

segie



**From performance to
progress: transforming
businesses and mindsets**

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Introduction

In the dynamic landscape of Europe's social economy, where profit is intertwined with purpose, a paradigm shift is underway. Traditional metrics of business success, predominantly centred around financial performance, are being challenged. Instead, there's a growing recognition of the need to measure progress through a multifaceted lens that encompasses social impact, environmental sustainability, and ethical governance. Social Economy businesses traditionally have a progress vision of their businesses, however, also driven by the wide spread performance culture, they tend to focus solely on the performance of their product or service and how it is directly producing impact, and do not look to the positive and negative externalities that might arise with its' production/distribution. Therefore, this shift from performance to progress also marks a pivotal moment for social economy businesses across Europe.

As the world grapples with pressing issues such as climate change, inequality, and social injustice, the role of businesses in driving positive change has never been more crucial. In this context, the traditional bottom line no longer suffices as the sole measure of success. Rather, there's a call for a broader understanding of business impact—one that goes beyond financial profit to encompass the well-being of communities, the preservation of the environment, and the promotion of equitable practices.

This introduction sets the stage for exploring how social economy businesses in Europe are redefining success and recalibrating their indicators of progress. From the performance driven culture inspired by the economist Milton Friedman and his influential theories emphasising minimal government intervention and the efficiency of markets, after the second world war, followed by a progress driven one that is challenging today's businesses. By delving into the evolving mindsets and methodologies, we aim to uncover the drivers behind this transformative shift and illuminate the opportunities it presents for fostering a more sustainable and inclusive economy.

Drawing on insights from academics, and practitioners, we guide you through a 3 steps set of strategies and best practices that are driving this transition—from shared value to hybridization of business modules and finally to impact management, fostering a culture of transparency and accountability. In the end, we will go through two interesting case studies that represent insightful examples on how this transition and equilibrium is not only possible but also an important step for long term business sustainability and impact.

Ultimately, this exploration seeks to inspire and empower social economy businesses across Europe to embrace a holistic approach to success—one that not only drives financial prosperity but also contributes to the well-being of society and the planet. By championing progress over mere performance, these businesses have the opportunity to become catalysts for positive change in the European social economy and beyond.

About SEGIE

In recent years, numerous reports have highlighted the need for better integration of women and gender minorities into the social economy, particularly as social entrepreneurs. However, there is little data on the interconnections between the social economy and gender equality as a whole, and on the sector's impact on the economic empowerment of women and gender minorities.

This is why the SEGIE project (*For a Social Economy that reduces Gender Inequalities in Europe*) was born. While the social economy is booming in Europe, bringing new solutions to major social and environmental challenges, it also has a responsibility to foster positive change for all, not at the expense of women and other minorities. There is therefore a clear need to investigate this topic, raise awareness and develop hands-on tools in order to harness the power of the European social economy ecosystem to reduce gender inequality. SEGIE to pursue this goal, the project seeks the following objectives:

- » **Develop new data on and investigate the impact of the social economy on gender equality** in order to identify areas of improvement and to make stakeholders in the social economy more aware and knowledgeable about gender equality.
- » **Develop hands-on pedagogical contents to help European social enterprises push for more gender-equal practices** and develop fairer and more women-inclusive business models.
- » **Contribute to the emergence of 30 women-inclusive businesses in France, Italy and Portugal** to generate a wider ripple effect on women's economic empowerment and shed light on business champions leading the way towards a more inclusive European social economy.

SEGIE is a project funded by the European Social Fund and is implemented by four partner organisations:

Empow'Her Global (coordinator - France) is an international feminist organization founded in 2013 that deploys several types of activities aimed at the same objective: supporting women in the realization of their projects, allowing them to reach their full potential and giving them all the keys to empower themselves through entrepreneurship.

Action Aid Italia (Italy) is a non-profit organization who works to promote and animate spaces for democratic participation everywhere, involving people and communities in the protection of their rights. Action Aid collaborates at local, national and international levels to bring about change and increase equity, improving the quality of democracy and thus supporting those living in situations of poverty and marginality.

Acube (Italy) is an incubator and accelerator of ideas and businesses with high social, cultural and environmental value. Acube encourages and supports the creation and development of impactful businesses in order to generate innovation and social transformation.

NOVA School of Business and Economics (Portugal) is an accredited and top-ranked business school that offers a variety of academic programs such as Bachelor's, Master's, PhD, MBAs.

1- Performance VS. Progress

Transforming views on the role of business in society

In this section the reader will find an historical approach to the topic of performance and progress that will provide the needed context in order to understand the relevance of the topic. For social economy businesses in particular, it will be important to understand the main difference between a performance driven culture, with a narrow focus on the main core KPI's of the company, and a progress driven culture with an holistic approach to the whole impact the company produces.

1.1 What is performance obsessive culture and where does it come from?

From literature, since the 70's the traditional role of business in society was only to maximize "shareholder value". Milton Friedman, a very influential economist, in his "Capitalism and Freedom" book published in 1962, defended the idea of a free economy, focused on profit maximization and economic efficiency, with low levels of intervention from the government that would allow the market to operate efficiently, with the argument that it would be a spectacular driver for prosperity. This argument for a performance-centric culture as the path to economic prosperity was built after the second world war, as he also defended that "fully competitive markets use prices to match production to demand, which makes it possible to coordinate millions of firms to meet the tastes of billions of people" (Henderson, 2020), suggesting that a free economy focused on economic efficiency would lead to positive outcomes for consumers.

The second argument presented to defend the free markets was that, "the primary goal of society should be personal or individual freedom ... individual's ability to make decisions about the disposition of their resources and time should be one of the society's highest goals" (Henderson, 2020). In this way Friedman was defending that free markets are able to create free people.

Finally, Friedman defended the idea that managers were agents for investors and their only duty would be to manage their firms as their investors would wish.

In this way, and in the historical post second world war context, the goal was to expand and grow, and provide employment to people. There was the belief that "externalities" like pollution were properly priced or regulated (Henderson, 2020). Having said that, only later when the market started to stagnate did Friedman's ideas start getting more traction, forming a global belief that "to maximize profits is to fulfill deep normative commitments" (Henderson, 2020) contributing to the market equilibrium and to everyone's market and political freedom. Managers were told that they had a moral duty to maximize profits, to do anything else was actively immoral — and CEO pay was linked tightly to the value of the company's stock. "GDP took off like a rocket and with it, shareholder value and CEO pay" (Henderson, 2020)

1.2 Societal and Business consequences of performance only focus

Under the moral beliefs based on Friedman's theory any decision different from maximizing returns, like putting solar panels on the roof of the factory, when there is abundant coal energy available, would not only make the society poorer and less free but also to betray the manager's duties to investors (Henderson, 2020).

However, this theory would only prove to be perfect in perfect, free and fair markets, that unfortunately did not and do not exist. Therefore, in the real world, all these narrow performance focused goals led to an

enormous pollution and greenhouse gases emission, as well as deeper inequalities mostly in the developed world. The results of all the increase in production and GDP “have gone to the 10 percent of the income distribution (...) Real incomes at the bottom have stagnated” (Henderson, 2020).

Did allowing companies to focus solely on profit maximization and shareholder value made us prosper and more developed as a society? Global capitalism looks less and less like the textbook model of free and fair market on which the Friedman Doctrine is based. Markets have gone off the rails for three main reasons related to the planet, institutions, people.

Planet - negative externalities produced by businesses during their activity, and causing harm to the environment are not properly priced, as they should be in an efficient market. For instance, we are only paying about 40% of the actual costs of burning coal.

Institutions - Firms are increasingly able to fix the rules of the game in their favor. For instance, between 2000 and 2017 the fossil fuel industry as a whole spent at least \$3 billion lobbying against climate change legislation. (Henderson, 2020)

People - Consequences of a performance only obsession: limited freedom of opportunities and great inequality. First, real incomes at the bottom have stagnated. Second, the vast productivity growth of the last 20 years has generated outputs that by large have been absorbed by the top 10% of the income distribution. Third, more than 6 billion people live with less than \$60.00 a day. Fourth, the 50 richest people on earth own more than the poor half of humanity, that is 3.5 billion people. (Henderson, 2020)

1.3 Progress Driven culture - Debunking a myth and explaining the need of an holistic view of impact integrating environment, social and governance

Today the world is different, and a performance culture focused on profit maximization no longer satisfies the pressing needs of taking care of people and the planet. People are more conscious, businesses and organizations are being led to a complete transformation, from performance focus to progress, from short term goals to long term objectives and missions. From a narrow perspective of business goals to a wider view of value that businesses and organizations can create.

The paradigm change is visible on data, as it is showed below:

1. The younger the generation, the larger the focus is on sustainability when choosing an employer. Moreover, “this means the employees of the future will set higher demands for their employers with 33% emphasising the importance of perceived ethical behaviour and 27% demanding inclusion on the agenda” (Mckinsey & Co., 2019);
2. 50% of consumers would pay 16% premium for green packaging, and 15% a 25% premium (Mckinsey & Co., 2019);
3. In terms of return on capital, “Implementing sustainable practices can lead to substantial cost and energy savings, typically more than 10% of energy savings” (Mckinsey & Co., 2019);
4. Regarding risk management, “36-43% of senior executives see value in managing operational, reputational, and regulatory sustainability-related risks” (Mckinsey & Co., 2019);
5. Sustainability-marketed products delivered 50.1% of market growth from 2013-2018 in United States (NYU Stern School of Business Center for Sustainable Business, 2019);
6. “Products marketed as sustainable grew 5.6x faster than conventionally-marketed products” (NYU Stern School of Business Center for Sustainable Business, 2019);

There is an urge for radical change that moves from performance focus to a progress driven approach where a Shared value economy becomes the new answer for the imperative reality. This concept arises from the premise that “both economic and social progress must be addressed using value principles. Value is defined as benefits relative to costs, not just benefits alone” (Kramer, 2011). Businesses have this concept more clearly, although they have been using it in a narrow performance perspective of profit maximization. In the social sector the concept of value is much more recent as these organizations usually define success only through the benefits created or the money expended, and not the equation of benefits and costs.

The change is already in place, and it is no longer an option for organizations to be part of it. “The society’s needs are huge - health, better housing, improved nutrition, help for the aging, greater financial security, less environmental damage” (Kramer, 2011), and each and every organization and business has a role to play on it. Both for profit and non/profit organizations will have to widen their acting scope to guarantee the creation of value beyond profit or beyond their focused mission, and to put people and the planet at the centre of their decision making.

In this context, the following pages will help you define the steps to make a steady transition within your own organization no matter the type of organization.

Key take-aways:

2 - Transitions

The Journey to Progress: Rethinking Culture Beyond Performance

2.1 Stage 1 - Mindset

In this section, we guide you towards exploring a transformative shift: how to move from a performance-driven to a progress-driven strategy, business model and culture within your organization without losing your capacity to generate market revenue.

This section will provide guidance to existing businesses from the social economy on how to take steps towards more inclusion, notably the reduction of gender inequalities, in their strategies, business models and practices. We focus on creating shared value—a strategy that intertwines your company’s success with the well-being of the community it serves. This approach not only enhances your competitive edge but also addresses societal and environmental challenges through innovation.

Here, you will be guided through a clear, actionable framework for embedding shared value into your strategic core. By realigning your business objectives with social progress, you can open new paths to growth and innovation that sustain both your business and the community. This section offers practical insights and tools that pave the way for this crucial transition, inspiring you to rethink how your business operations can generate broader benefits. As you embark on this journey, remember that the goal is to transform not just your company’s performance metrics but its fundamental impact on the world.

The first stage is to broaden the mindset about the impact of your business. As a result of the performance driven culture of business, discussed in section 1, it has been observed that business managers in the social economy

As discussed in section 1 above, the first stage is that businesses in the social economy might consider that their impact is through the product or services. For example, by employing people with learning disabilities. This mindset blinds business leaders to the fact that gender disparity is significant means that below threshold.

2.2 Stage 2 - Embracing Shared Value

2.2.1 Review your strategy

The performance of a company and the community are closely intertwined. A thriving community increases demand for products and offers essential public assets, while prosperous businesses generate employment opportunities and wealth. (Porter and Kramer, 2011)

“Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate.” Larry Fink, the CEO of BlackRock, in January 2018¹

¹ Larry Fink is a co-founder, chairman and CEO of Blackrock, the world’s largest asset manager, with \$10 trillion in assets under management as of December 31, 2023. Larry Fink opposed Friedman’s idea that a company’s only social responsibility is its profits. Coming from the world’s largest investor, this letter marked a turning point in the ongoing debate surrounding the status of global capitalism. Corporate leaders started openly discussing the “purpose” of their companies.

Therefore, it is not enough for a manager of an educational resources enterprise to distribute and develop as many educational resources as possible. The manager must look at the negative externalities of its operations, supply chains and human resources policies, for instance. The manager needs to do more than deliver on financial and product/service performance. The enterprise should be inclusive and diverse and benefit all stakeholders, as much as possible. Not all can be achieved at any given time. Nonetheless, being aware of the negative impact and what it takes to correct it or even to turn it into a positive impact is the first step.

The key lies in the idea of shared value, where economic gains coincide with societal benefits through addressing its pressing issues. Organizations must bridge their success with societal progress and redefine their purpose to emphasize creating shared value rather than solely focusing on profits, enabling a new era of innovation and productivity globally. Shared value creation emphasizes the identification and expansion of links between societal progress and economic prosperity. (Porter and Kramer, 2011)

Companies can create economic value by creating societal value, through business strategies that integrate social challenges to enhance business and social outcomes, thus creating competitive advantage and social impact

2.2.2 Creating Shared Value in Practice

By applying a shared value perspective to every significant organizational decision, it can result in substantial benefits. Improving societal conditions often leads to enhanced business conditions, initiating positive feedback loops. (Porter and Kramer, 2011). There are three distinct ways to do this:

» **by reconceiving products and markets:**

Addressing societal needs often requires rethinking product offering, and it can result in profound societal benefits while also offering substantial profits for companies by opening new market opportunities or creating a new product offering. For example, microfinance, initially designed to address financing gaps in developing countries, is now experiencing rapid growth in the United States, filling an important, previously unrecognized gap.

» **by redefining productivity in the value chain:**

A company's value chain is deeply connected with numerous societal issues, including natural resource and water usage, health and safety standards, working conditions, and workplace equity. Within this intricate relationship lies the opportunity to create shared value, as societal challenges often manifest as economic costs within the company's operations.

» **by enabling cluster development:**

The prosperity of any organization is intricately tied to the ecosystem it operates within. This ecosystem includes not only the organization itself but also the network of supporting businesses and infrastructure. Central to this dynamic are "clusters," geographical concentrations of organizations, suppliers, service providers, and logistical infrastructure within specific industries or sectors, such as IT in Silicon Valley, cut flowers in Kenya, or diamond cutting in Surat, India.

To further explore how businesses in Europe's social economy can be more gender-sensitive by applying the principles of shared value, let us delve deeper into specific strategies and their potential impacts using specific examples:

1. Reconceiving Products and Markets

- » **Social Enterprise in Healthcare** (*example 1*): this enterprise refocuses its services to address underrepresented women's health issues such as maternal health, reproductive health, and breast

cancer screening. This strategic shift not only filled a significant market gap but also enhanced community awareness and women's health outcomes. The initiative demonstrates how reconceiving products and services can drive both economic benefits and substantial social impact.

Business outcomes: Increased Market Reach², Enhanced Brand Reputation³, Revenue Growth⁴

Social Outcomes: Improved Health Outcomes for Women, Raised Public Awareness, Women Empowerment

- » **Social enterprise focused on educational resources** (*example 2*): this enterprise adds to its offer of educational resources learning materials that promote gender equality and women empowerment, targeting schools and adult education centers. By addressing educational content gaps related to gender issues, this enterprise not only creates a market for inclusive educational products but also fosters a more gender-aware future generation.

Business outcomes: Increased Revenue⁵, Market Differentiation⁶, Enhanced Brand Loyalty

Social outcomes: Promotion of Gender equality, Empowerment of Girls and Young Women

2. Redefining Productivity in the Value Chain

- » **Textile Cooperative** (*example 1*): this cooperative decides to ensure that its supply chain supports fair trade and equal pay practices, particularly by engaging women in higher-paid roles traditionally dominated by men, such as managerial or technical positions. By training and promoting women within these roles, the cooperative not only improves operational efficiency but also challenges industry norms around gender roles. It increases productivity through enhanced skills and employee satisfaction but also by gender equality in the workplace.

Business outcomes: Increased Operational Efficiency, Increased Productivity, Improved Employee Satisfaction

Social outcomes: Promotion of Gender Equality, Reshaping of Industry Norms, Support for Fair Trade and Equal Pay Practices

- » **Organic Agriculture Cooperative** (*example 2*): this cooperative that specializes in organic agriculture could implement training programs specifically designed for women, empowering them with skills in sustainable farming practices and leadership roles within the cooperative. This approach not only boosts productivity by tapping into underutilized talent but also promotes gender equality by providing equal opportunities for women in agricultural sectors where they are traditionally underrepresented.

Business outcomes: Increased Productivity, Improved Leadership Skills for Employees

Social outcomes: Promotion of Gender Equality, Empowerment of Women

- » **Circular economy business** (*example 3*): by redefining how productivity is defined and measured to include flexible work arrangements metrics, this business can foster an environment where output is measured by results rather than hours logged. This shift allows for work arrangements that accommodate employees with caregiving responsibilities, predominantly affecting women. Implementing these practices

² By targeting women's health issues, the enterprise taps into a specific segment that has historically been underserved. This specialization can attract more clients who are seeking these specific services, potentially increasing the enterprise's market share.

³ Specializing in women's health and addressing underrepresented issues enhances the enterprise's reputation as a socially responsible and inclusive provider. This reputation can lead to partnerships, funding opportunities, and a loyal customer base.

⁴ As demand for specialized women's health services increases, driven by greater awareness and advocacy, the enterprise likely sees an increase in revenue. This can be further amplified by potential government or private sector funding for addressing critical public health issues.

⁵ By developing and selling educational materials focused on gender equality, the enterprise taps into new markets (schools, NGOs, government programs) that are increasingly prioritizing inclusive education.

⁶ Offering unique content that addresses gaps in traditional educational curricula can distinguish the enterprise from competitors, potentially increasing its market share.

can increase employee satisfaction and retention, reduce overhead costs, and improve the organizational culture, all of which contribute to enhanced productivity and competitiveness.

Business outcomes: Increased Employee Retention, Reduced Overhead Costs, Enhanced Organizational Culture

Social outcomes: Improved Work-Life Balance, Promotion of Gender Equality

3. Enabling cluster development

- » **A network of social economy businesses** (example) could form a cluster to support women-led startups and social enterprises through shared resources, mentorship, and access to finance. By focusing on gender-sensitive business development, this cluster enhances the ecosystem for women entrepreneurs, ensuring they receive the support needed to thrive in competitive markets. This collaboration not only strengthens the individual businesses but also promotes a more inclusive and diverse economic landscape.

Business outcomes: Enhanced Access to Resources, Mentorship, and Finance; Improved Business Development; Increased Competitiveness for Women-led Startups and Social Enterprises

Social outcomes: Promotion of Gender Equality in Entrepreneurship Opportunities, Empowerment for Women Entrepreneurs, Creation of a More Inclusive and Diverse Economic Landscape

These examples aim to showcase how businesses can simultaneously generate economic value while addressing societal needs. The following table is an overview of the examples described above:

Levels of Shared Value	Business Outcomes	Social Outcomes
Reconceiving Products and Markets	<ul style="list-style-type: none"> » Increased market reach » Enhanced Brand Reputation » Revenue Growth » Increased Revenue » Market Differentiation » Enhanced Brand Loyalty 	<ul style="list-style-type: none"> » Improved Health Outcomes for Women » Raised Public Awareness » Women empowerment » Promotion of Gender equality » Empowerment of young women
Redefining Productivity in the Value Chain	<ul style="list-style-type: none"> » Increased Operational Efficiency » Increased Productivity » Improved Employee Satisfaction » Improved Leadership Skills for Employees » Increased Employee Retention » Reduced Overhead Costs » Enhanced Organizational Culture 	<ul style="list-style-type: none"> » Promotion of Gender Equality » Reshaping of Industry Norms » Support for Fair Trade and Equal Pay Practices » Empowerment of Women » Improved Work-Life Balance

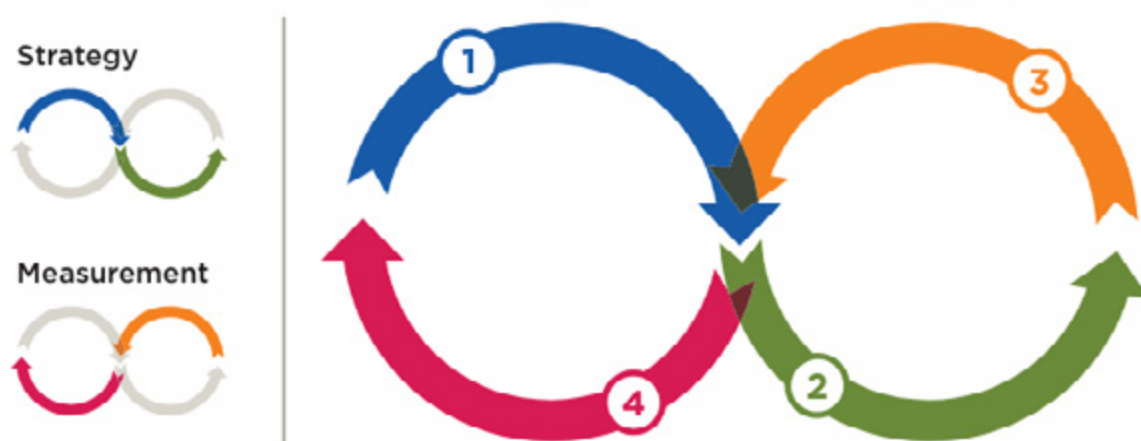
Enabling cluster development

- » Enhanced Access to Resources, Mentorship, and Finance
- » Improved Business Development
- » Increased Competitiveness for Women-led Startups and Social Enterprise
- » Promotion of Gender Equality in Entrepreneurship Opportunities
- » Empowerment for Women Entrepreneurs
- » Creation of a More Inclusive and Diverse Economic Landscape

2.2.3 HOW TO Embrace Shared Value: four steps

Embracing and assessing the impact of shared value requires an interactive approach linked directly to business strategy and the measurement of business performance. Porter et al. (2012) propose a qualitative model comprising four stages: (1) Defining the core question, (2) Building the business case, (3) Monitoring progress, and (4) Evaluating outcomes and leveraging insights to uncover additional value. As depicted in the figure below:

Figure 1: Integrating Shared Value Strategy and Measurement (Porter et al, 2011)



Step 1: Identify the social issues to target

The first step involves identifying and prioritizing specific social issues that can serve as business opportunities, through strategic mapping, value stream mapping and other needs analysis frameworks . This could be achieved by assessing social needs across various levels of shared value, as demonstrated in the examples provided.

For instance, a business might identify underrepresented women's health issues or gender disparities in education as potential areas to target.

Step 2: Make the business case

Creating a robust business case is crucial to demonstrating how addressing social issues can directly improve business performance. This involves identifying targets, stages, and costs for each shared value opportunity. Decision-makers should analyze the value creation potential and make informed go/no-go decisions based on the business case.

For instance, a social enterprise focusing on educational resources could demonstrate how investing in learning materials promoting gender equality not only enhances social outcomes but also leads to increased revenue and enhanced brand loyalty.

Step 3: Track progress

Using the business case as a roadmap, once the business case is established, companies need to track progress against desired targets, akin to any performance improvement process. This entails monitoring inputs, business activities, outputs, and financial performance relative to projections. The tracking process ensures alignment with the shared value strategy and allows for timely adjustments if needed.

Just as the textile cooperative monitors operational efficiency and employee satisfaction after implementing fair trade and equal pay practices, companies should track inputs, outputs, and financial performance relative to projections. This ensures that the shared value strategy remains on course and enables timely adjustments, mirroring the cooperative's efforts in reshaping industry norms around gender roles.

Step 4: Measure results and use insights to unlock new value

This step revolves around measuring the actual correlation between social and business outcomes, validating the effectiveness of resource allocation and efforts.

For instance, the circular economy business example could assess the effectiveness of its flexible work arrangements in improving employee satisfaction and reducing overhead costs.

By leveraging insights gained from these assessments, businesses can unlock new value and further optimize their shared value strategy, much like the examples demonstrate in promoting gender equality and enhancing organizational culture.

QUESTIONS TO ASK YOUR ORGANIZATION

- » What community needs can our business meet using what we're best at?
- » How can our products or services help the community in ways beyond their usual use?
- » Can we design our products to bring more benefits to society and the environment?
- » Are there people in the community who could benefit from our products but currently do not have access to them?
- » Can we change our operations to use less energy and water without reducing our productivity?
- » What are the main roadblocks in our group of businesses that stop us from being more efficient and innovative?
- » How can our business presence help improve local facilities and services?
- » When choosing between two similar places for our business, how do we decide which one benefits the local community more?

2.3 Walk the Talk – Integrating SDGs in your business

2.3.2 Why are SDG's relevant for organizations

“In September 2015, all 193 Member States of the United Nations adopted a plan for achieving a better future for all — laying out a path over the next 15 years to end extreme poverty, fight inequality and injustice, and protect our planet. At the heart of “Agenda 2030” are the 17 Sustainable Development Goals (SDGs) which clearly define the world we want — applying to all nations and leaving no one behind.

The new Global Goals result from a process that has been more inclusive than ever, with Governments involving business, civil society and citizens from the outset. We are all in agreement on where the world needs to go. Fulfilling these ambitions will take an unprecedented effort by all sectors in society — and business has to play a very important role in the process.” (Nations, n.d.)

Organizations need to actively contribute to this cause, not only in an ethical perspective, but also in a business point of view, where the risks of not acknowledging these planet and societal needs are big and impactful for all. The following frameworks provide structured approaches on how to aligning business strategies with societal and environmental needs, fostering sustainable and impactful outcomes.

2.3.3. Walk the Talk – Integrating SDGs in your business

Figure 2: Mckinsey & Company's “sustainability compass”



McKinsey & Co. highlights that “integrating sustainability into strategic initiatives is especially important because these issues play out over the long term .It’s easier for companies where they are core concerns to understand trends and make strategic bets in advance to consumer preferences, stakeholder pressure, or regulations” (McKinsey&Co.).

The Sustainability Compass (Figure 4), is a tool that helps understand how an organization can capture the full value of sustainability, looking into the whole value chain, and finding the right strategies to bet on. Organizations may choose in each time, where they want and need to focus on.

It summarizes 12 areas from which companies can generate business value from SDG's and start their transformation towards sustainability. The twelve areas are grouped into 4 strategic directions:

1. **Organizational Performance:** Strategies to ensure a dynamic and diverse organization. Younger generations and an increasing number of employees are looking for companies with a clear sustainable mission, that is not only communicated but part of the daily action of the company. Investing in a sustainable organization performance, may take different shapes:
 - a. Explicitly incorporating the main sustainability worries and/or goals into the company's mission;

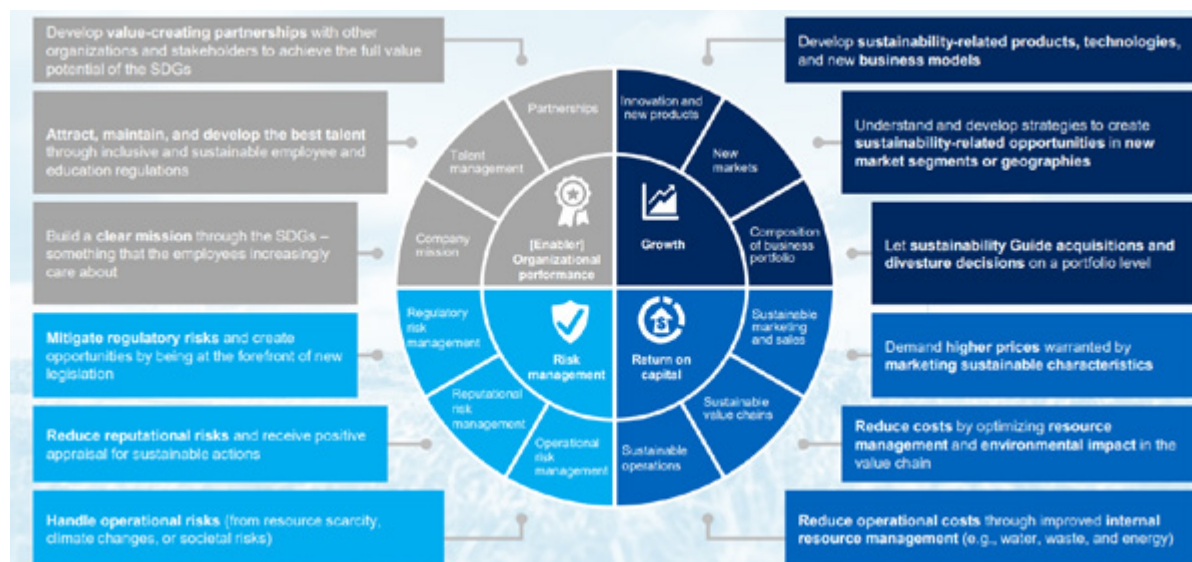
- b. Develop a talent management strategy that clearly accounts for sustainability aspects, like no discrimination for example;
 - c. And/or develop partnerships that respect and enhance relevant sustainability topics for the organization;
 - d. Example: CHR Hansen⁷, adopted clear and company-wide ambition and operational goals and launched key initiatives to promote diversity and inclusion focusing on nationality, gender, and age.
2. **Growth:** Embracing sustainability in the whole organization, creates important growth opportunities through innovation, and diversifications:
- a. Creating and exploring new markets, not only in new geographical places, but also markets created by the evolution of the needs of your target, or even by starting to serve new markets while embracing sustainability in the value chain;
 - b. Foster innovation by creating new products and/or services, motivated by the sustainability strategy implemented;
 - c. Creating unique and diversified compositions of the business portfolio, combining new products, and markets, with a purpose driven mission that allows organizations to widen their scope of activities;
 - d. Example: An example is how Danone in partnership with the Grameen Group in Bangladesh has developed and marketed Shokti + yogurt. It is an unique yogurt designed to deliver 30% of the daily requirement for iron, zinc, vitamin A and iodine, at an affordable price, through a dense distribution system serving malnourished urban and rural populations in Bangladesh.
3. **Risk Management:** Managing risk is crucial to ensure stable and continuous performance. Embracing sustainable and inclusive practices, helps mitigate regulatory, reputational and operational risks, guaranteeing a better preparation of the company for the
- Example: Arla, a dairy food company, implemented a thorough CSR due diligence process in line with UN Guiding Principles before engaging in new partnerships in developing countries.
4. **Return on Capital:** Considering the current potential to optimize consumption of water, energy, raw materials, and also the value chain itself, represents a relevant opportunity to reduce the cost structure, growing the return on capital.

Example: The Danish multinational brewer Carlsberg has moved towards minimizing its carbon and waste footprint through a new and sustainable packaging of beer cans reducing plastic consumption, waste and costs.

⁷ CHR Hansen is now Novonosis, a leading biosolutions partner. Working closely with customers to transform how the world produces, consumes and lives. Tiny but mighty enzymes, functional proteins and microbes enable change in all living things. They include that transformational power at the core of their developed biosolutions to help solve some of humanity's biggest challenges.

As seen, this framework analyzes how sustainability can impact a company's performance as it helps identify opportunities by considering environmental, social, and governance (ESG) factors. The figure below shows a detailed "Sustainability Compass" with actions for each of the 12 areas:

Figure 5: Detail of Mckinsey&Co. "Sustainability Compass"



QUESTIONS TO ASK YOUR ORGANIZATION IF YOU ARE AIMING FOR AN HYBRID BUSINESS MODEL:

- » Does the mission and goals of your company include an impact vs. profit perspective?
- » Are the KPI's of your business only focused on profit or on impact? Or are they looking to strike a balance between the two?
- » Are there any missed opportunities in new product creation or new markets exploration?
- » Is the relationship and value creation to all the stakeholders a priority for your business?
- » Is your cost structure optimized around sustainability goals?
- » Is your revenue structure actively contributing to a long term value creation mission?
- » Does your organization holds a diversified set of activities to generate impact, value and revenue?

2.4 Operations Level

After defining a strong strategy on shared value, it is crucial to guarantee that daily operations match the mission, goals and strategies defined. In order to do that, there should be implemented a system that allows constant traction of the evolution of the progress made, through well defined and mission/strategy aligned KPI's, that track impact and value created at all different levels of the organization, motivating to pursue goals, and inspiring to fight for new and more ambitious targets in every moment.

This is crucial to guarantee coherence in all different areas. Moreover, it becomes even more relevant to guarantee that the ones collaborating on the value chain are aware of the right goals and KPI's to pursue, motivating responsible and sustainable decisions every moment and in every step of the value chain. In this way, having a full picture of the whole value chain and goals to achieve, avoids situations such as a renewable energy organization being non-inclusive in its' workforce, or an inclusive organization being non sustainable due to lack of waste management.

This demanding tracking system is of course an ongoing and always-evolving process, that takes time and continuous effort to put in place and keep updated along time.

In order to develop a proper set of KPI's that allows measuring, controlling and clearly communicating the mission and goals of the company, different tools can be useful. In the following pages we will describe 2 different tools and in the end point out some others that can also be relevant:

Define Impact with the Theory of Change or Impact Chain

Theory of Change It is the backbone of any Social Impact measurement. It is a visualization on how the day-to-day activities of an organization relate to their overall mission or long term goals, and it is a good help to identify what should be measured in an organization.

From the UN definition: "Theory of change is a method that explains how a given intervention, or set of interventions, is expected to lead to specific development change, drawing on a causal analysis based on available evidence." (United Nations Development Group).

In summary it serves 3 main purposes:

- a. Simplify and map complex challenges; (United Nations Development Group)
- b. It helps picture the logic for achieving change; (United Nations Development Group)
- c. It is useful to develop and manage partnerships, establishing a common language fostering consensus and motivating stakeholders by involving them since the beginning; (United Nations Development Group)
- d. It helps create and communicate a vision and mission; (United Nations Development Group)

HOW TO USE IT:

It should be mapped out in a single page diagram, illustrating why and how the desired change is expected to happen. (Hub, 2022)

The diagram is divided into 5 different steps:

- » **Activities:** Action undertaken in order to achieve the program goals;
- » **Outputs:** what will be produced/delivered through the actions identified;
- » **Short term outcomes:** immediate changes that will result from the activity developed;
- » **Medium term outcomes:** changes occurred because of the activity developed, after some time of observing the short-term changes;

» **Long term outcomes:** after some time of observing the short-term and medium-term outcomes, this last topic points out the permanent, long-term changes that result from the activity;

Pro tip: A good way of picturing the outcomes is starting with the long-term outcome and then asking “why” to that one, finding the medium-term outcomes, and finally asking why again to that one and finding the short-term outcomes. (Business)

Measure Impact with ESG – Environmental, Social and Governance

“ESG stands for environmental, social and governance. These are called pillars in ESG frameworks and represent the 3 main topic areas that companies are expected to report in. **The goal of ESG is to capture all the non-financial risks and opportunities inherent to a company’s day to day activities.**” (Deloitte, 2021)

In 2021, the European Commission adopted the sustainable finance package (Corporate Sustainability Reporting Directive) which reforms and greatly increases the scope of reporting required. The increase in scope means that from 2023 almost 50,000 companies in the EU will now have to report on ESG issues.

Therefore, it is no longer something for only the social sector, but a steady step for a more sustainable and transparent Europe and world.

HOW TO USE IT:

1. **Firstly** it is important to define the three dimensions (Figure 6) that compose the framework:

Figure 6: SDG through the lens of ESG (Sætra, 2021)



Environmental: Organizations’ impact on the environment through their consumption of energy and raw materials, i.e., the resources they need to operate. These standards cover many factors, including how businesses contribute to climate change, pollution, waste, natural resource depletion, etc. (AIRE Environmental, UN development Program in Bosnia and Herzegovina, 2023)

Social: The impact organizations make on society. Every company operates within a broader, diverse community, so its operations and social issues are deeply intertwined. These factors are related to labour and human rights, inclusion, equality, and community development. For instance, positive social impacts can be seen within businesses that promote workplace diversity and inclusion, ensure fair labour practices

throughout their supply chains, and engage with local communities. (AIRE Environmental, UN development Program in Bosnia and Herzegovina, 2023)

Governance: Practices and procedures adopted and implemented within an organization to ensure it follows the laws and standards set out by its relevant stakeholders. These standards are measures by actions business takes to ensure fair and transparent management, information disclosure, prevention of corruption, enabling diversity, and creating equal opportunity (focusing on decision-making positions held by historically marginalised categories of society), transparent decision-making processes, cybersecurity, privacy, etc. (AIRE Environmental, UN development Program in Bosnia and Herzegovina, 2023)

2. **Secondly**, for each one of the categories, specific KPI's should be defined taking into account different aspects:
 - a. The theory of change defined by the company and its' stakeholders;
 - b. Regulation implemented in the country and sector of activity of the company, that may provide some rules and frameworks for definition of the KPI's;
 - c. Investors and other stakeholders expectations;
 - d. Long term vision.

"Businesses and organizations are no longer just expected to perform well but also to do no harm" (Kramer, 2011).

Some examples of KPIS to use:

- » **Environmental KPI's:** water usage, carbon emissions, waste produced, energy consumed, air quality, land clearing;
- » **Social KPI's:** Child labour, Workplace health and safety, diversity and equal opportunity, salaries of men and women, salaries of minorities, workforce freedom of association;
- » **Governance:** Codes of conduct, business principles and values, shareholders' rights, policies against bribery and corruption

On the KPI's definition, is also important to consider the recently defined Double Materiality reporting obligation that requires companies under the CSRD (Corporate Sustainability Reporting Directive) to report on their sustainable impact in two perspectives:

1. Impact materiality: Organization's impact on people and planet;
2. Financial materiality: Sustainability and climate impact on your organization;

This is a mandatory procedure for big organizations to guarantee transparency and clear reporting on these matters. "These definitions can facilitate a shift from a traditional focus on monetary amounts to consideration of the opportunities and challenges of sustainable development" (GRI, 2021)

Businesses can also use some already existing tools like the ones that follow:

- » [The B Impact Assessment \(BIA\)](#) is a tool to assess a company's overall social and environmental performance. It does so by measuring the impact of a business on all stakeholders through an online, easy to use platform. The BIA is a free, confidential service administered by the non-profit organization B Lab. Companies that use the BIA can be recognized for their performance by electing to become a certified B Corporation.
- » A great handbook developed by Avance and Erasmus center for Impact in the Netherlands also provides an interesting approach and practical insights on the topic: https://impactpad.nl/wp-content/uploads/Het_Impactpad_EN_2020.pdf

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- » Course on Impact Measurement by UN: <https://sites.duke.edu/casei3/for-practitioners/impact-measurement-and-management-for-the-sdgs-course/>

Organizations can also look for guidelines and similar handbooks produced by local institutions or even the government to guarantee a better alignment with the reality they are in.

3. **Thirdly** it is important to keep consistency on this measurement, making it possible always keep tracking and using data to make decisions.

“The collection and analysis of impact evidence is the means to an end, not the end in itself. The ultimate objective is to inform decisions about how to enhance impact. Those decisions can be internal management decisions (to steer operational activities), funding decisions (to identify the most promising opportunities), or policy decisions (to create incentives at a higher systemic level).

The planning stage hence becomes critical, since this is where different alternatives can be assessed, and when the best option is selected for further action. For social and solidarity economy entities, the added value of social impact measurement lies in offering actionable information. There is growing awareness that using impact data and evidence is important for mission adherence. “ (OECD Global Action, 2021)

QUESTIONS TO ASK YOUR ORGANIZATION IF YOU ARE LOOKING TO MEASURE AND COMMUNICATE YOUR IMPACT:

- » Has your company completed or revised the Theory Change recently with the most important stakeholders?
- » Is your organization communicating the Theory of Change effectively?
- » Has your organization already defined ESG metrics based on the Theory of Change?
- » Do the metrics defined reflect the true mission and vision of the organization?
- » Are the Impact metrics being measured consistently?
- » Are the metrics being used in the different decision-making processes of the company?

3 - Case studies

1 case of progress driven culture vs performance driven culture: Tony:

As many other commodity products, cocoa production “most of which comes from West Africa, the raw product is produced by more than two million farmers, who supply a complex network of middlemen. With an average farm size of three to five hectares and an estimated income of less than two dollars a day, nearly all of these farmers live below the poverty line. It is an environment rife with social and environmental abuse” (Frans Pannekoek, 2023)

Different players in this market are aware of how bad the cocoa value chain is, for example with many farms exploiting children, or even slaving them. However due to price pressures, they tend to ignore and continue doing business as usual. “There are no easy answers to problems like this, but a business ecosystem will only produce positive social and environmental outcomes if the players involved can reinvent their supply chains so that individual actors in the system are no longer alienated from each other” (Frans Pannekoek, 2023)

In this context, Tony’s Chocolonely, a Dutch chocolate brand founded in 2005, is on a mission to make the chocolate industry 100% slavery free (Tony’s Chocolonely, n.d.).

They started by getting to know every single player in the value chain and providing them visibility over the final product. “Once a company has successfully fostered relationships across and between its supply chain partners, the anonymity between players has been removed, making it possible for the company to create consensus around responsible business practices. Tony’s developed and committed itself to what it calls Five Sourcing Principles aimed at helping cocoa farmers out of poverty and eliminating child labor” (Frans Pannekoek, 2023).

The five sourcing principles that need to be applied together in order to long term achieve change in the cocoa chain:

Traceable Cocoa Beans: know exactly where the beans are coming from and under which conditions

A higher Price: Pay a premium above the market price to allow farmers to earn a living;

Strong Farmers: work together to help professionalize farming cooperatives;

The Long-term: ensure a commitment of at least 5 years of sales at a higher price;

Improved quality and productivity: Invest in agricultural knowledge and skills to make production more efficient; (Tony’s Chocolonely, n.d.)

In this way this profitable brand has been fully committed to their social mission, balancing both the financial sustainability of the business itself and also the maximization of the impact in their social mission.

“This Tony’s Chocolonely case shows that even a relatively small brand operating in a commodity industry that produces negative social and environmental effects can successfully build an alternative ecosystem that lifts people out of poverty and the social injustices that accompany it. Tony’s experience also shows that the resonant supply chain paradigm offers a basic framework for engaging with these issues. It can help managers transition their company and implement an impact-led supply chain that aligns business results with impact results” (Frans Pannekoek, 2023)

Just a Change, is a Portuguese non-profit organization, that rebuilds homes for people in household poverty situations in Portugal. “ Until today Just a Change has rebuilt hundreds of homes and institutions, having mobilized thousands of volunteers inside and outside the country” (Just a Change, n.d.)

The organization started as a 100% non-profit with only the support of volunteers and donations to make their mission work. With time, and with a strong willingness to grow their impact, the leading team started feeling the need to diversify the sources of revenue, materials, and labour resources to continue delivering their mission. With that, today beyond donations and volunteering the company has established several partnerships with companies sponsoring their mission and donating to increase their impact. Moreover, they have created a payed corporate program, that only in 2023 has attracted 4.058 corporate volunteers to support the rehabilitation mission. (Just a Change, 2023).

Just a change is a great example of a progress driven culture, based on shared value approach. Allowing the organization to continuously increase their impact not only on the beneficiaries but also on a large community of stakeholders engaging in this mission, including their workers, partners and suppliers. Moreover the company is committed to full transparency on their activity, issuing impact reports and accounting reports every year and disclosing them on their website.

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