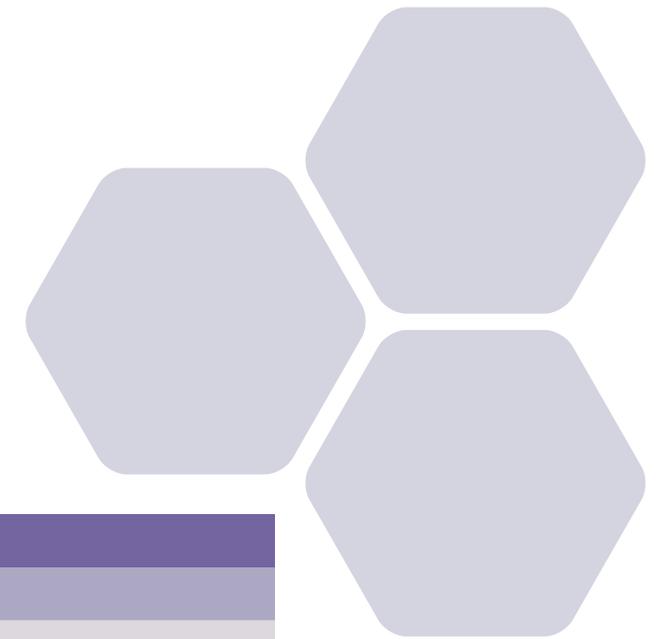
## Anglian Water: Using cross functional involvement in strategic plans to strengthen the sustainability agenda

When the 2014 Water Industry Regulatory Price Review ('PR14') came into effect, Anglian Water had to deliver a five year strategic plan that included a wide range of non monetary measures including those relevant to sustainability. The project was company wide and, though the end plan was already based on our existing strategy, communicating the new approach that incorporated sustainability issues in such way that it would drive behavioural change was a challenging task.

To overcome this, Anglian Water created a PR14 Programme Board that reported to the Board, and beneath which various sub groups were operating to provide details and implementation proposals.

This approach resulted in strong buy in from various leaders across the organization, who played a key role in disseminating the message across the business. It also enabled cross functional involvement and ownership of the strategic plans, which strengthened the organization's commitment to driving the strategic sustainability agenda forward.

The Finance team engaged in the PR14 Business Plan at every level and at every stage of the development and decision making process. At a high level this included explaining in detail to the shareholders/investors the impact on the business of the plan and the Final Determination. At a more granular level the finance team ensured that the strategic intent in the plan was costed and included such that the business could have confidence that the intent set out in words and desired outcomes would be financially deliverable. The Finance team played a vital role in challenging the business to ensure its plans would meet the strategic financial and non financial outcomes as well as developing the financing, tax and insurance strategies.



PR14 Programme Board		
Senior Executive Officers		
<ul style="list-style-type: none"> <li>• Treasury</li> <li>• Tax</li> <li>• Capital Investments</li> </ul>	<ul style="list-style-type: none"> <li>• Operations</li> <li>• Asset Management</li> <li>• Water Resources</li> <li>• Customer Services</li> </ul>	<ul style="list-style-type: none"> <li>• Regulation</li> <li>• Corporate Communications</li> </ul>





# GOVERNANCE: ALIGN BUSINESS GOALS PRACTICAL EXAMPLES

Business goals that will enhance long term stakeholder value

## Unilever: Setting strategic goals to help our business grow

Essential Guide to Strategic Planning, Budgeting & Forecasting

**Introduction**

**Process**

**Governance**

- Overview
- Tools and guidance
- Practical examples

**Performance management**

**Technology and Data**

**Maturity and reference**

**WHAT**

In 2012 we set our four strategic goals to be:

- **Grow the Business:** By 2020 our goal is to double sales by the business compared to 2010
- **Improve Health and Wellbeing:** By 2020 we will help more than a billion people take action to improve their health and wellbeing
- **Reduce Environmental Impact:** By 2030 our goal is to halve the environmental footprint from making and using of our products as we grow our business
- **Enhance Livelihoods:** By 2020 we will enhance the livelihoods of millions of people as we grow our business

**WHY**

At Unilever, we have a simple but clear purpose – to make sustainable living commonplace. We believe this is the best long term way for our business to grow. Our purpose and operating expertise will help us to realize our vision of accelerating growth, reducing our environmental footprint and increasing our positive social impact. We recognize this is ambitious, but it is consistent with changing consumer attitudes and expectations. Our unswerving commitment to sustainable living is increasingly delivering:

- more trust from customers; and
- a strong business for shareholders, with lower risks and consistent, competitive and profitable long term growth.

**HOW**

Defining our purpose and our vision were key to setting our strategic goals. We believe profitable growth should also be responsible growth. That approach lies at the heart of the development of our strategic goals.

In developing our goals there were a number of priorities that were important to us:

- Customer and consumer trust
- A strong business for shareholders
- A better, healthier and more confident future for children
- A better future for the planet
- A better future for farming and farmers

We developed our goals as a path towards achieving our vision, incorporating these priorities through a process of actively engaging with governments, intergovernmental organizations, regulators, customers, suppliers, investors, civil

society organizations, academics and our consumers. The detail on how we intend to deliver our goals is captured in the Unilever Sustainable Living Plan. It guides our approach to how we do business and how we meet the growing consumer demand for brands that act responsibly in a world of finite resources. Our Plan is distinctive in three ways:

1. It spans our entire portfolio of brands and all countries in which we sell our products.
2. It has a social and economic dimension: our products make a difference to health and wellbeing and our business supports the livelihoods of many people.
3. When it comes to the environment, we work across the whole value chain, from the sourcing of raw materials, to our factories and the way consumers use our products.



- Overview
- Tools and guidance
- Practical examples



# GOVERNANCE: ORGANIZATIONAL STRUCTURE AND OVERSIGHT PRACTICAL EXAMPLES

Setting a structure for accountable strategic planning, budgeting and monitoring

## Royal DSM: The role of KPIs and remuneration frameworks in setting ownership and accountability for sustainability

When we launched our new strategy, sustainability was identified as a key business and growth driver. To be able to track our performance against the 2015 vision we developed a set of Key Performance Indicators (KPIs) that incorporated our sustainability aspirations. These were developed to be reported externally as well as to be used internally to steer the business. A selection of these KPIs that are well established within the business are used in performance management and are linked to the variable pay of the management Board and employees.

**DSM Managing Board Total Direct Compensation (on target)**

	Element	Vehicle	Performance targets & measures	Target pay-out (% of ABS)
Fixed	Annual base salary (ABS)	Cash	N/A	100%
Variable	Short Term Incentive (STI) (minimum performance threshold for STI pay-out set by Supervisory Board)	Cash*	<b>1. Financial:</b> <ul style="list-style-type: none"> <li>Adjusted EBITDA</li> <li>Gross Free Cash Flow</li> <li>Organic Net Sales Growth</li> </ul> <b>2. Sustainability:</b> <ul style="list-style-type: none"> <li>Brighter Living Solutions</li> <li>Employee Engagement Index</li> <li>Safety Performance</li> </ul> <b>3. Individual</b>	12.5% 10% 2.5% 5% 5% 5% 10%
	Long Term Incentive (LTI)	Performance Shares	<b>1. Financial:</b> <ul style="list-style-type: none"> <li>Relative Total Shareholder Return (TSR)</li> <li>Return On Capital Employed (ROCE) growth</li> </ul> <b>2. Sustainability:</b> <ul style="list-style-type: none"> <li>Energy Efficiency Improvement (EEI)</li> <li>Greenhouse-Gas Emissions (GHGE) Efficiency improvement</li> </ul>	25% 25% 25% 25%

\* STI deferral into shares: A mandatory (25%) and a voluntary proportion (up to a total maximum of 50%) of the actual STI amount earned in a year is deferred into DSM shares with a three year holding period. This is linked to a one-for-one matching award on the total deferred amount under the condition that predefined performance targets and measures are met at the end of the three year vesting period.



*“The development of the KPIs, management confidence in them (i.e. reliability and accuracy) as well regular internal management reporting means that we can use them as part of our performance management processes.”*

Bert Steinbusch, Project Director Finance Transformation, Royal DSM





# GOVERNANCE: REPORTING FRAMEWORKS PRACTICAL EXAMPLES

Transparent integrated management reporting

## Sainsbury's: Using simple and visual integrated management reporting

'Respect for the Environment' is one of our five core values that underpin our business. It is all about doing the right thing by enhancing operational efficiency, which is both good for business and the environment. Part of this programme is a focus on reducing operational carbon by 30% by 2020 versus a 2005/06 baseline. A key work stream that focuses on this commitment is looking at refurbishing stores to enable them to use less energy, which has a positive impact on both the environment and the profit and loss account.

Sitting behind the implementation of this programme is a key management report that increases the ability of the PLC and OPS Board to make quick, accurate decisions about future developments. These reports are delivered under the usual governance of Investment Board papers and Post Implementation Review papers post investment. The report looks at store energy performance both during and after works have taken place, measuring the energy savings compared to targets. It is reported and reviewed in the same manner as other key store metrics such as sales and waste. To enhance decision making there are three cuts of data, one looking at a store level, a contractor

summary and a works type summary. These enable performance management to be put in place for both stores and contractors, with both being held accountable for their performance.

Our summary of the different implementation activities available is key in decision making as it provides a view on the return on investment of different options. This is used to then influence future decisions about the level of investment for additional stores.

A key benefit of the report is that the OPS and Investment Boards have been able to make decisions more quickly about future works. This has enabled more savings to be realized as changes can be implemented in a timely manner rather than having to be discussed in detail. Annual performance is also used to assess the level of investment for the next financial year. This enables the level of capital required to be accurately forecasted, and therefore enhancing the budgeting process.

### TOP TIPS

Ensure Board level accountabilities are clearly agreed and that the governance structure and processes allow for balanced decision making and speedy escalation

Integrated management reporting needs to be simple and visual, with clear 'line of sight' through the business from front line operations right up to the Board

Achievement of effective cross business working is facilitated by alignment and communication of organization wide targets and incentives



- Overview
- Tools and guidance
- [Practical examples](#)



# GOVERNANCE: DECISION MAKING POWER AND PROCESS PRACTICAL EXAMPLES

Defining decision authority, delegations and processes

## Sainsbury's: Integrating sustainability into our governance model

Achieving our strategic goals and objectives requires having leadership buy in, engagement from experts throughout our business and strong governance. Our governance model reinforces and highlights the significance of integrating sustainability into every aspect of our business.

Our Corporate Responsibility and Sustainability Committee is a Board level body chaired by a non executive director and oversees the company's performance against our 20x20 Sustainability Plan, which is an integral part of our corporate strategy.

In addition, there is a Corporate Responsibility and Sustainability Steering Group chaired by our CEO. This in turn encompasses smaller Value Steering Groups, each of which supports one of the company's five value areas. Our Value Steering Groups bring together a cross functional team once a quarter and are chaired by the accountable member of our Operating Board.

**Our steering groups not only give strategic direction, but also measure our progress against the plans defined, deal with new or emerging issues, and provide context for external reporting.**

**We have a clear plan of activity for our commitments every year, clearly linked to our budgets and forecasts.**

**We keep reviewing any sustainability issues that might be an impediment to our strategic objectives and actively engage with our stakeholders to ensure we adapt as required.**

**We routinely monitor our performance and reward process, and we communicate our results and challenges to all our stakeholders for transparency.**



“  
“We believe we have a responsibility to improve the world around us and I know that we'll continue to challenge ourselves to set ambitious targets”  
”  
Jean Tomlin, OBE, Chair of Corporate Responsibility and Sustainability committees, Sainsbury's

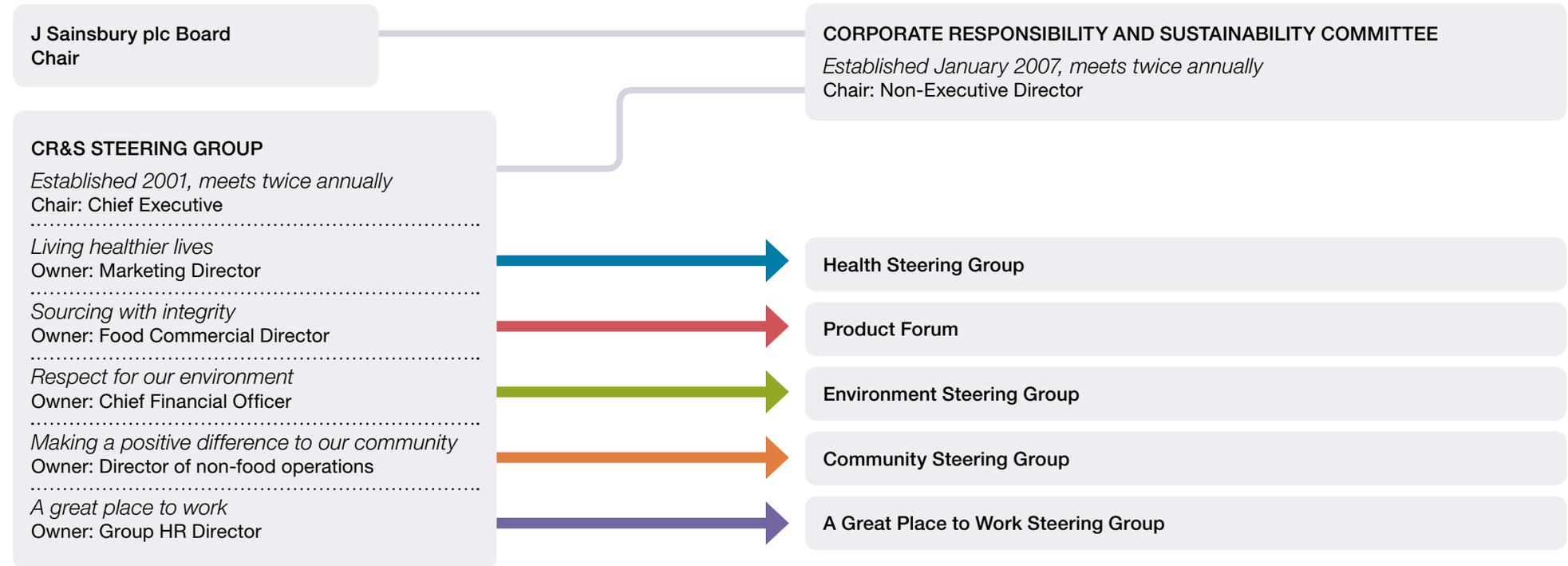


- Overview
- Tools and guidance
- Practical examples



# GOVERNANCE: DECISION MAKING POWER AND PROCESS PRACTICAL EXAMPLES

## Sainsbury's: Integrating sustainability into our governance model



- Overview
- Tools and guidance
- Practical examples



# PERFORMANCE MANAGEMENT

---

STRATEGIC PLANNING, BUDGETING AND FORECASTING

- Overview
- Tools and guidance
- Practical examples

# PERFORMANCE MANAGEMENT

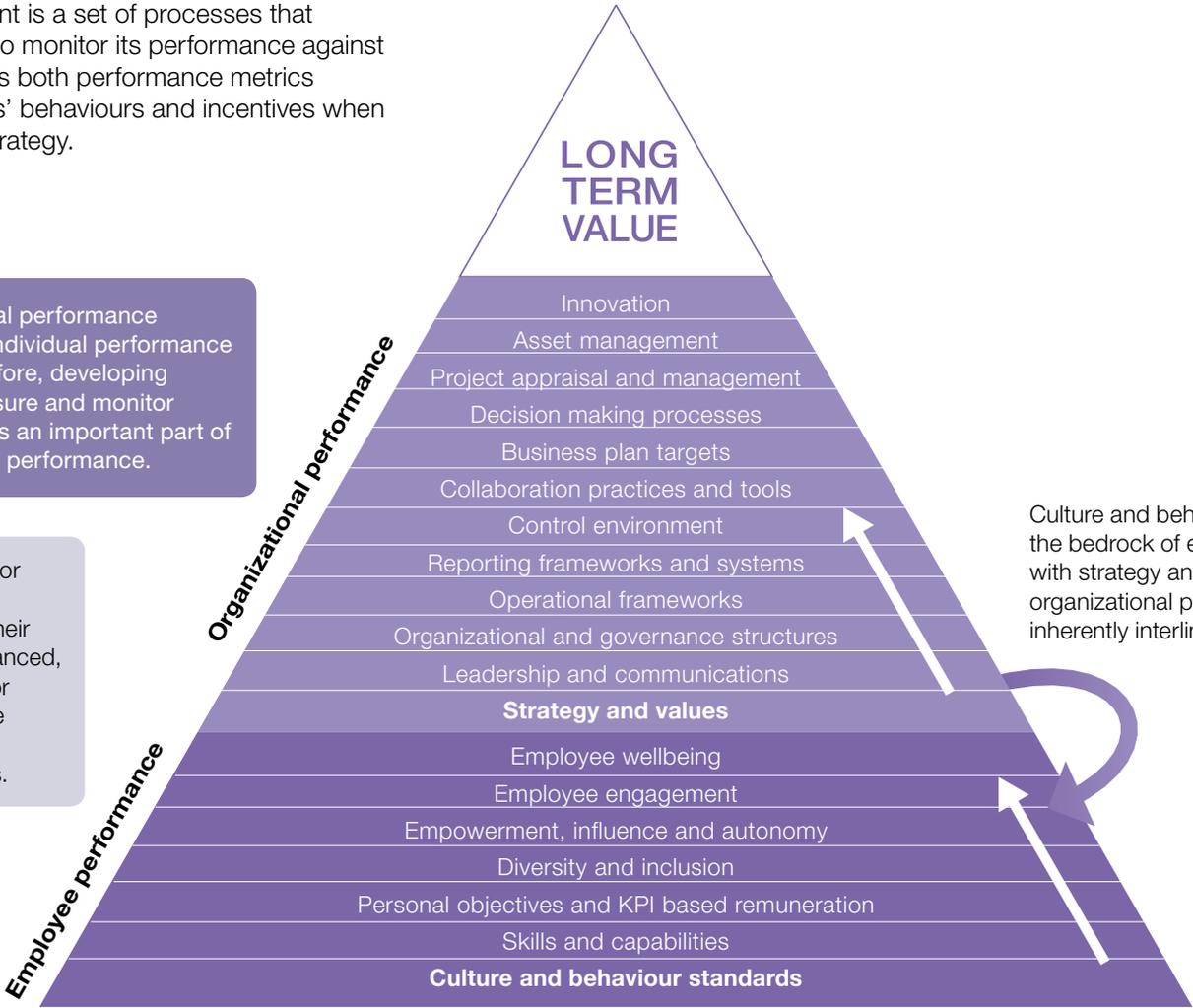
Performance management is a set of processes that enables an organization to monitor its performance against the strategy. This includes both performance metrics (KPIs) and the employees' behaviours and incentives when working to achieve the strategy.

Successful organizational performance depends on collective, individual performance of the employees. Therefore, developing the right metrics to measure and monitor employee performance is an important part of managing organizational performance.

Building the foundations for an environment where all employees can achieve their potential, to ensure a balanced, fair and equitable basis for accountable performance appraisal and KPI based remuneration frameworks.

Employee performance and organizational performance are inherently linked, therefore it makes sense for KPIs for both to be aligned.

The collective skills of finance and HR will be valuable to develop and measure employee performance.



Culture and behaviour standards are the bedrock of employee performance, with strategy and values the bedrock for organizational performance. The two are inherently interlinked.

What did organizations say were their key performance management challenges?  
How will this guide help?

- Overview
- Tools and guidance
- Practical examples

# PERFORMANCE MANAGEMENT: KEY CHALLENGES

## Organizations said...

*“Developing the right incentives and mechanisms to integrate sustainability factors into the organization’s performance management processes requires a structured approach.”*

*“The communication between finance teams and sustainability specialists is not transparent, and the information is not always available to gauge performance appropriately.”*

*“Short term financial pressures are an impediment to the successful delivery of long term goals and progress with sustainability issues and opportunities.”*

*“There is no guidance on how to link sustainability to financial impacts and benefits, resulting in us developing methods that might not treat sustainability as an integral part of our goals.”*

*“There is no ongoing tracking of initiatives and their benefits/costs to the company in terms of sustainability.”*

## We need...

Guidance on how to identify who can influence sustainability within the organization, and how they build this into, and track performance in, their appraisal. Remuneration can then be structured to incentivize the right behaviour.

Common terms and agreement on the right performance metrics, based on what is material to the business.

Guidance on how to link short term results to longer term performance and value.

Guidance on how to assess impacts and outcomes for sustainability and how this links to the overall strategic goals.

Guidance on how to measure and track benefits on sustainability initiatives.



- Overview
- Tools and guidance
- Practical examples

# PERFORMANCE MANAGEMENT

## What do I need to consider when monitoring organizational performance against the strategy and including corresponding metrics within my employee incentives?

At the strategic level, performance management is ensuring the right culture, structures and processes are in place to support delivery of the strategy..

### AREAS TO CONSIDER

#### 1. Employee performance

- **Culture and behaviour standards** – clearly define and communicate behavioural expectations, with sustainability at the heart.
- **Skills and capabilities** – perform a sustainable business skills and capabilities audit, develop strategy for gaps and long term growth.
- **Personal objectives and KPI based remuneration frameworks** – align objectives and frameworks with corporate values, strategy and behaviour standards and using outputs and insights from activities above.
- **Diversity and inclusion** – assess diversity profile and pay gaps, for employee base, by grade, and for recruitment and promotion. Understand barriers to inclusion. Define business case and strategy for diversity and inclusion management.
- **Empowerment, influence and autonomy** – agree empowerment approach, e.g. employee innovation programme, performance roadshows, identify influencers and agree autonomy guidelines.
- **Employee engagement** – perform regular engagement survey, understand engagement shortfalls and barriers, agree strategic response.
- **Employee wellbeing** – identify hot spots using engagement survey, attendance and turnover records. Understand barriers to wellbeing. Define business case and strategic response.

#### 2. Organizational performance

- **Strategy and values** – clearly define and communicate corporate strategy, culture and values, with sustainability at the heart.
- **Leadership and communications** – align corporate and communication strategies, include communications to both internal and external stakeholders.
- **Organizational and governance structures** – set structure, oversight responsibility and accountability. Consider whether a separate sustainability committee is appropriate.
- **Operational frameworks** – align operations philosophy with culture and set corresponding principles, practices and KPIs.
- **Reporting frameworks and systems** – agree balanced scorecard; assess suitability of current IT systems and specification shortfall.
- **Control environment** – agree a recognized controls framework to use, e.g. the *COSO framework*, including for non monetary KPIs.
- **Collaboration practices and tools** – agree practices and tools to facilitate cross functional and geographically remote collaboration.
- **Business plan targets** – ensure targets are ethical, realistic, aligned with strategy and defensible to a wide range of stakeholders.
- **Decision making processes** – define authorities, delegations and supporting processes across the relevant committees.
- **Project appraisal and management practices** – agree methodology to embed sustainability into project appraisals and practices.
- **Asset management** – agree long term time horizon for asset management strategy to span, e.g. 20, 40, 50 years.
- **Innovation** – define innovation ambition and set strategy and budgets accordingly.

- Overview
- Tools and guidance
- Practical examples

# PERFORMANCE MANAGEMENT

## 1. Employee performance



[See the next page for further guidance on how to select key influencers within the organization](#)

[See the A4S Essential Guide to Social and Human Capital Accounting for further guidance](#)

[See the forthcoming A4S Essential guide to Finance culture for further guidance](#)

**PRACTICAL EXAMPLE: EMPLOYEE WELLBEING**

At National Grid, we measured our return on investment from our employee wellbeing programme.

[See full case study for further information](#)

**PRACTICAL EXAMPLE: PERSONAL OBJECTIVES AND KPI BASED REMUNERATION**

At SSE, see our remuneration structure includes performance against sustainability related KPIs.

[See full case study for further information](#)

**PRACTICAL EXAMPLE: PERSONAL OBJECTIVES AND KPI BASED REMUNERATION**

At Sainsbury's we have incorporated our Sustainability Plan values into our Board remuneration policy.

[See full case study for further information](#)



- Overview
- Tools and guidance
- Practical examples

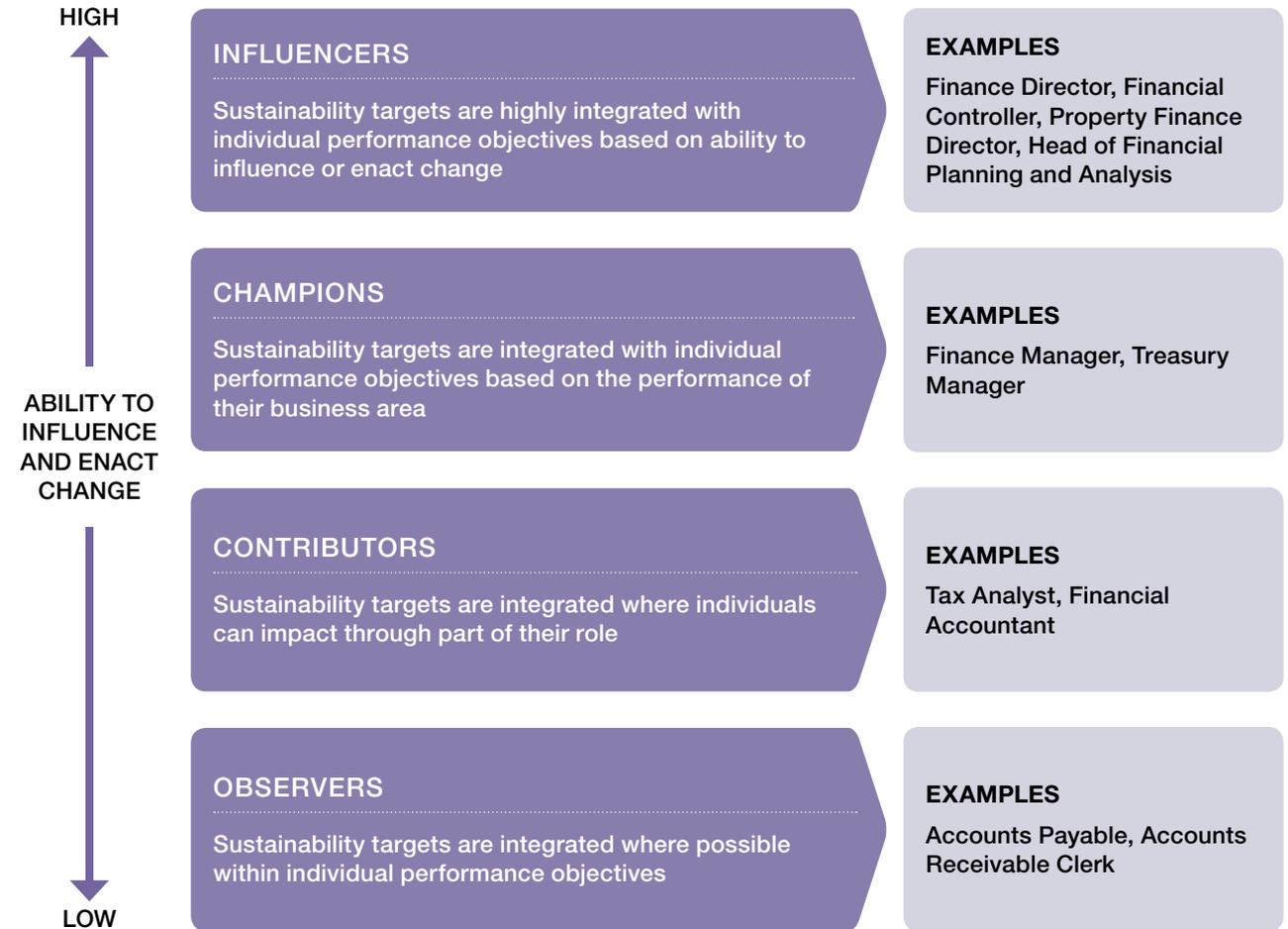
# PERFORMANCE MANAGEMENT

## 1. Employee performance

### ALIGN SUSTAINABILITY CHANGE AGENTS WITH PERFORMANCE MEASURES

To encourage progress towards an organization's strategic objectives, key change agents within the organization should be identified and aligned with sustainability targets through annual objective setting and remuneration frameworks.

Sustainability champions and influencers should be determined based on their ability to enact change in the organization and should be aligned with sustainability targets through goal setting and remuneration incentives. Each department (including Finance) should have at least one sustainability champion; if sustainability is truly embedded throughout the organization some members of the sustainability team should sit within the various functional teams as well as having a central sustainability hub. An increasing number of organizations are also emphasising the role of Finance Director – Sustainability or Sustainability accountant to embed finance skills within the sustainability team and drive integration and collaboration across finance and sustainability teams.



- Overview
- Tools and guidance
- Practical examples

# PERFORMANCE MANAGEMENT

## 2. Organizational performance



### PRACTICAL EXAMPLE: STRATEGY AND VALUES

At The Crown Estate, we define our values with sustainability at the heart.



[See full case study for further information](#)

### PRACTICAL EXAMPLE: ORGANIZATIONAL AND GOVERNANCE STRUCTURES

At Sainsbury's, we set our governance structure with accountability for Corporate Responsibility and Sustainability.



[See full case study for further information](#)

### PRACTICAL EXAMPLE: PROJECT APPRAISAL AND MANAGEMENT

At Yorkshire Water, we linked sustainability to monetary and non monetary impacts and benefits, and developed our Total Impact and Value Assessment.



[See the next page for further guidance](#)

[See full case study for further information](#)

### PRACTICAL EXAMPLE: BUSINESS PLAN TARGETS

At Anglian Water, we agree outcomes with predetermined performance levels, framed around both business and sustainability benefits.



[See full case study for further information](#)



- Overview
- Tools and guidance
- Practical examples

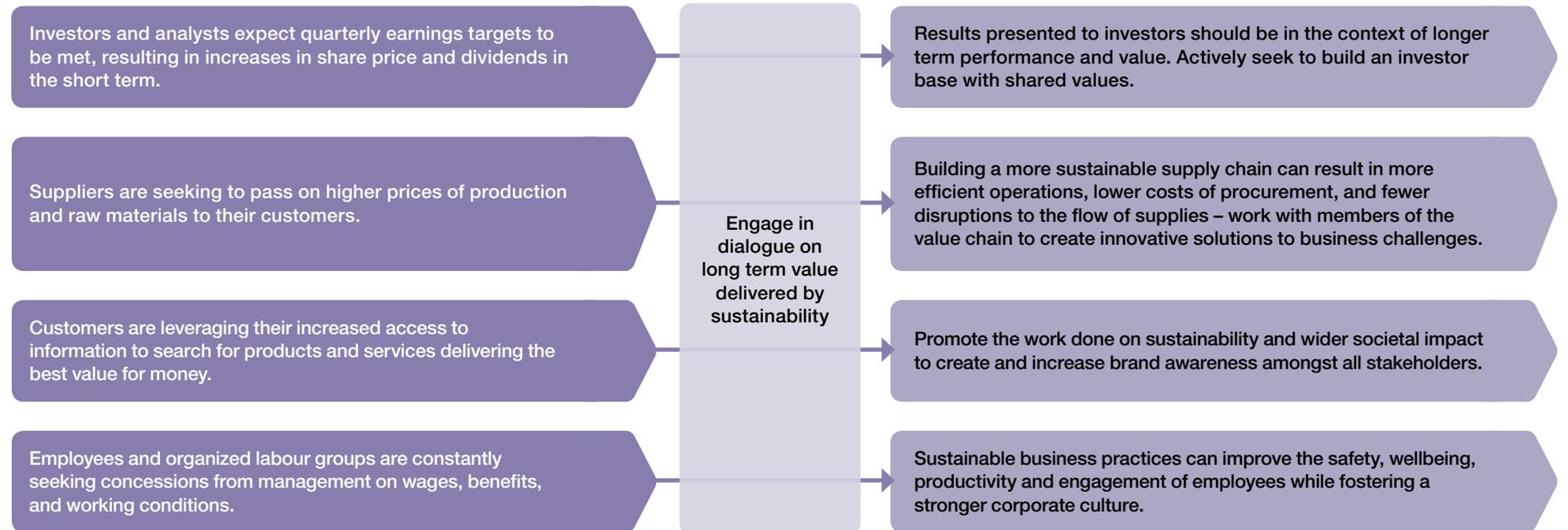
# PERFORMANCE MANAGEMENT

## 2. Organizational performance

### OVERCOME SHORT TERM PERFORMANCE PRESSURES AND THEIR IMPACT ON LONG TERM VALUE

For many companies, short term financial pressures often preclude sustainability considerations from being incorporated into strategic plans, budgets and forecasts. Such 'short termism' can result in sustainability being treated as a secondary issue, rather than a core priority. To overcome short term pressures, organizations should retain sufficient focus on the long term value that is derived from integrating sustainability within their strategy and business model, as well as understanding short term benefits.

#### Short term pressures



For further information, refer to the *A4S Essential Guide to Enhancing Investor Engagement*, and the upcoming A4S Essential Guide to Integrated Management Reporting.

- Overview
- Tools and guidance
- Practical examples

# PERFORMANCE MANAGEMENT

## 2. Organizational performance

### REPORTING FRAMEWORKS AND SYSTEMS: TRACK BENEFITS AND COSTS OF SUSTAINABILITY INITIATIVES

Regular monitoring of benefits and costs of sustainability initiatives helps to build greater visibility between the sustainability agenda and its impact on business performance. This also allows for effective performance incentives to be determined and implemented.

### TOP TIPS FOR TRACKING BENEFITS AND COSTS

Formalize the governance and reporting processes by documenting, standardizing and communicating key activities to the Finance team

Build the tracking of benefits and costs into business as usual activities and processes, rather than treating tracking activities as 'added work'

Determine the frequency of benefits and costs tracking that makes sense for the organization

Use visualization tools and dashboards to help all parts of the organization better interpret and understand the benefits and costs of sustainability initiatives

- Overview
- Tools and guidance
- **Practical examples**



## PERFORMANCE MANAGEMENT: PRACTICAL EXAMPLES

### EMPLOYEE PERFORMANCE

**National Grid:** Strengthening our licence to operate and saving costs through our employee wellbeing programme

**SSE:** Incentivizing directors through a balanced range of performance measures

**Royal DSM:** The role of KPIs and remuneration in frameworks in setting ownership in setting ownership and accountability for sustainability

**Sainsbury's:** Incorporating our Sustainability Plan values into our Board remuneration policy

### ORGANIZATIONAL PERFORMANCE

**The Crown Estate:** Defining values, with sustainability at the heart

**Sainsbury's:** Integrating sustainability into our governance model

**Yorkshire Water:** Linking sustainability to monetary and non monetary impacts and benefits, and developing our Total Impact and Value Assessment

**Anglian Water:** Agreeing outcomes with predetermined performance levels, framed around both business and sustainability benefits



- Overview
- Tools and guidance
- **Practical examples**



# PERFORMANCE MANAGEMENT: PRACTICAL EXAMPLES

## National Grid: Strengthening our licence to operate and saving money through our employee wellbeing programme

National data indicates that the average business cost of poor mental health is £1,029 per employee. This has broader personal and societal impacts, as well as being a cost and a risk to business continuity, our reputation with our employees and our stakeholders.

We developed a tailored programme to support employees with occupational health and wellbeing advice and support, and rehabilitation services for physical and mental health issues.

For every £1 investment in these services, we are seeing at least a £2 return in reduced sickness absence costs. The combination of the health and support services we provide has positive outcomes, for example employees return ahead of their predicted return to work date.

The predicted return to work date is based on independent international data covering age, work type, sex, type and degree of injury and or illness.

This investment in occupational health, employee assistance programmes and rehabilitation services not only support the 3% of absent employees, but also the health and performance of the 97% still at work. To monitor the performance of the programme, we track running costs, sickness rates and return to work dates compared to expected return.

See the A4S Essential Guide to Social and Human Capital Accounting for further guidance 

**nationalgrid**

### Employee wellbeing



- Overview
- Tools and guidance
- Practical examples



# PERFORMANCE MANAGEMENT: PRACTICAL EXAMPLES

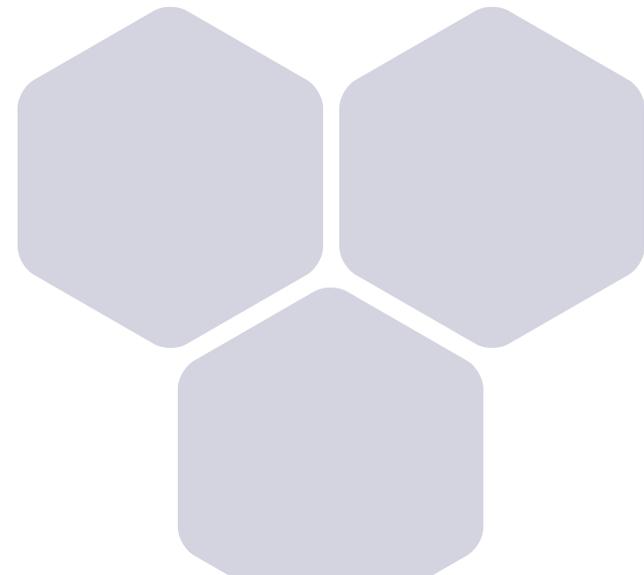
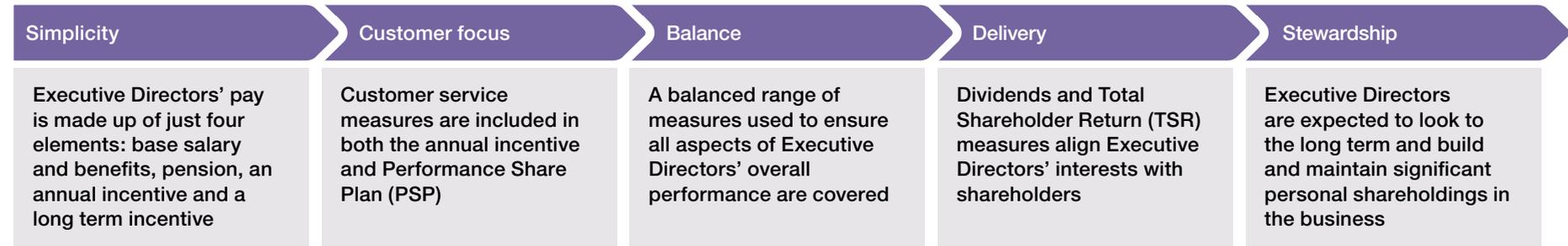
Personal objectives and KPI based remuneration frameworks

## SSE: Incentivizing directors through a balanced range of performance measures

At SSE, executive directors are incentivized through a balanced range of performance measures reflecting financial, customer, team working and personal performance.

### REMUNERATION PRINCIPLES AND STRATEGY

The Remuneration Committee believes it is important that overall remuneration policy is strongly aligned to the purpose and strategy through the following approach:



- Overview
- Tools and guidance
- **Practical examples**



# PERFORMANCE MANAGEMENT: PRACTICAL EXAMPLES

## SSE: Incentivizing directors through a balanced range of performance measures

### Incentive plans – performance measures

The Committee considers that using a balanced range of performance measures is aligned to SSE's objectives.

The performance measures and weightings for the Annual Incentive Plan and the Performance Share Plan will be as detailed below:

#### Annual Incentive Plan

PERFORMANCE MEASURE	WEIGHTING
Financial	50%
Customer	15%
Team working	20%
Personal	15%

#### Performance Share Plan

PERFORMANCE MEASURE	WEIGHTING
Relative TSR	40%
EPS	20%
Growth in DPS versus RPI	20%
Customer service (Citizens Advice league table)	20%

### FINANCIAL (50%)

Financial performance is measured based on Adjusted PBT, DPS Growth and cash flow.

### CUSTOMER (15%)

Service performance is measured based on the principle of treating customers fairly, with measures taken from a variety of trusted parties for the quality of our service. This includes: the Ombudsman for Energy Service reports, the Citizens Advice Energy Suppliers Performance Reports, Which? and the Institute of Customer Service. The performance measure also reflects the number and duration of power cuts.

### TEAM WORKING (20%)

Team working measures performance against the 'SSE SET' of core values; Safety, Service, Efficiency, Sustainability, Excellence and Teamwork. It incorporates: Accident Frequency Rate, Total Recordable Injury Rate, Energy Supply customer surveys, debt reduction, carbon intensity of electricity generation, connection of renewable sources to the transmission system, Living Wage implementation and employee engagement.

### PERSONAL (15%)

Performance against individual objectives based on: delivery of customer, safety and operational performance; effective communication channels with key stakeholders; plans for investment and growth; development of effective cost control and efficiency programmes; maintenance of a strong balance sheet; and ensuring that employees remained engaged and motivated to deliver for SSE.





# PERFORMANCE MANAGEMENT: PRACTICAL EXAMPLES

Setting a structure for accountable strategic planning, budgeting and monitoring

## Royal DSM: The role of KPIs and remuneration frameworks in setting ownership and accountability for sustainability

When we launched our new strategy, sustainability was identified as a key business and growth driver. To be able to track our performance against the 2015 vision we developed a set of Key Performance Indicators (KPIs) that incorporated our sustainability aspirations. These were developed to be reported externally as well as to be used internally to steer the business. A selection of these KPIs that are well established within the business are used in performance management and are linked to the variable pay of the management Board and employees.

DSM Managing Board Total Direct Compensation (on target)

	Element	Vehicle	Performance targets & measures	Target pay-out (% of ABS)
Fixed	Annual base salary (ABS)	Cash	N/A	100%
Variable	Short Term Incentive (STI) (minimum performance threshold for STI pay-out set by Supervisory Board)	Cash*	<b>1. Financial:</b> <ul style="list-style-type: none"> <li>Adjusted EBITDA</li> <li>Gross Free Cash Flow</li> <li>Organic Net Sales Growth</li> </ul> <b>2. Sustainability:</b> <ul style="list-style-type: none"> <li>Brighter Living Solutions</li> <li>Employee Engagement Index</li> <li>Safety Performance</li> </ul> <b>3. Individual</b>	12.5% 10% 2.5% 5% 5% 5% 10%
	Long Term Incentive (LTI)	Performance Shares	<b>1. Financial:</b> <ul style="list-style-type: none"> <li>Relative Total Shareholder Return (TSR)</li> <li>Return On Capital Employed (ROCE) growth</li> </ul> <b>2. Sustainability:</b> <ul style="list-style-type: none"> <li>Energy Efficiency Improvement (EEI)</li> <li>Greenhouse-Gas Emissions (GHGE) Efficiency improvement</li> </ul>	25% 25% 25% 25%

\* STI deferral into shares: A mandatory (25%) and a voluntary proportion (up to a total maximum of 50%) of the actual STI amount earned in a year is deferred into DSM shares with a three year holding period. This is linked to a one-for-one matching award on the total deferred amount under the condition that predefined performance targets and measures are met at the end of the three year vesting period.



“The development of the KPIs, management confidence in them (i.e. reliability and accuracy) as well regular internal management reporting means that we can use them as part of our performance management processes.”

Bert Steinbusch, Project Director Finance Transformation, Royal DSM





# PERFORMANCE MANAGEMENT: PRACTICAL EXAMPLES

Personal objectives and KPI based remuneration frameworks

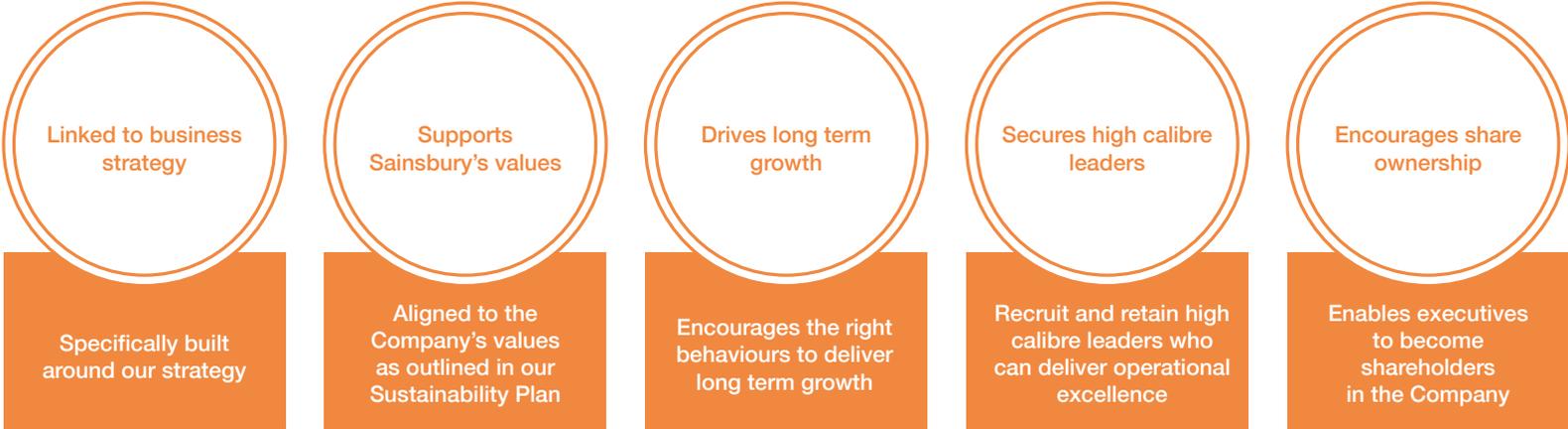
## Sainsbury's: Incorporating our Sustainability Plan values into our Board remuneration policy

### REMUNERATION PRINCIPLES

Sainsbury's colleagues are central to the company's ongoing success and the company's overall reward strategy supports this. Our objective is to have a fair, equitable and competitive total reward package that supports our vision of being the most trusted retailer where people love to work and shop, encourages colleagues to perform in the ways that deliver great service for customers, drives sales and provides opportunities for colleagues to share in Sainsbury's success. This overall reward strategy is the foundation for the remuneration policy for senior executives.

- Sainsbury's values are:
- A great place to work
  - Respect for our environment
  - Sourcing with integrity
  - Living healthier lives
  - Making a positive difference to our community

The over arching objectives of the remuneration policy are to ensure rewards are performance based and encourage long term shareholder value creation. The remuneration policy for senior executives is based on these five principles.





# PERFORMANCE MANAGEMENT: PRACTICAL EXAMPLES

## Sainsbury's: Incorporating our Sustainability Plan values into our Board remuneration policy

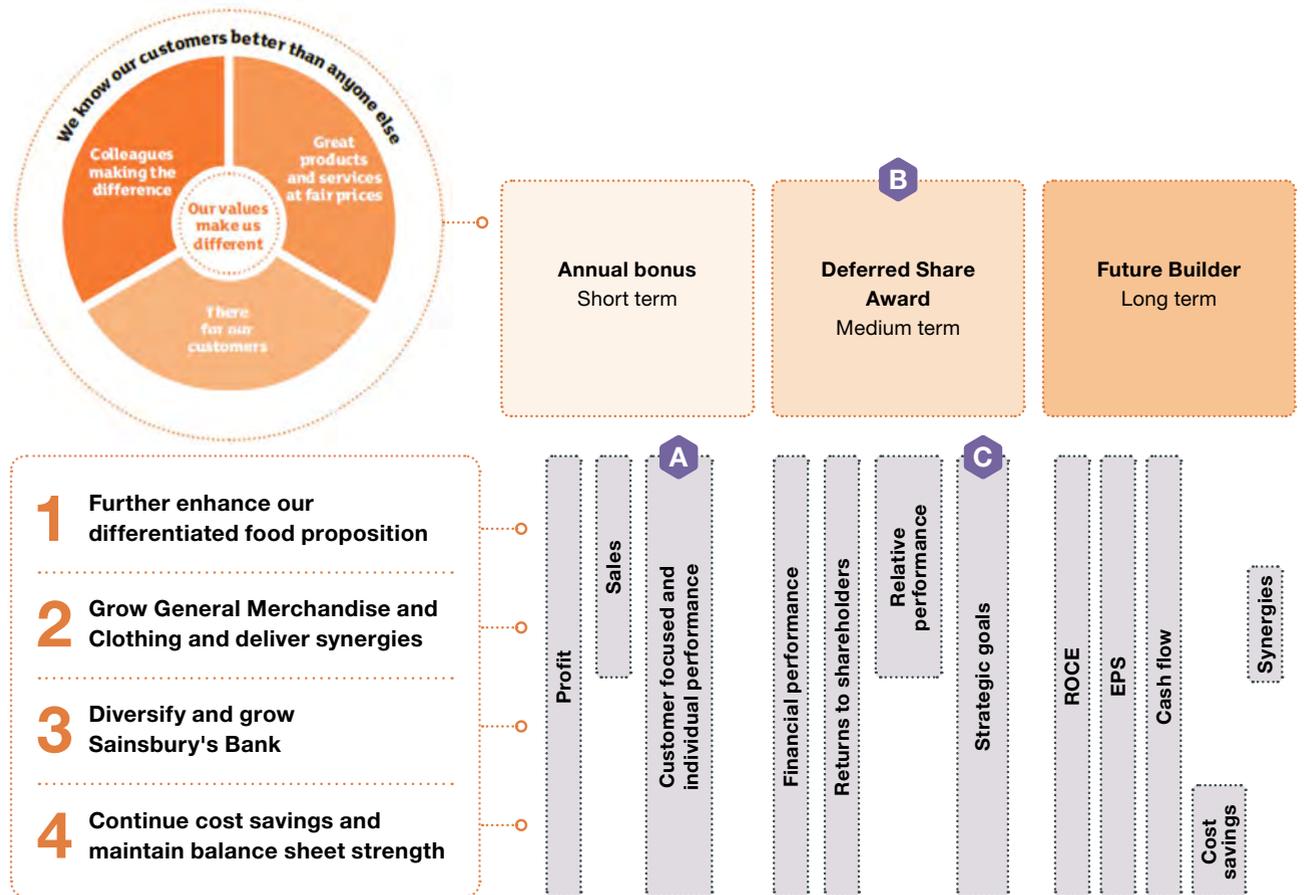
### PERFORMANCE RELATED PAY

The Committee believes it is important that a significant portion of the Executive Directors' package is performance related and the performance conditions applying to incentive arrangements support the delivery of the Company's strategy and the long term sustainable success of the Company. The specific metrics incorporated into the annual bonus, Deferred Share Award and Future Builder are built around the overall strategy and our key priorities.

Remuneration for Executive Directors is made up of the following:

- Base salary
- Benefits
- Pension
- Annual bonus
- Deferred Share Award
- Long Term Incentive Plan

The Annual Bonus and Deferred Share Award include elements that incorporate sustainability performance.



See the next page for further information on A, B, C 



- Overview
- Tools and guidance
- **Practical examples**



# PERFORMANCE MANAGEMENT: PRACTICAL EXAMPLES

## Sainsbury's: Incorporating our Sustainability Plan values into our Board remuneration policy

### A Customer focused and individual performance

The customer focused measure is based on a customer satisfaction index, which is a survey operated by a third party, that assesses the satisfaction of Sainsbury's customers shopping in store or online. Individual performance objectives are set annually for each Executive Director and are reviewed by the Committee. These objectives cover a variety of financial and operational targets that contribute to the achievement of longer term strategic goals; some of these objectives relate, either directly or indirectly, to the company's value.

### B Deferred Shared Award

The Deferred Share Award ('DSA') is used to drive performance against a diverse range of key financial and strategic scorecard measures and rewards Executive Directors for achieving the short term objectives that will directly lead to building the sustainable, long-term growth of the Company and support Sainsbury's values. Executive Directors can achieve a bonus of up to 35% - 40% of salary depending on combined performance of the customer focused and individual performance measures. They can earn up to 90% -110% of salary based on combined performance across the DSA measures.

### C Strategic Goals

The Strategic Goals measure incorporates: proposition, channels, price, customers, colleagues and values. Some examples of performance highlights which were taken into account for Executive Directors DSA reward in 2016/17 are:

- We were named Grocer 33 Store of the Week 17 times in the year, the most of any of the 'big four' supermarkets
- We were awarded a third consecutive Investors in People Gold accreditation



- Overview
- Tools and guidance
- **Practical examples**



# PERFORMANCE MANAGEMENT: PRACTICAL EXAMPLES

Strategy and values

## The Crown Estate: Defining values, with sustainability at the heart

### WHO WE ARE

The Crown Estate is a £13bn real estate business, which specialises in commercial property in central London, prime regional retail and offshore wind. Established by an Act of Parliament, as an independent commercial business, it returns 100% of its annual profits to the Treasury for the benefit of the public finances. This has totalled £2.6bn over the last ten years.

### OUR PURPOSE AND VALUES

Our purpose, creating brilliant places through conscious commercialism, sits at the heart of everything we do. It is what drives us to take a long term view, to see the bigger picture, identify opportunities for growth and create environments that are relevant, attractive and profitable. Our purpose, in turn reflects our three values: commercialism, integrity and stewardship.

#### Commercialism

We are a business driven by a strong set of values. We mean them, we are proud of them and we are respected for them by the people we work with and in the wider community.

#### Integrity

Integrity and trust are behaviours more important than ever in today's business world, and across our four portfolios we deliver commercial return with integrity.

#### Stewardship

Stewardship is deeply engrained in our culture; because of our history and because of our heritage, we act at all times as good stewards of the properties we manage. So our commercial approach is supported by a clear recognition of our stewardship responsibilities.

Our values provide the backbone of how we measure our performance, which we do using what we call our Total Contribution methodology. Total Contribution demonstrates the value we create by measuring the impact of our activity on the capitals on which we depend.



- Overview
- Tools and guidance
- **Practical examples**



# PERFORMANCE MANAGEMENT: PRACTICAL EXAMPLES

## The Crown Estate: Defining values, with sustainability at the heart

### UNDERSTANDING OUR TOTAL CONTRIBUTION

Sustainable growth is central to our business resilience; it underpins our competitive advantage and outperformance of our benchmark. To enable us to understand the economic, social and environmental contribution that our business delivers to the UK, we developed our Total Contribution methodology.

Total Contribution equips us with a better understanding of the wider impacts of our activities, both positive and negative, and the broader value we create. This includes how our decisions affect our capitals, which are the factors the business draws upon to deliver its commercial performance, such as our financial and physical resources, our know how and our networks. This helps us to build trust and strengthen our relationships as well as improve decision making.



### WHAT WE RELY ON

When we launched our first Total Contribution report in 2013, we reported against a limited number of indicators across the triple bottom line. They each had different units of measurement (e.g. tonnes of CO<sub>2</sub>e and m<sup>3</sup> of water).

We realized that to understand better our value we needed to increase the number of both positive and negative indicators and find a common unit of measurement to provide consistency and a means of comparability.

In our second Total Contribution report, published in 2017, we reported on the impacts of our activity on six capitals:

- **Financial resources:** available to us to run and grow our business
- **Physical resources:** property, plant and equipment we own and use
- **Natural resources:** that we manage and use
- **Our people:** the skills, competencies and experience of our employees
- **Our know how:** our collective expertise and processes
- **Our networks:** our relationships with all of our stakeholders including customers, communities and business partners

These all link directly back to our values. We report on direct activity (carried out by ourselves), indirect activity (commissioned by us but carried out by our supply chain) and enabled activity (carried out by our customers on our land).

### THE VALUE WE CREATE

We consistently create significant value for the UK taxpayer, and tangible, long term value for all of our stakeholders. We use Total Contribution methodology to measure our value:

- **Financial resources:** £320m
- **Physical resources:** £118m
- **Natural resources:** £27m
- **Our people:** £1m
- **Our know how:** £370m
- **Our networks:** £15m

See the Total Contribution Report  
for further details



- Overview
- Tools and guidance
- **Practical examples**



# PERFORMANCE MANAGEMENT: PRACTICAL EXAMPLES

Project appraisal and management practices

## Yorkshire Water: Linking sustainability to monetary and non monetary impacts and benefits, and developing our Total Impact and Value Assessment

### VALUING THE BENEFITS OF MANAGING THE WATER QUALITY CATCHMENT AREA

Yorkshire Water undertook a natural capital valuation to inform the choice of investment solutions that would most effectively ensure drinking water quality for our customers – the choices were either capital investment in a water treatment works or operational investment to help address the problem at source in the catchment. It was determined that monetary valuation would most effectively facilitate options analysis and integration into cost benefit analysis.

The quality of some of Yorkshire Water's important water sources has deteriorated over recent years due to land management practices, wildfires and air pollution. This has required the introduction of capital and energy intensive processes to provide extra treatment to the raw water, with associated financial and environmental costs.

We worked in partnership with Natural England on a pilot project to assess the potential financial benefits and costs both to the company and society of different investment

solutions to help identify the most sustainable, long term approach.

The project sought to estimate the economic value of the benefits provided under a range of land management scenarios. The study used government guidelines on valuation (*Value Transfer Guidelines*) to assess quantitatively the different scenarios.

Research literature was used to identify financial values for the benefits and how these would change under the different scenarios. Three 'benefits' were considered based on their likely materiality and because they were more readily quantifiable – these were the ability of the land to: store carbon; protect water quality and maintain levels of biodiversity.

The *findings* helped shape our planned capital investment programme by providing evidence to show that catchment management is a cost beneficial method for protecting drinking water quality. The results revealed that for every £1 spent by Yorkshire Water to improve the land, society would

benefit by an estimated £3 through lower water costs and improved carbon storage, and for every £1 not spent (or 'saved'), society was likely to lose an estimated £6.61. The pilot study also informed the UK government's approach to assessing ecosystem services.

Building on the learning we took from this catchment management valuation, we have continued to work with a range of maturing 'sustainable accounting' techniques. By bringing ecosystem services assessments together with other techniques, like our early adoption of environmental profit and loss accounting and the Natural Capital Protocol, we are working to develop and embed a practical approach that helps advance how we monitor, report, manage and enhance our impact and value to the society we serve. We call this Total Impact and Value Assessment. By looking at a range of economic, environmental and social issues, we are considering our impacts and associated economic value like never before. For us, this is about considering value beyond the traditional financial perspective to help business focus on what really matters to people.



“Whilst more development is needed, I am confident that we and others can start to deploy these maturing sustainable accounting approaches to inform decision making that enhances value for customers, shareholders and other stakeholders. In fact, I see an imperative for us and others to broaden our understanding of value creation, and develop new approaches that can effectively ensure the sustainability of our businesses and the society we serve.”

Liz Barber, Group Director of Finance and Regulation, Kelda Group (Yorkshire Water)



- Overview
- Tools and guidance
- **Practical examples**



# PERFORMANCE MANAGEMENT: PRACTICAL EXAMPLES

Business plan targets

## Anglian Water: Agreeing outcomes with predetermined performance levels, framed on both business and sustainability benefits

Anglian Water's goals are aligned to ten outcomes agreed with customers, which reflect both business and sustainability outcomes. Each outcome has a predetermined committed performance level. Exceeding the committed performance level can lead to reputational or financial rewards, whereas underachieving can lead to reputational or financial penalties.

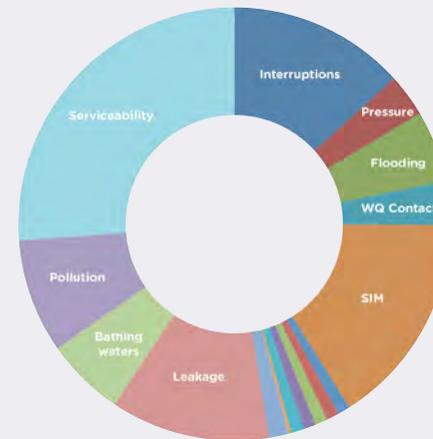
Examples of impacts and benefits measurements set out by the outcome are shown on the right.

The benefits of this approach are that the interaction and agreement with customers gives us good insight into what is important to our customers, and decision making can be aligned to factors that are priorities for both the business and customers.

### OUTCOME DELIVERY INCENTIVE (ODI) REWARDS AND PENALTIES

Our ODIs are financial, reputational, or relate to special schemes we must deliver. The diagram below shows the impact that each ODI contributes to the total reward or penalty we could face over the asset management period.

Relative ODI Rewards/Penalties (Total)



TOTAL MAXIMUM REWARD – £153M

TOTAL MAXIMUM PENALTY – £632M

Top 10 by financial impact	Other financial, lower impact
<ul style="list-style-type: none"> <li>• Serviceability</li> <li>• Service incentive mechanism (SIM)</li> <li>• Interruptions to supply</li> <li>• Leakage</li> <li>• Pollution incidents</li> <li>• Bathing waters</li> <li>• Low pressure</li> <li>• Internal flooding</li> <li>• Water quality contacts</li> <li>• External flooding</li> </ul>	<ul style="list-style-type: none"> <li>• Per property water use</li> <li>• Mean zonal compliance</li> <li>• Value for money perception (water)</li> <li>• Value for money perception (sewerage)</li> <li>• Fairness of bills perception</li> <li>• Affordability perception</li> <li>• Single supplies</li> </ul>
Special case (financial impact)	Reputational impact
<ul style="list-style-type: none"> <li>• Environmental compliance (water)</li> <li>• Environmental compliance (sewerage)</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainable sewerage schemes</li> <li>• Qualitative SIM</li> <li>• Customer Satisfaction Index</li> <li>• Hosepipe bans</li> <li>• Security of supply index (SOSI) dry year</li> <li>• Security of supply index (SOSI) critical year</li> <li>• Favourable Sites of Special Scientific Interest</li> <li>• Operational carbon</li> <li>• Embodied carbon</li> <li>• Community perception</li> </ul>



- Overview
- Tools and guidance
- Practical examples



# TECHNOLOGY AND DATA

---

STRATEGIC PLANNING, BUDGETING AND FORECASTING

**Introduction**

**Process**

**Governance**

**Performance management**

**Technology and Data**

- Overview
- Tools and guidance
- Practical examples

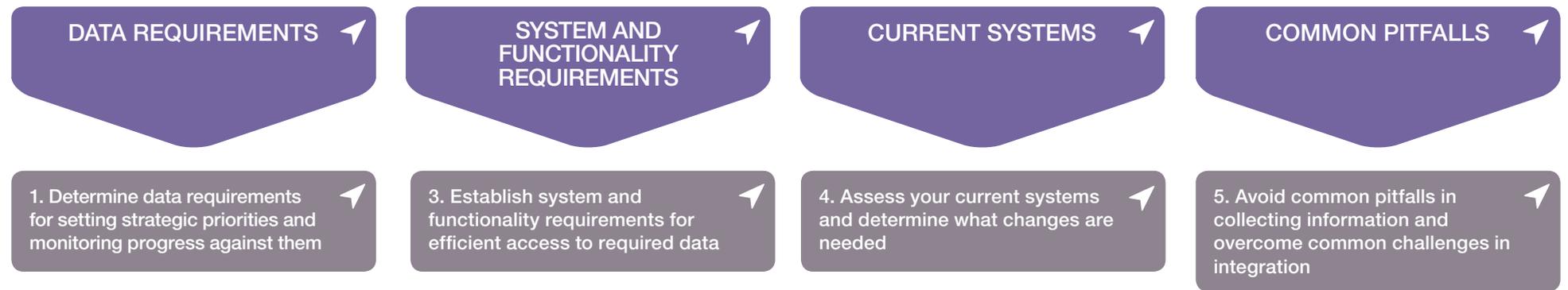
**Maturity and reference**

# TECHNOLOGY AND DATA

In order for organizations to track their performance successfully, and to allow effective strategic planning, budgeting and forecasting, they need to define data requirements based on materiality and the levels of frequency, granularity and accuracy required. Most organizations have an abundance of data, much of which is not used to help inform business decisions. Having the right technology and system capability also helps to reduce manual working within the finance team and across the business.

Finance teams tend to be very familiar with finance and accounting modules of ERP systems, but less so with systems or modules that have the capability to collate and analyse sustainability related data. In order to account for sustainability effectively, finance teams need access to the right data on a timely basis. Market options include sustainability modules for ERP systems or stand alone sustainability data systems, with a variety of functionalities. IT, finance and sustainability teams need to work together to ensure that relevant, accurate data is available to support strategic planning, budgeting, forecasting and decision making.

Presented below is a structural approach to help finance teams navigate the concept of integrated data and systems. Guidance and case studies are presented on the following pages.



What did organizations say were their key technology and data challenges?  
How will this guide help?

- Overview
- Tools and guidance
- Practical examples

# TECHNOLOGY AND DATA: KEY CHALLENGES

## Organizations said...

*"We struggle to find sufficient available external information with enough granularity to help inform strategic planning."*

*"We find ourselves focusing on metrics that are easiest to measure rather than those that are most important."*

*"We struggle with integration due to lack of, or abundance of, data with no meaningful filtering or analytical ability."*

*"Integrating data is currently a very manual process. Adapting or upgrading systems would be a challenging undertaking. The business case to invest in new systems is not straightforward – it's not seen as critical, and even once agreed, managing change is never easy."*

*"There is a lack of a standard approach or framework to support the collation and reporting of sustainability information."*

*"We are not sure how we can better improve the quality of our data and enable meaningful benchmarking between business units along our value chain, and against our peers."*

## We need...

Guidance on how to unlock strategically valuable data, for example through access to internal and external big data.

Guidance on how to assess what is most material to the business from a sustainability perspective.

Guidance on how to define and develop the right KPIs for the business, and how to model cost information for the budgeting process.

Suggestions for criteria which should be considered when upgrading or selecting a new system.

Guidance on how to develop an approach for collecting and reporting sustainability information.

Guidance on how to break information down at business unit level, and determine the level of accuracy, granularity and timeliness required for different types of data.



- Overview
- Tools and guidance
- Practical examples

# TECHNOLOGY AND DATA

## 1. Determine data requirements for setting strategic priorities and monitoring progress against them

### KEY STEPS

1. Start with strategic priorities and identify the key corresponding internal stakeholders and decision makers.



2. Determine material factors, including operations, initiatives, innovations, risks, opportunities and competitive advantages relevant to the strategic priorities.



3. Consider internal, value chain and market data requirements for strategic planning, performance management and decision making in relation to these, including monetary and non monetary data.



4. Determine the different data requirements for the different decision making levels and agree balanced scorecards to meet the needs of each.

See page 146 for further guidance on establishing and treating relative data importance ↗

### PRACTICAL EXAMPLE

At Sainsbury's, we defined the measures and metrics required to evaluate and assess our performance.



See full case study for further information ↗

Also consider whether the following should be incorporated:

- Future data requirements (if these can be predicted)
- Data from strategically important stakeholder groups



- .....
- Introduction**
- .....
- Process**
- .....
- Governance**
- .....
- Performance management**
- .....
- Technology and Data**
- Overview
- Tools and guidance
- Practical examples
- .....
- Maturity and reference**



# TECHNOLOGY AND DATA

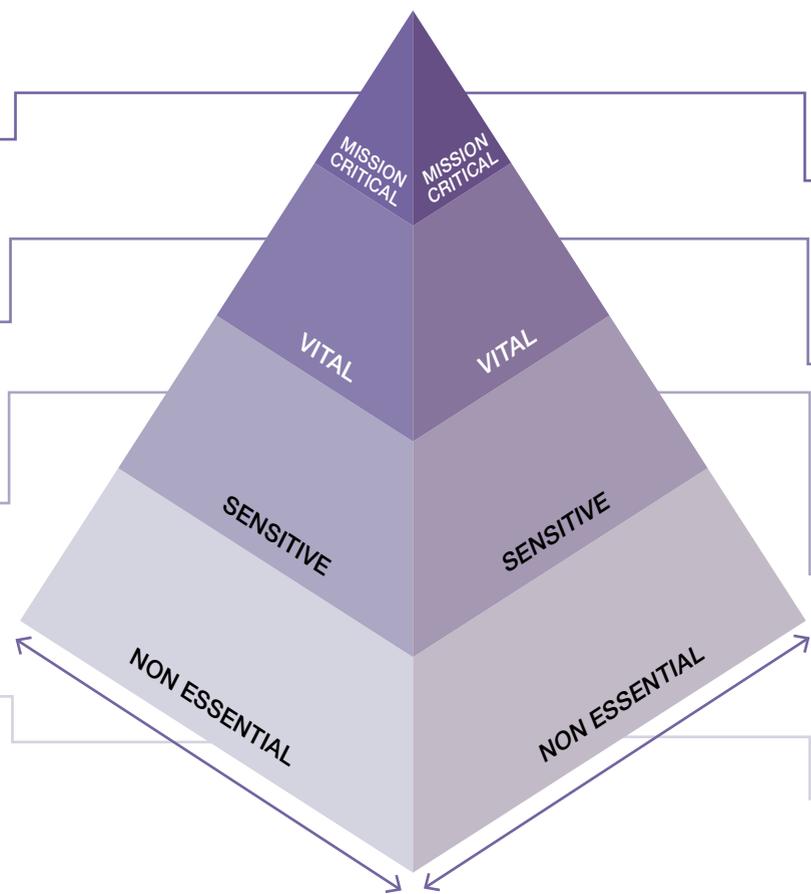
## 1. Determine data requirements for setting strategic priorities and monitoring progress against them

### PRIORITIZE AND FILTER THE DATA

An abundance of data can make it difficult for an organization to distinguish the most relevant metrics from the 'noise'. An organization's business data (including sustainability data) should be prioritized based on its criticality to the execution of organizational strategy and the management of business performance.

#### Importance of data

- Essential to strategy development and execution
  - Essential to managing business performance
- 
- Highly useful to strategy development and execution
  - Highly useful to managing business performance
- 
- Useful to strategy development and execution
  - Useful in managing business performance
- 
- Not essential to strategy development and execution
  - Useful in managing business performance



#### Treatment of data

- Ensure immediate, on demand availability to users
  - Ensure a robust control environment and treat material sustainability data in line with financial data
  - Prioritize integrity and accuracy of data based on materiality
  - Integrate fully with core performance management and reporting systems
- 
- Ensure timely availability to users
  - Safeguard integrity and accuracy of data
  - Integrate substantially with core performance management and reporting systems
- 
- Ensure availability at defined intervals to users
  - Review integrity and accuracy of data
  - Integrate as appropriate with core performance management and reporting systems
- 
- Ensure availability on as needed basis
  - Consider integrity and accuracy of data
  - Integrate as appropriate with core performance management and reporting systems



- Overview
- Tools and guidance
- Practical examples



# TECHNOLOGY AND DATA

## 2. Consider opportunities, risks and challenges of implementing a big data approach

### WHAT IS BIG DATA?

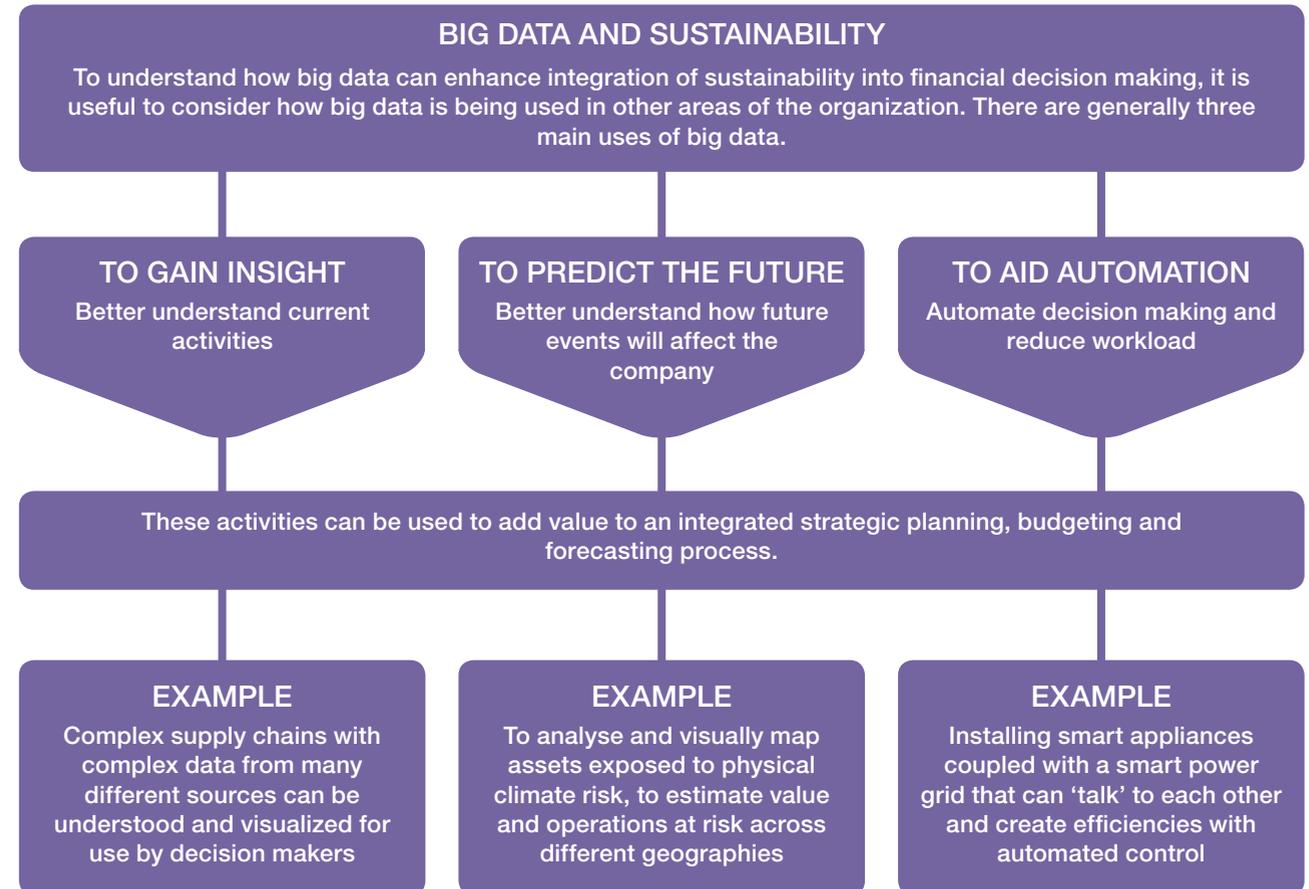
The term “Big Data” has been rising in popularity in recent years, but the boundaries of what can be considered big data can be easily blurred.

Big Data isn’t so called on size alone but instead is characterized by the “three V’s”; velocity, volume and variety. These three characteristics make big data hard to manage with traditional data management techniques. However, by utilizing new technologies, the rewards of successfully understanding big data can be unlocked.

### A REVOLUTION IN DATA

The explosion of big data is due to the incredible leaps forward in technology and processing power. New developments have created to the so called Internet of Things (for example smart phone data and internet clickstream data) and this adds to the complexity and quantity of data that is readily available.

Effectively collecting and processing relevant data can lead to greater insights, increased efficiency and enhanced risk management.



- Overview
- Tools and guidance
- Practical examples



# TECHNOLOGY AND DATA

## 2. Consider opportunities, risks and challenges of implementing a big data approach

### OPPORTUNITIES AND RISKS

OPPORTUNITIES	Easier integration and analysis of financial and sustainability data for planning and performance management purposes.	Visualization of big data can provide greater insights from and links between financial and sustainability data to aid decision making.	big data from supply chains can enhance monitoring of social and environmental data relevant to supply agreements and associated commercial decisions.	Complex networks of social, environmental and financial data, often with many variables and interdependencies (e.g. where harvested from the internet of things) can be analysed quickly and accurately to provide insights, aid decision making and/or obtain competitive advantage.*	
	RISKS	Data can be easy to misinterpret, e.g. misrepresentation of data population, variation in data accuracy or suitability for predictive use.	Data protection risk is increased by the breadth of data that is harvested through big data initiatives.	Use of some types of big data can be inconsistent with the values of the organization. For example, in relation to customer and user privacy or the social implications of the use of artificial intelligence.	Bespoke big data infrastructure can be costly.

There can also be risks associated with not using big data. For example, regulators are increasingly using big data to analyse companies against certain sustainability criteria. This may mean that key stakeholders have better data about the organization than the organization itself.

\*Systems that can process some forms of complex big data are readily available from accounting application providers, for example, *HANA* by *SAP* and *Oracle Big Data*.



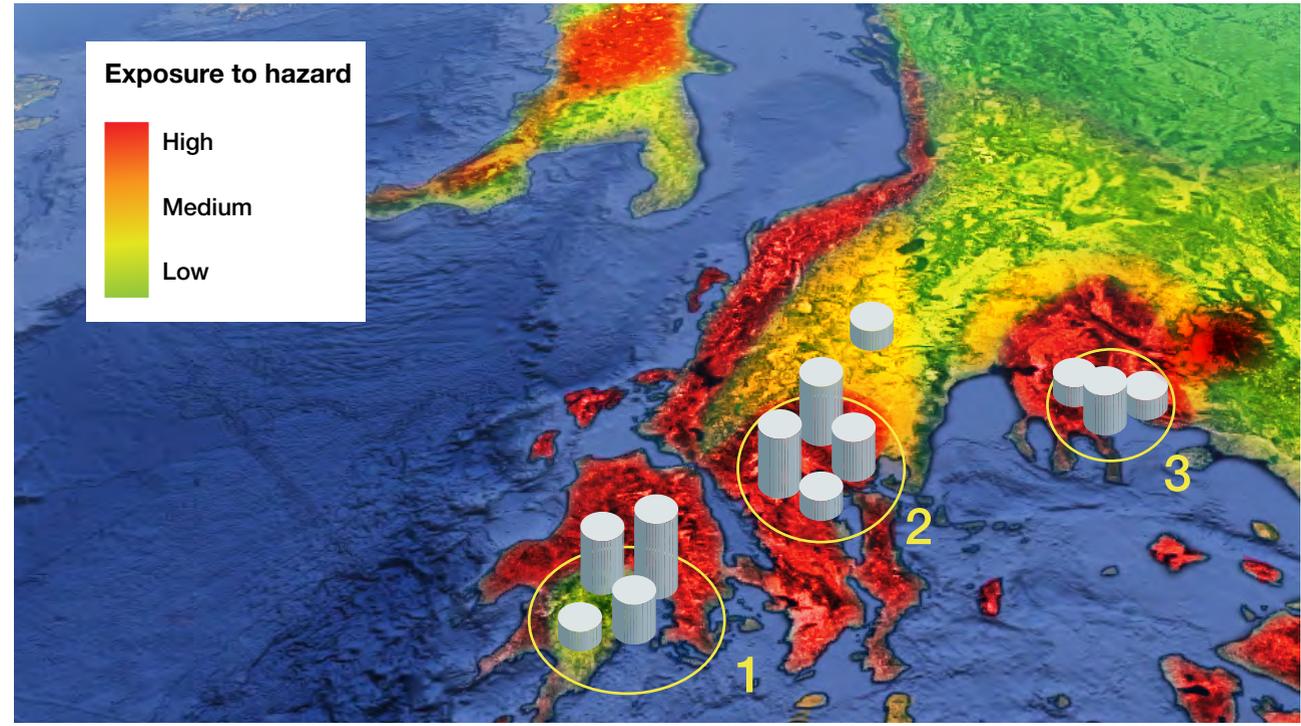


# TECHNOLOGY AND DATA

## 2. Consider opportunities, risks and challenges of implementing a Big Data approach – Practical application

### VISUALIZATION: ILLUSTRATIVE EXAMPLE

Many organizations have a wide geographical spread of assets and infrastructure for their own operations and key supply chain partners. These will be exposed to physical climate risk to varying degrees, e.g. those in coastal regions or close to river flood plains will often be at higher risk. big data visualization applications can be used to analyse climate data across the key operational geographies to determine and visualize value at risk. The illustrative example below is for an organization's assets in the Hellenic region, showing exposure to climate risk and value at risk in the three key areas of operation.



### PRACTICAL EXAMPLE

We have used big data to develop our Cost of Production model, aimed at protecting dairy farm businesses from input and output market volatility. The finance and commercial teams have actively led the Cost of Production (COP) initiative in conjunction with the agriculture team. The model is a financially open book cost based approach, based on data collected from the 320 Sainsbury's Dairy Development Group farms. The COP model has served to halve price volatility for our farmers and the data collected evidences that despite our cows producing more milk, they are healthier.



[See full case study for further information](#) 



- Overview
- Tools and guidance
- Practical examples

# TECHNOLOGY AND DATA

## 3. Establish system and functionality requirements for efficient access to required data

There are a number of factors that can be useful to consider, depending on the strategic importance of the data and needs of the business.

### RELIABILITY

- Embedded preventative and monitoring controls
- Password protection and tiered access security
- Certified data security
- Audit trail and auditor access
- Data integrity checks
- System reliability
- Embedded accountability

See page 151 for further guidance 

### FUNCTIONALITY

- Ability to manage qualitative, quantitative and monetary data, and present in an integrated manner
- Multiple year data and target setting functionality
- Configurable outputs for different audiences
- Data analysis with customizable charts, tables, dashboards and reports
- Shadow pricing platform
- Monetization of social, human and natural capital
- Live stream and on demand data availability
- Forecasting, scenario and sensitivity analysis functionality
- Ability to modify measurement metrics
- Advanced analytical capability for 'big data'

See page 152 for further guidance 

Determine which factors are critical or desirable, and which are non essential.

### COMPATIBILITY

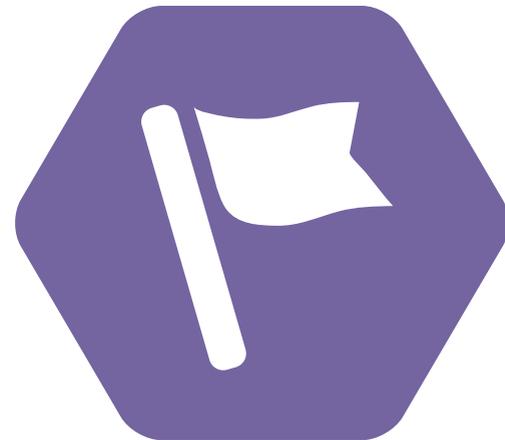
- Integration with existing in house systems, including finance
- Integration with suppliers' and customers' systems, where appropriate
- Ability to export to CSV, Excel etc.
- Integration with investor platform

See page 153 for further guidance 

### SUSTAINABILITY

- Green IT across IT infrastructure

See page 156 for further guidance 



- Overview
- Tools and guidance
- Practical examples

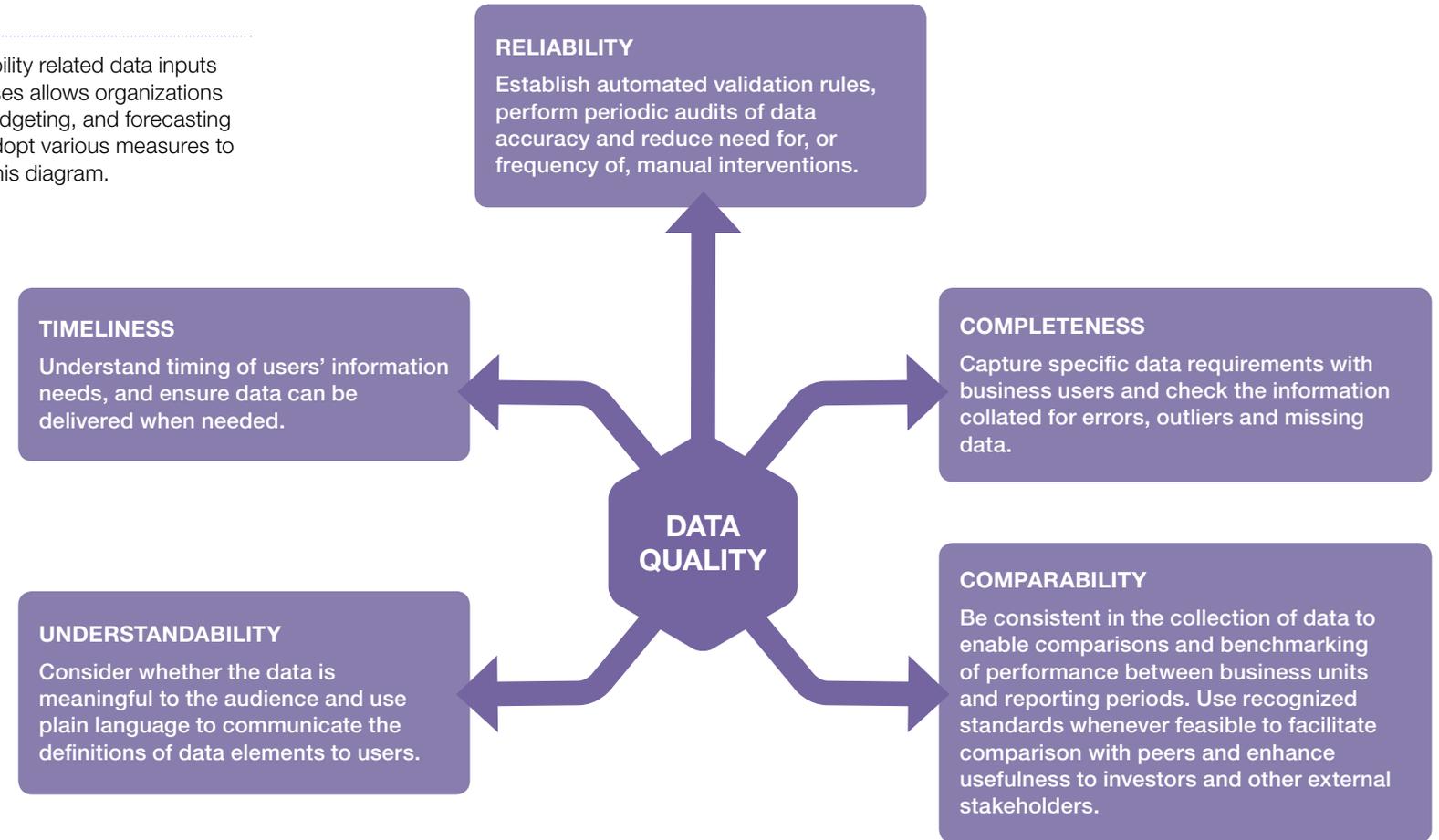


# TECHNOLOGY AND DATA

## 3. Establish system and functionality requirements for efficient access to required data

### IMPROVE DATA QUALITY

Improving the quality of sustainability related data inputs into finance systems and processes allows organizations to build more robust planning, budgeting, and forecasting capabilities. Organizations can adopt various measures to enhance data quality, set out in this diagram.



- Overview
- Tools and guidance
- Practical examples

# TECHNOLOGY AND DATA

## 3. Establish system and functionality requirements for efficient access to required data

### HOW DIFFERENT DATA TYPES CAN IMPACT FUNCTIONALITY CONSIDERATIONS

Collation of data, and monitoring and analysing performance, is more reliable if performed within a well controlled IT environment, incorporating tiered access controls, integrity checks and instant analysis functionality. Where an impact or performance measure can be presented in financial terms, this can provide additional valuable information for the business.

From a strategic planning, budgeting and forecasting perspective, quantitative and monetary data is often most valuable, and thus the reliability and accessibility of data becomes very important. Accurate and timely data and analysis are essential to support many strategic and budgetary decision making processes, and for monitoring progress against those decisions.

#### QUALITATIVE

**Useful for:**

- Written explanations describing importance, progress or improvement
- Qualitative measurement
- Accountable review comments

**Examples:**

- Red, amber, green ratings
- Supplier audit outcomes
- Social value outcomes

**Functionality considerations:**

- Red, amber, green rating collation and analysis
- Narrative fields
- Issue escalation
- Qualitative trend analysis
- Modular integration with suppliers
- Visualization

#### QUANTITATIVE

**Useful for:**

- Quantitative measurement
- Comparison against targets and non monetary budgets
- Forecasting and projections
- Scenario analysis

**Examples:**

- Greenhouse gas emissions
- Resource use
- Social value outputs

**Functionality considerations:**

- Real time data analysis
- Data integrity checks
- Advanced analytical capability for 'big data'
- Performance variance analysis
- Year on year comparisons
- Visual analysis e.g. graphs and maps
- Scenario analysis
- Shadow pricing platform

#### MONETARY

**Useful for:**

- Developing a business case for an investment decision
- Making trade offs between different areas of impact
- Assessing the financial impact of risks and opportunities
- Comparison against financial budgets
- Cost benefit analysis
- Forecasting and projections
- Scenario analysis

**Examples:**

- Capital expenditure appraisals
- Climate related financial risk analysis
- Social and environmental impact

**Functionality considerations:**

- Real time data analysis
- Advanced analytical capability for 'big data'
- Data integrity checks
- Performance variance analysis
- Year on year comparisons
- Visual analysis e.g. graphs and maps
- Scenario analysis
- Shadow pricing platform



**Introduction**

**Process**

**Governance**

**Performance management**

**Technology and Data**

- Overview
- Tools and guidance
- Practical examples

**Maturity and reference**



# TECHNOLOGY AND DATA

## 3. Establish system and functionality requirements for efficient access to required data

### SUSTAINABLE ERP SYSTEMS

The ability to access and analyse key sustainability data alongside financial data is vital if strategic planning, budgeting and forecasting decisions are to integrate sustainability effectively. Traditional ERP systems may not be able to manage the rich variety of data relevant for an integrated approach. One path to an integrated information system, which will collect, integrate, automate and monitor sustainability information, is a Sustainable ERP (S-ERP) system.

An S-ERP system can integrate sustainability considerations across the value chain, configured to the organization's strategic and operational requirements. For example, a strategic objective to improve supply chain resilience may require an S-ERP system's procurement module to incorporate data relating to the provenance and certification of raw materials, climate risk by geography of key suppliers, social considerations such as risk of child labour or modern slavery, and/or embodied carbon arising from extraction, manufacturing and transportation. This data is all relevant for effective decisions relating to the management of the corresponding procurement budgets and forecasts. The same logic can be applied to every module of a traditional ERP system, using integrated data and analysis to drive effective financial and operational decision making.

**An integrated information system allows organizations to:**

- Take a proactive approach to ensure ongoing and early consultation at the early stages of business requirements analysis
- Link environmental and social management to the economic success of the organization
- Incorporate sustainability into new products' requirements
- Meet integrated data requirements for finance teams to support strategic planning, budgeting, forecasting and decision making

#### PRACTICAL EXAMPLE

At Unilever, we use S-ERP to support our sustainable supply chain programme.



[See full case study for further information](#)

#### PRACTICAL EXAMPLE

At Danone, we use S-ERP to manage sustainability data collection, reporting and analytics.



[See full case study for further information](#)



- Overview
- Tools and guidance
- Practical examples

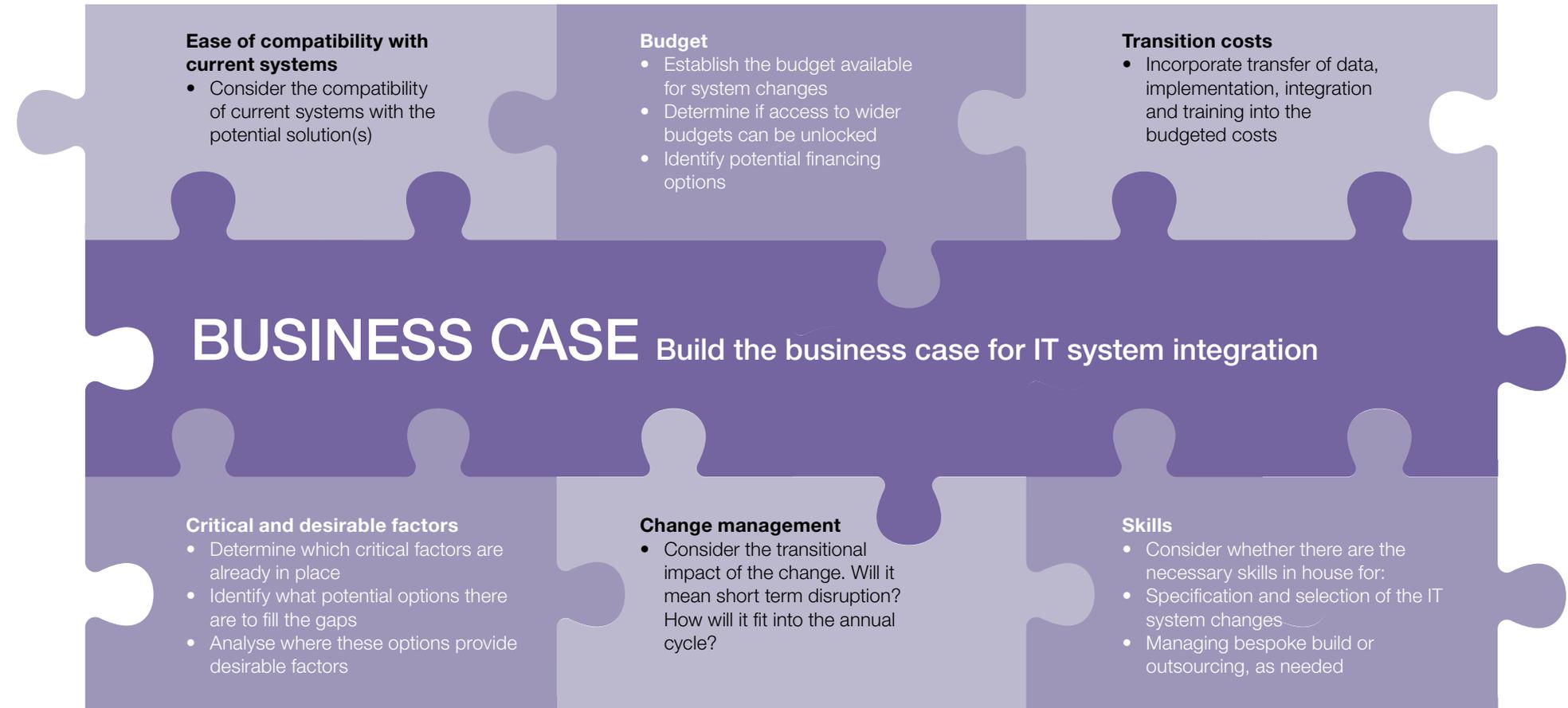


## TECHNOLOGY AND DATA

### 4. Assess your current systems and determine what changes are needed

There are a number of factors to consider at the strategic planning and budgeting level to identify if significant changes to IT systems are needed:

See page 147 for  
practical considerations to  
feed into selection criteria



- Overview
- [Tools and guidance](#)
- [Practical examples](#)

# TECHNOLOGY AND DATA

## 4. Assess your current systems and determine what changes are needed

### PRACTICAL CONSIDERATIONS TO FEED INTO SELECTION CRITERIA

Once critical requirements of reliability, functionality, compatibility and sustainability have been satisfied, there are a number of practical requirements to consider.

### Selection criteria

Scalability and changeability

Ease of implementation

Ease of use

Vendor support

### Key considerations

- Determine whether the system is capable of supporting the growth of the organization and responding to changes in the business environment, including adapting to evolving environmental and social factors
- Determine whether a turnkey solution meets the organization's monetary and non monetary (e.g. environmental and social) data requirements
- Assess the extent to which a customized solution would require modifications to meet the organization's monetary and non monetary data requirements
- Evaluate a solution's user friendliness and interface intuitiveness, including whether monetary and non monetary data can be efficiently accessed, analysed, and manipulated
- Consider the extent to which the vendor is able to provide implementation and post implementation support, including whether the vendor has experience and capabilities in integrating sustainability data



- Overview
- Tools and guidance
- Practical examples

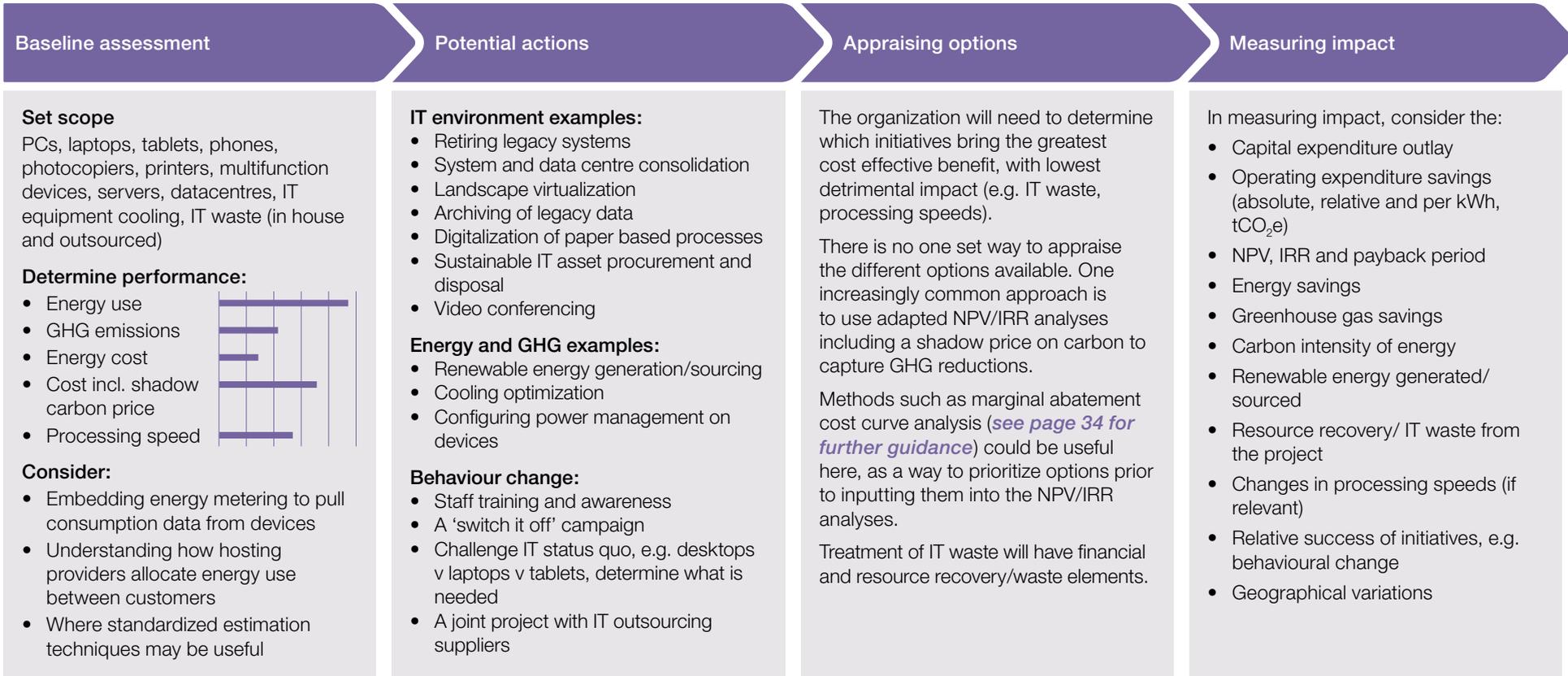


# TECHNOLOGY AND DATA

## 4. Assess your current systems and determine what changes are needed

### A POTENTIAL APPROACH TO GREEN IT

As part of an overall energy and greenhouse gas reduction programme, implementing a Green IT strategy can have significant merit. From a financial perspective, the project can be treated as any other Capex project (for further guidance see the *A4S Essential Guide to Capex*) and will have financial outlays as well as financial, energy and greenhouse gas savings. The tool below suggests some factors to consider:



- Overview
- Tools and guidance
- Practical examples

# TECHNOLOGY AND DATA

## 5. Avoid common pitfalls in collecting information and overcome common challenges in integration

### COMMON PITFALLS IN IDENTIFYING, COLLECTING AND INTEGRATING DATA IN STRATEGIC PLANNING, BUDGETING AND FORECASTING

- Large quantities of sustainability data are collected without first understanding their relevance to the organization's strategic objectives and desired outcomes
- The IT team generally lack awareness of the organization's key sustainability performance measures and are therefore not actively engaged in the identification and integration of sustainability data into strategic planning, budgeting and forecasting processes
- Sustainability data parameters are neither clearly defined, nor clearly communicated, throughout the organization, resulting in a lack of transparency to users of the data
- The sustainability information collection process does not fully leverage the automation and integration functionality of existing systems and software, often resulting in data that resides outside of the core data and systems infrastructure
- Information requirements for the strategic planning, budgeting and forecasting processes are not regularly reviewed, resulting in employees collecting unnecessary information or reviewing, processing and creating unnecessary documents
- System selection does not consider flexibility of the system to meet future needs of the business
- Project management for the implementation/integration is not clearly scoped, or effectively managed
- Collaboration between IT, sustainability and finance is insufficient in specifying system requirements and selecting solutions
- Weaknesses in the control environment prior to data input into the system and/or where data is extracted from the system and manipulated
- Insufficient integration of systems, prohibiting efficient integrated management reporting





# TECHNOLOGY AND DATA: PRACTICAL EXAMPLES



Essential Guide to  
**Strategic Planning,  
Budgeting & Forecasting**

**Introduction**

**Process**

**Governance**

**Performance management**

**Technology and Data**

- Overview
- Tools and guidance
- **Practical examples**

**Maturity and reference**





# TECHNOLOGY AND DATA: PRACTICAL EXAMPLES

Determine data requirements for setting strategic priorities and monitoring progress against them

## Sainsbury's: Defining the measures and metrics required to evaluate and assess our performance

At Sainsbury's our strategy is underpinned by five main strategic elements, and our values are a core part of our business as they incorporate our sustainability objectives. Our values play an important role for our long term strategy for growth and value creation for our customers, suppliers, colleagues and shareholders.

We disaggregated our long term targets and commitments into milestones to enable us to better manage progress. We ensured that our reporting suites incorporated all sustainability aspects of our activity in monetary and non monetary terms, taking into account the way that our executive team supports the delivery of our strategic objectives.

To ensure we can evaluate and assess our performance appropriately within our governance model, we defined the right measures and metrics required, considering whether these are quantifiable and the level of ease in collating the data and information required.

The diagram shows examples of monetary and non monetary measures we used.



### SOURCING WITH INTEGRITY

- Number of key raw materials with sustainability standards
- Quantity of raw materials sourced from supply chains working within our independent sustainability standards
- Sales of fairly traded products
- Value of investment for projects involving Sainsbury's in British farming

### RESPECT FOR OUR ENVIRONMENT

- Number of stores with Food Donation Partners for surplus food
- Investment in Waste less, Save more
- Change in carbon emissions
- % change in water use in our operations (absolute and relative) v 2005/6 baseline

### A GREAT PLACE TO WORK

- Colleague reward vs National Living Wage
- Number of apprentices trained
- Number of colleagues employed through our You Can scheme since 2008

### LIVING HEALTHIER LIVES

- Healthy products sold as a proportion of total sales volume
- Total investment in our Active Kids scheme

### MAKING A POSITIVE DIFFERENCE TO OUR COMMUNITY

- Number of stores supporting their Local Charity of the Year partner through awareness raising, fundraising and volunteering



- Overview
- Tools and guidance
- Practical examples



# TECHNOLOGY AND DATA: PRACTICAL EXAMPLES

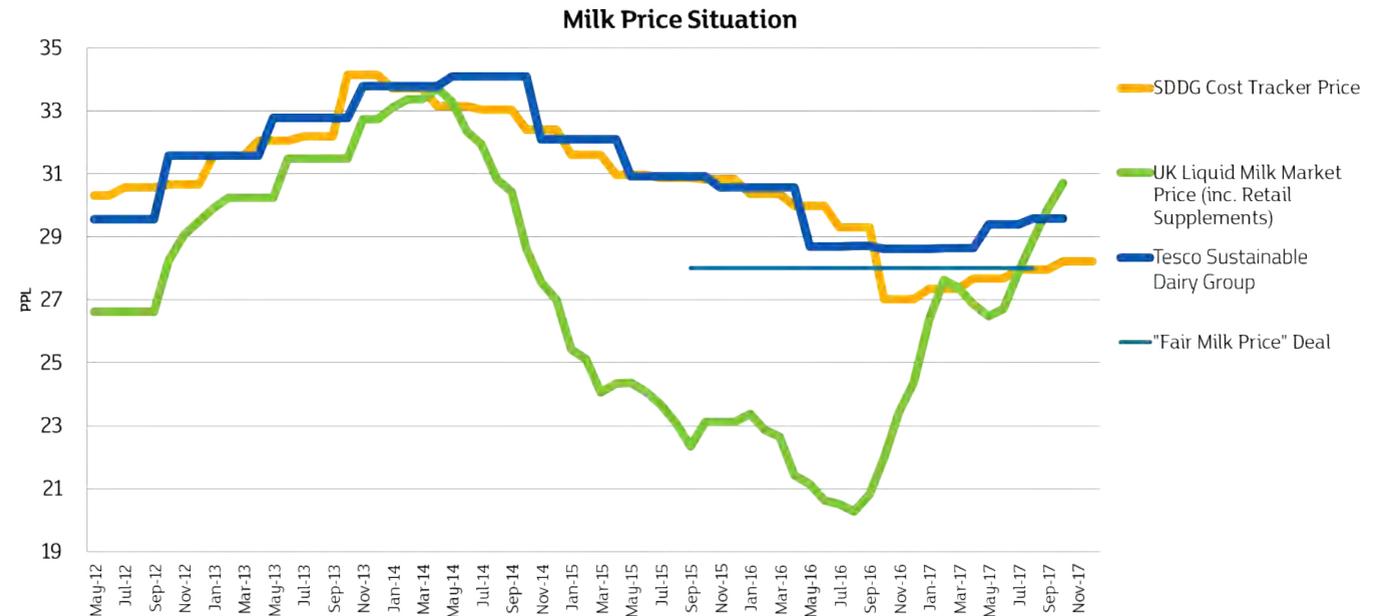
Consider opportunities, risks and challenges of implementing a Big Data approach

## Sainsbury's: Utilizing a big data approach to streamline our existing supply chain

### THE MODEL

Our Cost of Production (COP) model is aimed at protecting dairy farm businesses from market volatility, both with respect to the price paid for their milk and the major input costs to the farms. The model moves dairy pricing away from standard market pricing to a financially open book cost based approach, based on data independently collected from the 320 Sainsbury's Dairy Development Group (SDDG) farms. The COP model took 18 months' work with the SDDG farmers and an independent dairy accounting specialist. In March 2012, 86% of the SDDG voted in favour of adopting the COP model. Every SDDG farm provides financial data which is then compiled into an average pence per litre for the group. All costs apart from the 3Fs (feed, fuel and fertilizer) are fixed for 12 months. On a quarterly basis, the 3Fs are adjusted to account for the actual market fluctuations.

The COP model has served to halve price volatility for our farmers. The variance in market price has been 13.22 pence per litre (ppl) versus a COP variance of 7.12ppl.





# TECHNOLOGY AND DATA: PRACTICAL EXAMPLES

## Sainsbury's: Utilizing a big data approach to streamline our existing supply chain

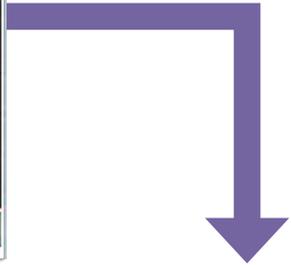
### THE ROLE OF BIG DATA

As well as collating financial data from the 320 farms in the Group, a significant amount of data is collected on herd health and efficiency. Each of the farms is incentivized to drive continual improvement using our 'Herd Health and Efficiency Matrix' which scores farms using a 100 point system. Submitted scores and declarations are subject to independent audit. The matrix scores are then used to reward excellence: the greater the score, the greater the farm's bonus.

Data is also collected to support our Bovine Viral Diarrhoea (BVD) Control Scheme, aimed at eradicating BVD from our herds. This covers 250 farms, 20,000 heads of cattle and the results of over 2,500 blood samples.

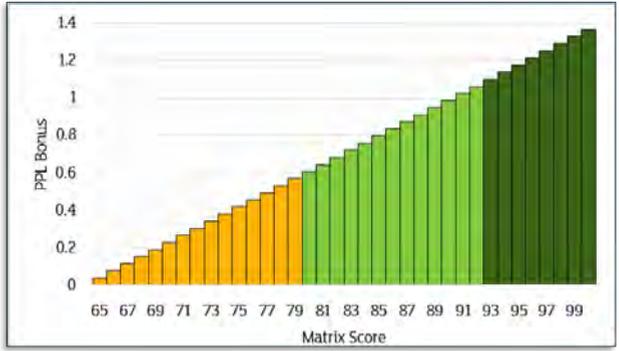
The data collected evidences that despite our cows producing more milk, they are healthier.

Performance Criteria	Units	Thresholds				Scores			
		Red	Amber	Green	Green Plus	Red	Amber	Green	Green Plus
Lactation	1. Milk yield (t/100 cows)	< 1%	1.0 - 1.5	1.5 - 2.0	> 2.0	1	2	3	4
	2. Milk yield (t/100 cows)	< 1%	1.0 - 1.5	1.5 - 2.0	> 2.0	1	2	3	4
	3. Independent milk yield	Yes				1	2	3	4
Reproductive	4. Culling (t/100 cows)	> 1%	1.0 - 1.5	1.5 - 2.0	> 2.0	1	2	3	4
	5. Milk yield (t/100 cows)	< 1%	1.0 - 1.5	1.5 - 2.0	> 2.0	1	2	3	4
Health	6. Health (t/100 cows)	> 1%	1.0 - 1.5	1.5 - 2.0	> 2.0	1	2	3	4
	7. Health (t/100 cows)	> 1%	1.0 - 1.5	1.5 - 2.0	> 2.0	1	2	3	4
Infection	8. Infection (t/100 cows)	> 1%	1.0 - 1.5	1.5 - 2.0	> 2.0	1	2	3	4
	9. Infection (t/100 cows)	> 1%	1.0 - 1.5	1.5 - 2.0	> 2.0	1	2	3	4
Youngstock	10. Calf survival (t/100 cows)	> 1%	1.0 - 1.5	1.5 - 2.0	> 2.0	1	2	3	4
	11. Calf survival (t/100 cows)	> 1%	1.0 - 1.5	1.5 - 2.0	> 2.0	1	2	3	4
Efficiency	12. Culling (t/100 cows)	> 1%	1.0 - 1.5	1.5 - 2.0	> 2.0	1	2	3	4
	13. Culling (t/100 cows)	> 1%	1.0 - 1.5	1.5 - 2.0	> 2.0	1	2	3	4
Commitment	14. Health (t/100 cows)	> 1%	1.0 - 1.5	1.5 - 2.0	> 2.0	1	2	3	4
	15. Health (t/100 cows)	> 1%	1.0 - 1.5	1.5 - 2.0	> 2.0	1	2	3	4
Data Quality	16. Health (t/100 cows)	> 1%	1.0 - 1.5	1.5 - 2.0	> 2.0	1	2	3	4
	17. Health (t/100 cows)	> 1%	1.0 - 1.5	1.5 - 2.0	> 2.0	1	2	3	4



Data is gathered using the 'Herd Health and Efficiency Matrix' which scores farms using a 100 point system.

The greater the score, the greater the farm's bonus.





# TECHNOLOGY AND DATA: PRACTICAL EXAMPLES

## Sainsbury's: Utilizing a big data approach to streamline our existing supply chain

### FINANCE TEAM INVOLVEMENT

The finance and commercial teams have actively led the Cost of Production initiative in conjunction with the agriculture team at Sainsbury's, who are responsible for the day to day interaction with farmers. There has been a contraction in the British dairy industry with large numbers of farmers going out of business, and there was therefore a clear commercial imperative to safeguard the milk supplies in the UK market. The challenge and opportunity was to give our dairy farmers the stability and confidence to invest in the future of their businesses and protect them from market volatility. In doing so we have ensured consistent, resilient milk supplies whilst also ensuring a sustainable future for the SDDG farmers. The implications that implementing the COP model had for our business and the SDDG farmers was significant. We have decoupled our price negotiation from the

market and linked our costs to a different set of volatile inputs beyond our control. Farmers have also decoupled their price negotiation from the market. This required strong buy in from the Operating Board at Sainsbury's and our SDDG farmers. It was only the quality of the financial model, its data, governance and the processes that underpin it that was able to give the confidence and establish the trust within and across the businesses involved. The independence of our finance team internally and the independent nature of the dairy accounting specialist externally further supported this approach, working closely with SDDG farmers and our commercial, technical and agriculture teams throughout the process.

### THE BENEFITS

The COP model serves to strengthen the long term commitment we have made to the SDDG as it guarantees them a sustained business margin which is something a market price is unable to do. The business margin element is a fundamental part of the model as it encourages investment and profitability. Our business recognizes that the most important part of sustainability is financial sustainability, which this model now secures. Financial certainty gives our farmers the confidence to invest in farm buildings, handling equipment and proactive herd health planning with their vet. These investments have already resulted in improvements to cow comfort which is contributing to us delivering our 2020 commitment to higher animal welfare standards on farm. These improvements ultimately lead to increased production

efficiencies, which in the long term will bring the cost of producing a litre of milk down and reducing its environmental impact but, as the model secures a business margin, farms will remain profitable. Since January 2014 our COP price has been below the market milk price. Farmers have accepted this because it is based on data that is derived from their own businesses. The model, its data and governance gives the trust that the farms are still making a business margin. However, the market has now started to take a downward turn from which the SDDG will be protected which in turn will also protect our business from the negative PR that market volatility can generate.





# TECHNOLOGY AND DATA: PRACTICAL EXAMPLES

Establish system and functionality requirements for efficient access to required data

## Danone: Using S-ERP to manage sustainability data collection, reporting and analytics

Danone's Executive Board sees sustainability as a strategic priority. We have adopted a measured approach to integrating sustainable business practices across our 160 plants on five continents in over 120 countries. We've established carbon reduction as a guiding principle, and have appointed a 'Vice President for Nature'. Senior management has elevated carbon reduction to coequal status with business targets, and also works hard to optimize water usage, which is key to operations. Transparency to consumers and retailers, as well as support for new standards and legislation in the countries where we operate, are foundational to our strategy of growth driven by sustainability.

To help achieve this transformation, we have partnered with SAP to help make sustainability an integral part of how we do business every day. The two companies are united by a shared commitment to innovative IT strategies that will meet our promises to consumers and the challenges of

today's environment, as well as comply with changing country regulations. In a resource constrained world where consumers want to make better choices, both companies know sustainability is not only about conservation or recycling. Real change can only occur by taking a measured business approach to determine the cost of materials and products across the supply chain, from sourcing to production to delivery and beyond.

As a result, Danone implemented SAP ERP to collect, measure, analyse and reduce our carbon footprint across our entire 35,000 product line. Relying on several SAP modules, the process captures highly detailed, monthly assessments of our product line by stock keeping unit (SKU) across the entire lifecycle, from sourcing through production, transport, retail distribution, consumption and end of lifecycle. Full integration with SAP ERP allows us to automatically retrieve information including bills of materials, production and delivery orders and intercompany transportation. We can easily assess a range of product footprints, and incorporate allocation of emissions and costs generated by each process.

We also use SAP ERP to help holistically manage data collection, reporting and analytics across all social, environmental and economic initiatives. Danone is also working with suppliers so they can directly

enter their data into SAP ERP, saving time and boosting information quality. Future plans include enhanced reporting beyond SKU carbon footprint tracking. We will report emissions by product, factory, division, country, brand, customer and time interval, then set benchmarks based on the intelligence. Executives envision a monthly 'sustainability closing', much like a financial closing, for greater transparency and stronger competitive advantage.

Implementing SAP software solutions has helped to drive employee engagement. Employees have a deeper sense of pride in their work since every staff member is held accountable for the quality of carbon data in their business area. Specialists in lifecycle management collect and assess information

from the supply chain, such as site specific emission factors for components used during the raw pack process. People with job titles like Carbon Master and Master Data Manager, along with users in manufacturing, purchasing and transport units, provide additional input for things like emissions factors by transport types or energy consumption to complete the process. Teams perform calculations for insight and visibility into the carbon measurements at a product level via multidimensional modelling and analysis. Using SAP software reports and dashboards, employees can display the product carbon footprint intensity as grams of CO<sub>2</sub>e per kilogram or litre of product, as well as in absolute terms of metric tonnes of CO<sub>2</sub>e emissions.



- Overview
- Tools and guidance
- **Practical examples**



# TECHNOLOGY AND DATA: PRACTICAL EXAMPLES

Establish system and functionality requirements for efficient access to required data

## Unilever: Using S-ERP to support our sustainable supply chain programme

Unilever is committed to growing our businesses sustainably. Working with Oracle, we are contributing to a more sustainable supply chain through streamlining shipping, improving communication with providers, and helping reduce CO<sub>2</sub> emissions. We undertook an ambitious programme to implement Oracle across the global network of Unilever logistics, making Oracle an important part of Unilever's daily operations and assisting us on our journey to be a sustainable business.

We have integrated Oracle with several other business critical applications including: our warehouse management system, enterprise resource planning applications, electronic data interchange and transportation rate system, as well as interfacing with carriers and third party logistics providers.

We have used Oracle solutions to:

- help ensure high performance and 24/7 management support for the business critical transportation management platform while freeing IT team members for other priorities;
- expand use of cross docking and load consolidation model to support just in time delivery, reduce the number of trucks required, cut carbon and reduce inventory requirements; and
- reduce invoice rework thanks to real time information on freight costs and accessorial charges, cutting paper use and time spent generating and analysing logistics data.

In recognition of our efforts towards greater sustainability, Unilever won the 2014 Oracle Sustainability Innovation Award, which honours organizations that have reduced their environmental footprint while reducing costs using green business practices and Oracle technology.



- Maturity map
- Top tips
- Case study
- References



# MATURITY AND REFERENCES

---

STRATEGIC PLANNING, BUDGETING AND FORECASTING

- Maturity map
- Top tips
- Case study
- References

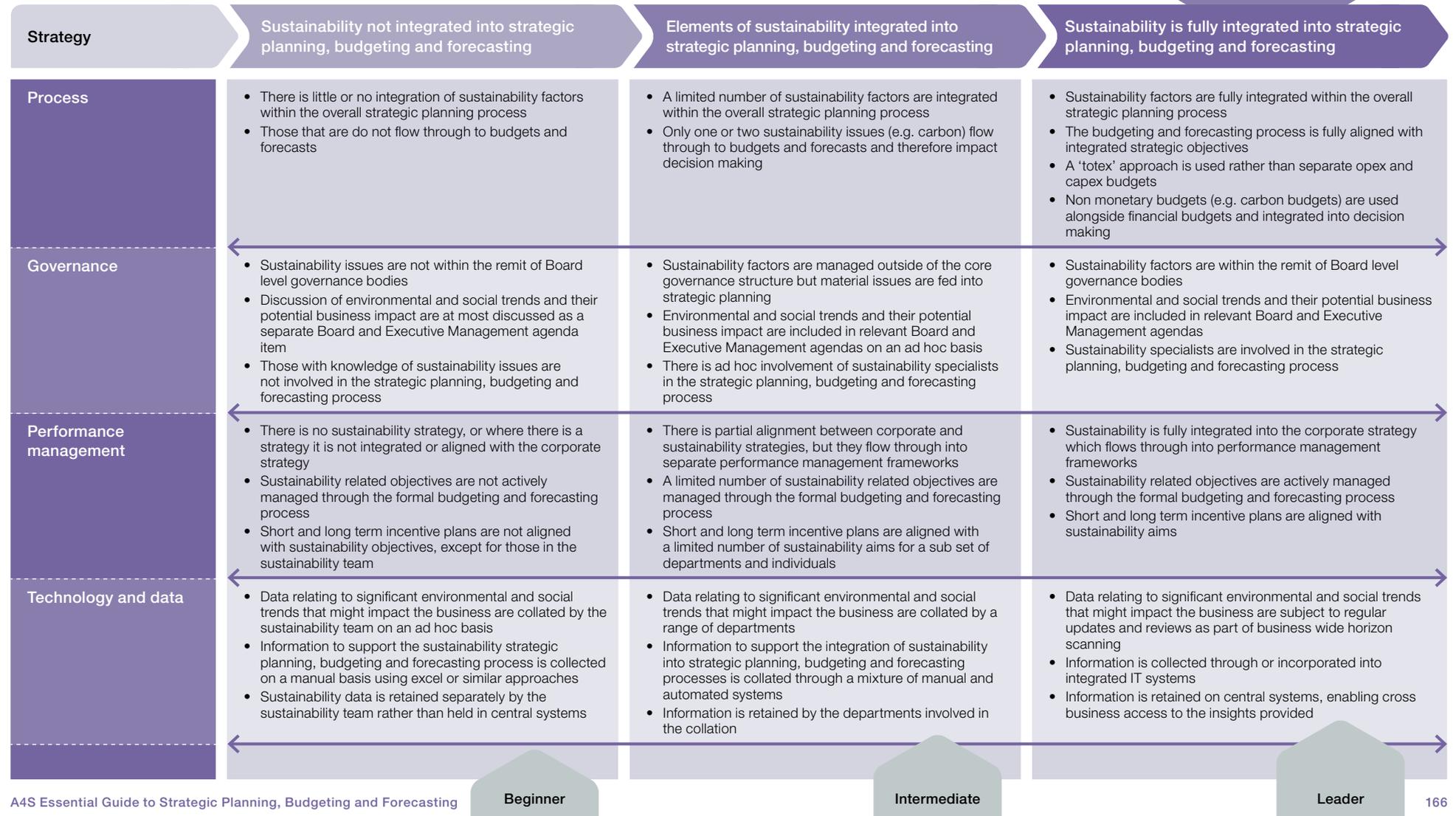


# MATURITY MAP

## Sustainability factors integrated into strategic planning, budgeting and forecasting to enhance decision making

Does your strategic planning process position your organization to respond to major environmental and social trends? If sustainability is considered at a strategic level, does this flow through into budgeting and forecasting processes? If not, what is preventing this?

The maturity map is designed to enable you to assess what you are currently doing and how you can advance to a leading position. It has been developed as a way to capture the different dimensions of Strategic Planning, Budgeting and Forecasting.



- Maturity map
- Top tips
- Case study
- References

## TOP TIPS

Understand the sustainability factors that impact the business drivers or business model of your organization

Ensure there is effective governance and strong commitment from the leadership team to deliver integrated planning, budgeting and forecasting

Align integrated planning, budgeting and forecasting activities with the rest of the organization's performance management framework, including reporting, performance appraisal and remuneration activities

Prioritize the most relevant and meaningful data by assessing the data's importance to strategy and business performance

- Maturity map
- Top tips
- Case study
- References

## CASE STUDY INDEX: PROCESS

### STRATEGIC PLANNING

**Yorkshire Water:** Identifying long term risks and opportunities

**Anglian Water:** Water resource scenario planning

**Anglian Water:** Introducing sustainability factors into strategic planning, budgeting and forecasting

**BHP:** Climate change scenario planning

**The Crown Estate:** A strategic approach to success and future proofing our business

**SSE:** Assessing total impact to benefit strategic planning decisions

### BUDGETING

**Crossrail:** Developing a budgeting structure which puts long term benefits at the centre

**Microsoft:** Implementing an organization wide carbon fee model

**Asda:** Setting monetary budgets in line with strategic sustainability objectives

**Bupa:** Ring fencing funding for low carbon and renewable energy projects

**SSE:** Standardized and transparent community fund

**SSE:** Local supplier portal

**City, University of London:** Using a marginal abatement model to budget for emissions reduction options

**Anglian Water:** Setting an embodied carbon budget for 2030

**Sainsbury's:** Delivering financial and sustainability benefits hand in hand

**Danone:** Combining financial and carbon savings

**Coca-Cola Hellenic:** Introducing science backed carbon reduction targets and water usage efficiency

**Royal DSM:** Setting a shadow carbon price

**South West Water:** Integrating sustainability throughout strategic planning, budgeting and forecasting processes

**Danone:** Moving away from a traditional annual budgeting cycle

### FORECASTING

**Yorkshire Water:** Integrating carbon forecasting into operational and financial forecasts

**City, University of London:** Forecasting carbon emissions savings

**Siemens:** Anchoring our Environmental Portfolio into strategic planning, budgeting and forecasting processes

- Maturity map
- Top tips
- [Case study](#)
- References

## CASE STUDY INDEX: GOVERNANCE

### STRATEGIC MANAGEMENT

**Royal DSM:** Transitioning towards a sustainable business model

**Danone:** Our Manifesto to building a healthier future

**Yorkshire Water:** Creating a culture of understanding, alignment and agreement among teams

**Anglian Water:** Using cross functional involvement in strategic plans to strengthen the sustainability agenda

### ALIGNING BUSINESS GOALS

**Unilever:** Setting strategic goals to help our business grow

### ORGANIZATIONAL STRUCTURE AND OVERSIGHT

**Royal DSM:** The role of KPIs and remuneration frameworks in setting ownership and accountability for sustainability

### REPORTING FRAMEWORKS

**Sainsbury's:** Using simple and visual integrated management reporting

### DECISION MAKING POWER AND PROCESS

**Sainsbury's:** Integrating sustainability into our governance model

### MANAGING RISK AND UNCERTAINTY

**The A4S Essential Guide to Managing Future Uncertainty**

- Maturity map
- Top tips
- [Case study](#)
- References

## CASE STUDY INDEX: PERFORMANCE MANAGEMENT

### EMPLOYEE PERFORMANCE

**National Grid:** Strengthening our licence to operate and saving costs through our employee wellbeing programme ↗

**SSE:** Incentivizing directors through a balanced range of performance measures ↗

**Royal DSM:** The role of KPIs and remuneration in frameworks in setting ownership in setting ownership and accountability for sustainability ↗

**Sainsbury's:** Incorporating our Sustainability Plan values into our Board remuneration policy ↗

### ORGANIZATIONAL PERFORMANCE

**The Crown Estate:** Defining values, with sustainability at the heart ↗

**Sainsbury's:** Integrating sustainability into our governance model ↗

**Yorkshire Water:** Linking sustainability to monetary and non monetary impacts and benefits, and developing our Total impact and Value Assessment ↗

**Anglian Water:** Agreeing outcomes with predetermined performance levels, framed on both business and sustainability benefits ↗

- Maturity map
- Top tips
- [Case study](#)
- References

## CASE STUDY INDEX: TECHNICAL AND DATA

DETERMINE DATA REQUIREMENTS FOR MONITORING PROGRESS ON STRATEGIC PRIORITIES AND DECISION MAKING

Sainsbury's: Defining the measures and metrics required to evaluate and assess our performance

CONSIDER OPPORTUNITIES, RISKS AND CHALLENGES OF IMPLEMENTING A BIG DATA APPROACH

Sainsbury's: Utilizing a Big Data approach to streamline our existing supply chain

ESTABLISH SYSTEM AND FUNCTIONALITY REQUIREMENTS FOR EFFICIENT ACCESS TO REQUIRED DATA

Danone: Using S-ERP to manage sustainability data collection, reporting and analytics

Unilever: Using S-ERP to support our sustainable supply chain programme

- Maturity map
- Top tips
- Case study
- References

## THE A4S CFO LEADERSHIP NETWORK

The Prince's Accounting for Sustainability Project was established by HRH The Prince of Wales in 2004 "to help ensure that we are not battling to meet 21st century challenges with, at best, 20th century decision making and reporting systems".

### A4S MISSION STATEMENT

To inspire action by finance leaders to drive a fundamental shift towards resilient business models and a sustainable economy.

The A4S Chief Financial Officer Leadership Network was launched by HRH The Prince of Wales at St James's Palace in December 2013.

The Network brings together a group of leading CFOs from large businesses seeking to embed the management of environmental and social issues into business processes and strategy. The CFO Leadership Network is the first grouping of its kind globally.

The Network is looking at each area of finance function activity to identify how positive business returns can be achieved through integration of environmental, social and economic considerations. The focus is on sharing insights into what works and what does not. The Network aims to create open source guidance, which members of the Network commit to adopt and share. These insights are also discussed with bodies involved in the training and education of the finance and accounting community to scale up action.

Finance professionals from Network members' organizations undertake a range of projects to develop practical guidance on specific areas of financial decision making, including this guide on strategic planning, budgeting and forecasting.

### NETWORK MEMBERS EUROPE



See the A4S website for further information



- Maturity map
- Top tips
- [Case study](#)
- References

# THE A4S ESSENTIAL GUIDE SERIES

The A4S Essential Guide Series has been produced by the A4S CFO Leadership Network to help organizations embed social and environmental considerations into their strategy, culture and processes. In other words, they support the adoption of integrated thinking and management. They are developed by finance teams for finance teams, but will also be of interest to others seeking to understand current approaches for integrating sustainability into financial practices and decision making.

## LEAD THE WAY

Developing a strategic response to macro sustainability trends

- Finance Culture\*
- Managing Future Uncertainty
- Incentivizing Action\*
- Engaging the Board and Mobilizing Action\*

## MEASURE WHAT MATTERS

Developing measurement and valuation tools

- Natural and Social Capital Accounting
- Social and Human Capital Accounting

## TRANSFORM YOUR DECISIONS

Integrating material sustainability factors into decision making

- Strategic Planning, Budgeting and Forecasting
- Integrated Management Reporting\*
- Capex

## ACCESS FINANCE

Engaging with finance providers on the drivers of sustainable value

- Enhancing Investor Engagement
- Debt Finance\*

See the A4S Essential Guide Series 

\* Coming soon

- Maturity map
- Top tips
- Case study
- References

## REFERENCES

1. World Economic Forum. The Global Risks Report 2018. Available at: <https://www.weforum.org/reports/the-global-risks-report-2018>
2. Redefining business success in a changing world CEO survey, PwC (2016)  
<https://www.pwc.com/gx/en/ceo-survey/2016/landing-page/pwc-19th-annual-global-ceo-survey.pdf>
3. CFOs and Sustainability Shaping their roles in an evolving environment, Deloitte (2014)  
<https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Risk/gx-risk-cfo-sustainability-report.pdf>
4. Cultures and Organizations: Software of the Mind Intercultural Cooperation and Its Importance for Survival, Third Edition, Hofstede, G. Hofstede, G.J. and Minkov, M. (2010)

## WE WOULD ALSO LIKE TO THANK

Fiona Wild, BHP Billiton

Jason Clarke, City, University of London

Gerhard Seidl, Coca-Cola Hellenic

Matthew Duncan, Crossrail

Laura Palmeiro, Danone

Bert Steinbusch, DSM

Tamara DiCaprio, Microsoft

Stuart Bailey, National Grid

Beth Hart, Sainsbury's

Mark Carlin and Ian Bowman, Siemens

George Cobb, SSE

Claire Burgess, The Crown Estate

Sabrina Mistry, Unilever

Gordon Rogers, Yorkshire Water

Chris Tuppen, A4S Expert Panel Chair

- Maturity map
- Top tips
- Case study
- References



# ACCOUNTING FOR SUSTAINABILITY

## GET IN TOUCH OR FIND OUT MORE



[@PrincesA4S](#)



[The Prince's Accounting for Sustainability Project \(A4S\)](#)



[ThePrincesA4S](#)



[accountingforsustainability@royal.gsx.gov.uk](mailto:accountingforsustainability@royal.gsx.gov.uk)



[www.accountingforsustainability.org](http://www.accountingforsustainability.org)

