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GRI Focal Point Australia works to advance GRI’s mission across Australia.

www.globalreporting.org
CPA Australia is proud of its support and longstanding relationship with the Global Reporting Initiative (GRI). Our two organisations have a shared view on the transformational power of business and the pivotal role played by decision-relevant information.

Our business environment is changing. We now operate in a more complex, uncertain and interconnected world than we have at any time in the past – and this trend will continue.

Unless our information metrics and systems continue to evolve and adapt as our environment changes, businesses and their decision-makers will continue to miss competitive opportunities and fail to effectively manage their risks. It is therefore vital that both business leaders and managers are equipped to make the best decisions, and that these decisions are agile and grounded in notions of ethics and transparency.

One of the significant contributions made by the GRI, over and above its creation of the world’s most widely accepted standard for non-financial and sustainability reporting, is the role played in promoting thought leadership. Again, CPA Australia and the GRI share the view that effective thought leadership is an essential underpinning to sound public policy.

This highly innovative research from the GRI’s Focal Point Australia illustrates the dynamics of our global business environment in way that is both compelling and accessible and allows us to clearly see both the challenges and opportunities that businesses face.

Alex Malley, FCPA, Chief Executive, CPA Australia

The impacts of megaforces on organisations have been written about by many including my own firm for some time now. They address long term global shifts that challenge businesses and governments’ ability to prosper and function under changed conditions. But how are businesses reflecting these changes in strategies and risk management? How are they internalising these scenarios?

Momentum for the internalisation of sustainability costs and benefits is growing, and the disconnect between corporate value and societal value creation is dissolving. Corporates that understand these merging dynamics, are those who consider sustainability as core to corporate strategy and see megaforces beyond the tactical and can identify the value creation story for their organisation. However, our research uncovers opportunities for improvement by many ASX50.

There is still a need to explore megaforces through an integrated lens –scenarios that consider multiple forces such as urbanisation, ecosystems decline and food security simultaneously, and approaches that drive a far better understanding of value drivers.

Businesses are increasingly scrutinised and their societal role and value challenged. A company’s impact on societal value increasingly has a direct impact on its corporate value, and this reports provides strong evidence that companies have work to do to drive value from sustainability.

Adrian King, Global Head, Climate Change & Sustainability Services, KPMG Australia

Governments and stock exchanges are demanding corporate accountability and transparency on sustainability risks. In response, more Australian companies than ever before are being accountable for their sustainability impacts and identifying value creation opportunities through these challenges. But do companies really understand the scale of these issues and their potential impacts? Is the information packed within their market disclosures really informing strategy and the considerations of the Board? Are they really leveraging the value creation opportunities that exist, transforming their business for the sustainable economy?

From Tactical to Strategic: How Australian businesses create value from sustainability explores some of these questions.

We found that for many ASX50 companies, the big issues are on the radar, which is promising. But there is still a long way to go for most to be fully prepared for the risks and maximise the value creation opportunities that sustainability presents. Companies need to understand the issues more holistically and systemically and Australian businesses need to better articulate value creation opportunities that will ensure sustainability sits at the heart of the business.

This publication provides an important marker in the sand to express where we are at, and where we need to go.

Victoria Whitaker, Head of Australia, Global Reporting Initiative
Executive Summary
Elements of global megaforces are recognised by the majority of the ASX50 companies in their primary disclosures to the market. However, the complexity of the social and environmental challenges that ASX50 companies will face in the next 20 years, or how these link to strategy and create value for the company, is not well articulated.

Global demographic and environmental changes are redefining the ways in which we do business in an increasingly complex world. These global challenges are compounded by unprecedented uncertainty, imperfect information and rapid rates of change [1]. A model of growth is surfacing where addressing local and global challenges presents an opportunity for business.

A future global marketplace will emerge that accounts for the impacts of business on society and prices them into measures of value. Businesses that are embracing this sustainability paradigm are seeing benefits from their efforts. Evidence is emerging that these businesses are beginning to outperform their peers on the financial markets. Research shows that profitability and cash flow correlate with a high level of sustainability performance and disclosure [2] [3], and companies that pay attention to sustainability enjoy a lower cost of capital, and recover quicker when a sustainability-related crisis occurs [4].

**Sustainability Risks**

This year’s World Economic Forum’s Global Risks 2014 report [5] found that seven of the ten global risks of highest concern during 2014 were sustainability-related, presenting new challenges for business as they come to understand and embed sustainability within their organisations. Investors are beginning to see the need for a different approach to managing these changing risks. They are considering the risks companies face, and seek to understand how businesses are responding to the changing business environment.


Sustainability risk has traditionally not been factored into corporate risk registers for a number of reasons. ACCA et al. [8] argue that the primary challenge in determining sustainability risks relates to the definition of materiality used to identify risk. The traditional approach to identifying risk is no longer adequate as it is aligned with a financial definition of materiality, which means that the scope is narrowed to the operational boundary, its time horizon is short and stakeholder concerns are limited to the shareholder [8].

A robust materiality process within the sustainability paradigm provides the opportunity to understand the broader sustainability context in which a company operates over the short, medium and long term; and asks companies to listen to, and respond to stakeholder expectations [9]. In doing so’ risks and opportunities that may not have been traditionally considered can be exposed.

**Sustainability as a growth strategy**

Corporate sustainability for leading companies is more than just good risk management. In fact, companies that have the most ambitious actions for sustainability are also the most likely to be realistic about the sustainability context within which they operate, and the scale of the challenge – they have a deep understanding of the sustainability context [10].

These companies focus on growth and differentiation, and go beyond reduction and mitigation strategies. They have transcended the commonly cited brand reputational driver to address sustainability risks, and explore sustainability innovations as a growth strategy [11]. Globally, this small group of leading companies are securing business advantage through innovative research and development, and the deployment of technologies [10]. They quantify the value of their sustainability initiatives, adopt business models that deliver sustainability outcomes, and track their impact on the communities in which they operate.

**Driving value from sustainability**

Creating a strong business case for sustainability ensures that sustainability is considered strategic to the organisation, rather than a tactical side-issue, and will ensure that a company addresses its most significant impacts. As companies pursue sustainability as part of their growth strategies, investors in particular want to know *why* resources are being allocated to create value for the business in the short, medium and long term.
Executive Summary

Methodology and limitations
This report seeks to understand how ASX50 companies are identifying with – and understanding – the sustainability context within which they operate, and how this is creating business value. This research explores three key questions:

• To what extent are Australian companies expressing their understanding of, and response to, global megaforces?
• For those that do, how do companies create value by responding to global megaforces?
• What are the enablers for companies that consistently create value by responding to global megaforces?

To understand how ASX50 companies are articulating their sustainability context, the research draws upon KPMG’s *Expect the Unexpected: Building Business Value in a Changing World* [1]. The report reviews 22 publications released by international agencies and bodies, to establish ten global megaforces that are likely to affect all businesses globally over the next 20 years:

• Population Growth
• Climate Change
• Energy & Fuel
• Wealth
• Water Scarcity
• Urbanisation
• Material Resource Scarcity
• Ecosystem Decline
• Deforestation
• Food Security.

Megaforces are “quality numerical projections [based on] key pressures causing environmental and social problems and the most significant consequences of those pressures for natural and human security.”

*KPMG 2012: p14 [1]*

This research has sought to determine the extent to which ASX50 identified with these megaforces. To do this, an analysis of ASX50 companies’ annual reports, annual reviews, integrated reports and sustainability reports (both PDF and web-based) for FY13, which were published before 31 December 2013, was undertaken.

With this in mind, it is evident that some megaforces are more important, or material, to one sector than another. To try to understand if these megaforces are material to sectors within the ASX50, they were analysed against *Sustainability Topics for Sectors: What do stakeholders want to know?* [12] (hereafter GRI 2013 STFS). Our research has compared KPMG’s megaforces and GRI 2013 STFS to provide an indication of whether an issue might be material to a certain sector, and to identify how ASX50 companies’ approach to materiality compares with stakeholders’ interests at an international level.

Following this, research was undertaken to understand how businesses are driving value from the consideration of these megaforces, and the level of alignment with corporate strategy. *The Business Case for a Green Economy* [13] identifies six value drivers. These include: Productivity (including Human Capital); Licence to Operate; Attracting Customers; Risk Profile; Securing Investment; and Brand Value & Reputation. These drivers help connect action on issues of sustainability to the creation of value. The ASX50 company disclosures were analysed against these six value drivers to see how the companies are attributing the megaforces to the creation of value.

While it is outside the scope of this research to understand the *why* of the findings, the enablers for companies which have identified with multiple characteristics of the megaforces and multiple value drivers, have been investigated. Interviews were conducted with those companies who demonstrated a sophisticated understanding of megaforces and attributed multiple value drivers per megaforce.

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i This publication, released in 2013, was developed by GRI through extensive consultation with a broad range of stakeholders. The material issues identified are at a generic industry level.
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Limitations
Limitations of this study are as follows:
• We have focused on global megaforces as a proxy for understanding how companies address and understand their sustainability context. We acknowledge that a thorough materiality assessment will reveal different sustainability issues for different companies, and that some companies will argue that the issues and characteristics identified within the global megaforces do not fall within their materiality threshold.
• This research has been limited to the disclosures contained within the annual report, annual review, integrated report and sustainability report. These documents contain sustainability-related information, and are subject to the Principle Four of the ASX Corporate Governance Principles and Recommendations [7]. Public information outside of these documents, for example, sustainability strategies, CDP reports etc. fall outside the scope of this research. It is acknowledged that some companies may identify megaforces or value drivers in sources other than these primary publications.

Findings
ASX50 companies broadly identified with the megaforces. On average eight out of the ten megaforces (Figure i) were identified in the disclosures of the ASX50, demonstrating that companies are embracing a range of sustainability issues. Eight of the 50 companies publically identified with all ten megaforces, while one company identified with just three megaforces.

Still, many companies understanding of the megaforces was limited. For these companies, actions to address megaforces are tactical – focused on efficiency and compliance – rather than strategic, with few companies demonstrating a sophisticated understanding of megaforces, particularly in relation to how a megaforce might impact upon the company. There were also many companies who did not demonstrate an understanding of the complex, systemic and compounding nature of megaforces.

Climate Change, Energy & Fuel, and Population Growth were the only three megaforces with which all ASX50 companies identified. This was closely followed by the Wealth and Water Scarcity megaforces. Food Security was the megaforce least discussed, with only 15 companies discussing this trend, less than half of any other megaforce.

On a sectoral basis, the Forest & Paper Products industry identified with all ten megaforces. The Mining & Metals, Healthcare & Pharmaceuticals, Telecommunications, and Materials sectors each identified with nine megaforces on average per company. The Media sector on average addressed the fewest number of megaforces, with an average of three, despite five megaforces being material to this sector.
Executive Summary

It was also identified that companies are failing to link the sustainability context to their value creation story (Figure i) – a factor critical to sustainability being truly integrated into corporate decision-making. Eighty percent of companies identify with each of the megaforces, but less than 40 percent identify a single value driver with each associated megaforce. Twenty-two companies identified with less than one value driver per megaforce. For example, while all ASX50 companies identified with Climate Change, 17 failed to identify any value driver associated with this issue. Similarly, while companies identified with Energy & Fuel, more than half failed to identify any value driver.

Productivity (including Human Capital) was the most utilised value driver overall. This value driver was particularly dominant within the Population Growth megaforce. Brand Value & Reputation was the most common value driver used within each of the megaforces, followed by (in order) Productivity (including Human Capital), Risk Profile, Licence to Operate, and Attracting Customers. Despite a primary audience of sustainability reporting being the investor, Securing Investment was the least utilised value driver.

While all but one sector identified value drivers for Population Growth, only two sectors identified a value driver for Deforestation, and only three sectors identified value drivers for Ecosystem Services, four for Food Security. Even for a megaforce with seemingly obvious connections with value drivers, Energy & Fuel, four sectors failed to identify any value drivers.

Population Growth

- Population Growth is concerned with a globally growing population, particularly in Asia and Africa, and its implications for resources, infrastructure and employment. It is also concerned with the ageing of the population and growing urbanisation.
- All ASX50 companies identified with characteristics of the Population Growth megaforce. This is because labour practices are a characteristic of the Population Growth megaforce, and is a required disclosure of listed companies. Some companies identified with ageing workforces, but few identified the broader ramifications of Population Growth outside the workforce, such as the impacts on resources or urbanisation.
- The primary driver for Population Growth was unequivocally Productivity (including Human Capital), with 48 companies identifying with this value driver. The next most common value driver articulated was Risk Profile and Licence to Operate (13 companies each).
Climate Change
- Climate Change is the one megaforce that impacts directly on the other megaforces. Climate Change presents multiple risks to business, including physical, regulatory, reputational, competitive, social and litigation risks. Considerations of Climate Change for business includes greenhouse gas mitigation and compliance, adaptation of operations, services, products and business models to the impacts of Climate Change, and responding to adverse weather events.
- All ASX50 companies identified with the Climate Change megaforce; largely from a mitigation and compliance perspective. Less than half considered the need to adapt to Climate Change impacts, despite 19 companies identifying with adverse weather events.
- Seventeen companies failed to identify any value driver associated with Climate Change. Risk Profile was the primary value driver identified, followed by Productivity (including Human Capital), and Licence to Operate.

Energy & Fuel
- Energy & Fuel is concerned with the global shift in energy consumption from fossil fuels to renewable energy; changing energy consumption patterns as global demographics change and energy efficiency increases; uncertain production and supply of energy; and changing regulation regarding energy.
- All ASX50 companies identified with the Energy & Fuel megaforce. Discourse by companies surrounded either energy and fuel consumption and efficiency initiatives, or energy and fuel markets uncertainty and risk.
- More than half of ASX50 companies failed to identify any value driver for Energy & Fuel. The leading value drivers utilised within this megaforce were Productivity (including Human Capital), and Licence to Operate. Only five companies identified Securing Investment as a value driver within Energy & Fuel, however this was the megaforce in which this value driver was most utilised.

Wealth
- Wealth is concerned with the rising middle class and the alleviation of poverty. As global populations grow and emerge from poverty, expectations of the citizen consumer will change, consumption globally will grow dramatically, and access to cheap labour will diminish. Increased attention will also be given to labour and human rights.
- Thirty-one companies identified a value driver for this megaforce. The primary value drivers were Attracting Customers, and Licence to Operate. The Telecommunications, Mining & Metals, and Consumer Services sectors generally attributed multiple value drivers to this megaforce; however, the majority of companies within the Transportation, Construction & Real Estate, and Banks, Diverse Financials & Insurance failed to identify any value drivers for Wealth.

Water Scarcity
- Water Scarcity is concerned with potential water shortages, and declines in water quality; particularly as demand for fresh water will exceed supply by 40 percent by 2030. Water conflict and price rises are expected as demand continues to grow both domestically and internationally.
- Forty-four companies identified with the Water Scarcity megaforce, the vast majority of which were concerned with water efficiencies measures. Few extended this connection to water security risks and water-related conflict, either domestically or internationally.
- Only two-fifths of companies that identified with this megaforce identified an associated value driver. Risk Profile was the leading value driver, followed by Licence to Operate, and Productivity (including Human Capital). The Mining & Metals sector was the only sector in which every company identified a value driver. The Consumer Services, Forest & Paper Products, Healthcare & Pharmaceuticals, Media, and Telecommunications sectors all failed to identify any value drivers for Water Scarcity.
Executive Summary

Urbanisation
- Nearly all projected population growth for the next 30 years will occur in urban areas, placing strain on infrastructure, including health, waste and sanitation, telecommunications, education, utilities, transportation, safety and green space.
- Forty-two of ASX50 companies identified with characteristics of the Urbanisation megaforce, spanning the majority of industries, however was least recognised by the Energy sector. Most companies’ discourse surrounded waste management strategies, rather than more complex aspects of the megaforce, such as the impact of population growth on city infrastructure or urban fringe social isolation.
- Less than a third of the companies that identified with this megaforce captured an associated value driver. Brand Value & Reputation, and Licence to Operate were utilised most predominately within this megaforce. Interestingly, despite waste management being a significant characteristic of this megaforce, only five companies attributed Productivity (including Human Capital) to this megaforce.

Material Resource Scarcity
- Global demand for natural resources will significantly increase as populations increase and industrialisation progresses worldwide. Competition for access to both renewable and non-renewable resources will continue to increase, driving businesses to find alternative materials or methods of production.
- Thirty-six of the ASX50 identified with Material Resource Scarcity, with the majority focusing on energy, water and paper reduction targets and recovery initiatives. The Mining & Metals Sector was the only sector where declining rates of discovery of minerals was a concern. A few companies articulated innovation in material substitutions.
- Just over a third of companies that identified with this megaforce articulated an associated value driver; predominately Productivity (including Human Capital), and Risk Profile. Within this megaforce there were rarely two companies from the same sector that identified with the same value drivers.

Ecosystem Decline
- Ecosystems Decline relates to the decline of essential ecosystems services internationally. In 2005, the Millennium Ecosystem Assessment found that 60 percent of ecosystems had degraded or were being used unsustainably [15]. Ecosystems services for which businesses currently rely upon include the supply of food and water, the provision of essential nutrients, materials and fibres, the production of medicinal products, and the capture and storage of carbon emissions. Loss of these services will have significant implications for businesses globally.
- Thirty-four of the ASX50 identified with this megaforce. The leading issues discussed within this megaforce included biodiversity, avoiding contamination of land and rehabilitation of disturbed land. Very few companies associated Ecosystem Decline with the future availability of ecosystem services and its impacts upon operations.
- Less than one-third of those companies that identified with this megaforce, articulated an associated value driver. In fact, eight of the eleven sectors identified no value driver at all for this megaforce. Licence to Operate, and Brand Value & Reputation were the most frequently cited value drivers.

Deforestation
- Global forest areas are expected to decrease by 13 percent between 2005 and 2030. Land clearing for timber and agricultural production is occurring at unprecedented rates, resulting in the loss of key ecosystem services.
- Deforestation was one of the least recognised megaforces, with just 30 companies identifying with this megaforce. Discourse by companies was almost exclusively focused on paper recycling and procurement trade initiatives, such a Forest Stewardship Council (FSC) and Programme for the Endorsement of Forest Certification (PEFC), rather than upstream activities such as the destruction of forests for land. Companies that did not have a direct impact on deforestation tended to have procurement policies that ensured chains of custody to safeguard forests (although these were
heavily paper focused); while those with a direct impact generally were found to engage in global initiatives and had accountability frameworks in place to ensure they avoided destroying virgin forests. Aside from some leading companies, there was a noticeable absence of Mining & Metals companies identifying with Deforestation.

- Of the 30 companies that identified with this megaforce, only three companies articulated any value drivers. All three identified with Licence to Operate as a primary driver for this megaforce. Given the bleak outlook for forests, it was surprising that no company identified Risk Profile as a value driver for Deforestation.

**Food Security**

- Access to sufficient, affordable food will come under threat over the next 20 years, as Population Growth, Water Scarcity, Climate Change and Deforestation dramatically impact global food prices. Regulatory intervention will be needed to avoid food shortages and overfishing.

- Food Security was the least identified megaforce, with only 15 companies identifying with this megaforce. Discourse by companies related to food production focused upon extending food life, minimising food waste, and advancing farming innovation; whereas for those operating in environments with low food security, the focus was more on land remediation and improved agricultural outputs.

- Only four companies identified any value driver for this megaforce – all from different sectors. Each of these companies articulated Brand Value & Reputation as a primary driver for this megaforce. One company, from the Food & Consumer Staples Retailing sector, stood out in identifying with five of the six value drivers, excluding Licence to Operate.

**Observations of companies across sector and ASX position**

This research found that those companies who identified with fewer characteristics within the megaforces also identified with fewer value drivers within each megaforce (Figure ii). For those companies that identified more characteristics of the megaforces, also identified with more value drivers per megaforce. Some companies might argue that they focus on just a few material megaforces and drive value at multiple points across this issue, but this is not evident in the findings. Rather, those businesses that consistently use multiple value drivers, do so across a larger number of megaforces.

From a sectoral perspective, the Mining & Metals sector broadly identified with many megaforces and many value drivers per megaforce. The Materials, Food & Consumer Staples Retailing, and Energy sectors also tended to fall broadly into this quadrant. The Transportation, Media, and Consumer Services sectors tended to fall into the quadrant that identified fewer megaforces and fewer value drivers. The Banks, Diverse Financials & Insurance, and Construction & Real Estate sectors were more evenly spread, but the majority did fall below average regarding the attribution of multiple value drivers.

From a market capitalisation perspective, the ASX20 tended to identify with many megaforces, but their articulation of value drivers is spread. While the ASX40-50 tended to identify with fewer megaforces and fewer value drivers. Interestingly, a noticeable number of companies within the ASX21-30 both identified with many value drivers and megaforces.
Figure ii: Companies by sector, total megaforce characteristic by the average number of value drivers per megaforce
Executive Summary

Enablers for driving value from megaforces

Some companies have a better oversight of the sustainability context within which they operate and are better able to justify to their investors and other stakeholders why they invest in this area. What are the common enabling organisational processes [2], which allow some companies to act in this way but prevent others? The analysis revealed the following:

- **Corporate governance of sustainability was a key factor.** Companies that strongly articulated the value created from sustainability, positioned sustainability as a core responsibility of the board; executive remuneration was tied to sustainability; and multi-layered sustainability committees helped drive sustainability throughout the organisation. Sustainability was evident within the company values and culture, and was supported by clear and robust policies, standard, procedures and protocols.

- **Stakeholder engagement was a key enabler for these companies.** Stakeholder engagement was more strategic, proactive, transparent and accountable than their peers. Stakeholder engagement is seen by these companies as competitive advantage, providing opportunities for building trust and cooperation, and building a robust image of the complexity of these systemic issues. In this sense, collaboration and partnership will play an increasingly important role in navigating these issues. Furthermore, external stakeholders are seen as important allies in maintaining the focus on sustainability.

- **Accountability and transparency is a common enabling factor for companies that are seeking to develop and maintain buy-in across internal and external stakeholders.** Adherence to international standards and guidelines facilitated trust in reporting, along with the assurance of sustainability reports. Finding a balance that enabled transparency and accountability, without creating an undue burden was a common challenge among those interviewed. Reporting was seen not only as a management tool, but also as a tool for complex decision making, and communication tool for stakeholders.

- **A long term perspective was also common amongst interviewees.** Creating the governance structure, stakeholder engagement processes and accountability mechanisms around sustainability are all medium to long term strategies that provide benefit over the same time horizon. A long term company vision and strategy that encompass critical and complex issues of sustainability was also evident.

**Conclusion**

The transition to a sustainable economy is inevitable as global populations and consumption grows, societies rise out of poverty, environments degrade and scarce resources are stretched. The successful navigation through this transition is dependent upon business being able to identify and respond to the sustainability context in the short, medium and long term, whilst also understanding the perspectives of internal and external stakeholders regarding the impacts that the business creates. It is this nexus between these factors that enables a corporation to be well prepared for sustainability risks.

This research demonstrates that a handful of leading companies consider sustainability as core to corporate strategy. Despite the threat of the strategic sustainability risks, the majority of ASX50 companies have room to improve in communicating their understanding of the sustainability context. Most ASX50 companies are focusing on compliance and short term mitigation and efficiency gains, rather than the complex and systemic megaforce whose impacts are over the short, medium and long term. Company identification with most of the megaforces tends to be narrowly focused on one characteristic of each megaforce, and often did not deal with the holistic complex nature of individual megaforces, or their impacts compounding upon one another. For example:

- **Within Water Scarcity, companies were more likely to focus on water efficiency strategies than investigating the risks associated with future water scarcity issues.**

- **Within Urbanisation and Food Security, companies related almost entirely with waste management strategies. Few were able to draw a link to other features of Urbanisation such as infrastructure and amenities required in a growing urban population; or Food Security associated with Population Growth, the growing middle class and its associated shifts to increased meat consumption.**

- **In Material Resource Scarcity and Deforestation, ASX50 companies related almost entirely to the efficient consumption of energy, water and paper, as well as the introduction of recycling initiatives. Few explored the deeper challenges within each of these themes, such as the impacts of changing land use practices on Deforestation and its associated systemic impacts on Ecosystem Decline.**
Companies are not only falling short of demonstrating a sophisticated understanding of the megaforces, they are also failing to draw upon the significant value creation opportunities that these megaforces present. Those companies that identified with fewer megaforces were also more likely to identify less value drivers per megaforce to drive value from sustainability.

The use of value drivers is key to maintaining cross-organisation ownership of sustainability issues and ensuring action to address stakeholder concerns. Investors are increasingly demanding to understand how companies drive value from sustainability, therefore it is concerning to see that there is such little use of value drivers, and particularly multiple value drivers across each megaforce. Broadly, most ASX50 companies are simply not connecting the sustainability context and stakeholder concerns to their core business.

However, a small handful of companies are thinking through the various angles and impacts that each megaforce creates across the organisation, and are using this understanding to break down traditional silos and inform strategy – deeply embedding sustainability within their corporate strategy. These companies drive sustainability from the top and have it cascade through the organisation, and have a culture which focuses on the long term. They also have excellent stakeholder relations, which bring the stakeholder voice within the organisation to inform decisions, and they are transparent and accountable to these stakeholders.

It is the companies with these enabling factors that are better positioned to understand the sustainability context within which they operate. Their stakeholder relationships help them to understand and mitigate the sustainability risks to which they are exposed.

Through this, these companies will be better able to recognise and drive value from sustainability for their business.

**Recommendations**

- Organisations should seek to understand the sustainability context within which they operate. They should draw from objective and available information, peers and experts to understand the conditions and goals that may affect the business locally, regionally and globally over the short, medium and long term. They should think about the complexities and systemic impacts inherent within these issues, how they create compounding impacts upon one another, and factor these conditions into their decision making and engagement with stakeholders. Detailed and systemic scenario mapping should inform decisions about the future.

- Lack of certainty surrounding complex issues of sustainability should not prevent company action. Where a company has sought to be reasonably informed on the sustainability context and stakeholder concerns, the board should be supported to act on sustainability.

- Investors and regulators need to create the right incentives to enable the board to take a longer-term view.

- Companies should seek to understand where the sustainability impact occurs, within the businesses sphere of control or their sphere of influence. Companies should then treat these impacts appropriately.

- Companies should seek to create the conditions that enable sustainability to be embedded within the organisation. Sustainability-related risks should be held as a responsibility of the board and executive management team (as is emerging with the changes to the ASX Principles & Recommendations) – with risk treatment aligned to broader organisational enterprise risk management.

- CFOs, risk managers and actuaries should seek to better understand the limitation of traditional approaches to risk identification when considering sustainability risks. They should seek to understand the sustainability context and the views of their stakeholders to understand sustainability risk.

- Boards and executives should inform company decisions with the concerns of their stakeholders. The stakeholder voice should be brought into the organisation. Companies should develop deep and long-lasting relationships with their stakeholders. Engagements should be strategic and proactive, and insights from the engagement should cascade through the organisation informing decisions across the organisation and amongst the board and executive.

- To maximise opportunities presented in managing sustainability issues and in driving value, companies should think across business functions regarding material sustainability issues and common stakeholder concerns. This will guide a company to not only understand how they can develop innovative solutions to broad stakeholder concerns, but will assist the business in addressing these issues systematically.

- Relationships with stakeholders should inform a robust sustainability approach, with transparency and accountability underpinning the company’s commitment to sustainability.
Introduction
Elements of global megaforces are recognised by the majority of the ASX50 companies in their primary disclosures to the market. However, the complexity of the social and environmental challenges that ASX50 companies will face in the next 20 years, or how these link to strategy and create value for the company, is not well articulated.

There are many factors that are changing the business environment [1]:

- Increasing greenhouse gas emissions will lead to a rise in global average temperatures, bringing a complex mix of unpredictable changes to the environment that will impact upon both natural and human built systems
- Ecosystems will continue to decline, reducing access to natural capital and the essential services that ecosystems provide
- Population growth, economic development, urbanisation, ecosystem decline and climate change will place increased stress on infrastructure and essential natural resources, like water, food, arable land and energy
- Higher birth rates and longer life expectancies will see the global population grow and age, as well as the rise of the individual and the middle class, where citizens and consumers demand greater transparency and the opportunity to participate in decision making
- Interconnected economies will continue to increase levels of international trade and capital flows, and emerging economies will come to power, lifting billions out of poverty and into the ‘middle class’ societal classification
- Public debt will constrain fiscal and policy options and governments will find it increasingly difficult to respond to environmental, social and economic challenges
- Transparency and inclusiveness will be a fundamental expectation of international institutions and governments

These factors bring into focus the need for a global shift towards a more sustainable and resilient economy. A model of growth is surfacing where addressing local and global challenges presents an opportunity for business and investments in solutions [16]. The future global marketplace will account for the impacts of business on society and the environment, and price them into financials. In this emerging economy, sustainability impacts are well understood and governments hold business to account for these impacts. This transformation will bring shifts in regulation, markets, consumer preferences, pricing of inputs and externalities, and the measurement of profit and loss. Whether you call it the Green Economy, the Blue Economy, the Circular Economy, Steady-State Economy – the broad themes are the same – it is an economy that is inclusive, connected and low impact.

Businesses that understand and embrace this changing dynamic are likely to emerge as market leaders. There is evidence emerging that high levels of sustainability performance and disclosure correlates with profitability and cash flow [2] [3]. These companies are benefitting from a lower cost of capital, and have a faster and stronger recovery when a sustainability-related crisis occurs [4].

It is therefore no surprise that investors are also beginning to see the need for transformation. A 2012 study commissioned by GRI and Accounting For Sustainability [17] found that over 80 percent of investors believe that non-financial considerations were relevant or very relevant to their investment decisions. Investors are considering sustainability factors when assessing business risk, and want to know that businesses are prepared to respond to crises within a changing business environment.

**Sustainability risk**

Sustainability risks will increasingly impact the financial performance of companies [4]. The rise of technology and social media is driving increased transparency. This is giving stakeholders a voice and shifting the channels through which news is reported – potentially eroding corporate reputation, whilst also giving investors more information with which to assess the value of a company. Furthermore, not only is there an increased volatility in the global business environment making risk events more likely; but increasingly lean supply chains mean they are more vulnerable to disruption.

In fact, the World Economic Forum’s report, *Global Risks 2014* [5], found that seven of the ten global risks of the highest concern during 2014 were sustainability related: #3 water crises; #4 income disparity; #5 climate change; #6 extreme weather; #7 governance failures; #8 food crises; and #10 political and social instability. This finding presents new challenges for businesses as they come to understand and embed sustainability within their organisations.
Introduction

In Australia, sustainability risk disclosures were introduced in 2013-2014 in both the Australian Securities & Investment Commission (ASIC) Regulatory Guide 247 – Operating and Financial Review [6] and the Australian Securities Exchange’s (ASX) Corporate Governance Principles and Disclosures [7].

Sustainability-related crises present strategic risks to a business, and have been shown to have a greater impact on a business than operational and financial risks [4]. In investigating where a sustainability crisis has had a significant impact on company value, Koehler and Hespenheide [4] found that management had often failed to adequately prepare for and respond to the situation and its aftermath, resulting in investors’ loss of confidence and decreased share price.

“ESG [environmental, social, governance] risk is a proxy for risk that is not priced in, and companies that better manage these risks can deliver returns with greater certainty.”

Dan Hanson, Managing Director, Black Rock [4]

Sustainability risk traditionally has not been factored into corporate risk registers for a number of reasons including:

- Sustainability risks often include externalities, which are not evident within the financial balance sheet
- The (often) long term nature of sustainability risks makes it difficult to have any certainty over the likelihood and impact, meaning that they are discounted over time making them immaterial
- The current and future social and environmental context of the business is poorly understood or measured, and is not accounted for in traditional risk assessments
- Stakeholders have not been engaged adequately to understand the ways in which a business impacts upon them to provide insight into possible risk
- The impacts of some sustainability issues are cumulative and caused by many companies and individuals over time. Similarly, the effects of these impacts will be felt through many cumulative events over time. This makes it difficult for a single business to identify both their contribution to an impact and to assess the likelihood and impact of these cumulative events on the business over time

ACCA et al. [8] argue that the primary challenge in determining sustainability risks relates to the definition of materiality used to identify risk. The traditional approach in identifying risks is no longer adequate as it is aligned with a financial definition of materiality, which means the scope is narrowed to the operational boundary, the time horizon is short and stakeholder concerns are limited to shareholders [8].

A robust materiality assessment process within the sustainability paradigm provides the opportunity to understand the broader sustainability context in which a company operates over the short, medium and long term, and asks companies to listen and respond to their stakeholders expectations [9], revealing risks that may not have been traditionally considered.

Sustainability as a growth strategy

Corporate sustainability for leading companies is more than just good risk management. In fact, companies that have the most ambitious actions for sustainability are also the most likely to be realistic about the sustainability context within which they operate and the scale of the challenge [10]. These companies focus on growth and differentiation, and they go beyond reduction and mitigation strategies. They quantify the value of their sustainability initiatives, adopt business models that deliver sustainability outcomes, and track their impact on the communities in which they operate. They have gone beyond the commonly cited brand reputational driver to address sustainability risks, and explore sustainability innovations as a growth strategy [11].

Leading companies are securing business advantage through innovative research and development and the deployment of technologies [10].

Leading company CEOs more readily acknowledge the role of collaboration and partnerships in meeting their sustainability ambitions – maximizing impact through partnerships with governments, policymakers, industry peers, consumers and NGOs. They are actively engaging these groups of stakeholders in two-way dialogue to understand their businesses’ role in addressing these complex global challenges. They understand that to address these challenges they must demonstrate leadership, and advocate for a sustainable and resilient economy [18].
Driving value from sustainability
Creating a strong business case for sustainability ensures that sustainability is considered strategic to the organisation, rather than a tactical side-issue, and will ensure that a company addresses its most significant impacts. As companies pursue sustainability as part of their growth strategies, investors, in particular, want to know why resources are being allocated to sustainability and how this will create value for the business in the short, medium and long term. Articulating the multiple reasons as to why a company should allocate resources to sustainability can make the business case stronger, and ensure that sustainability remains critical to the organisation even against significant changes in the business environment.

The business case for sustainability can be created when a company understands not only the sustainability context within which the company operates, but also its stakeholder concerns regarding its sustainability impacts (Figure 1). Stakeholders assist companies in understanding and framing the risks and possible solutions. Stakeholder concerns provide clues as to the right value drivers to employ to drive action to resolve an impact, as each value driver can be attributed to a different stakeholder group. This gives the business important insights as to where impacts are created, as well as where they are felt, and who within the organisation holds the power of decision-making regarding these impacts. Material sustainability issues rarely impact upon just one stakeholder and therefore multiple value drivers can be employed to drive action at a strategic level on issues of sustainability.

Figure 1: Linking sustainability context and stakeholder perspective to the value creation story
Introduction

Research question and methodology
This report seeks to understand how ASX50 companies are identifying with – and understanding – the sustainability context within which they operate, and how this is creating business value. This research explores three key questions:

- To what extent are Australian companies expressing their understanding of, and response to, the global megaforces impacting or likely to impact their business?
- For those that do, how do companies drive value from these megaforces?
- What are the enablers for companies that consistently drive value from responding to global megaforces?

Megaforces are “quality numerical projections [based on] key pressures causing environmental and social problems and the most significant consequences of those pressures for natural and human security.”

KPMG 2012: p14 [1]

To understand how ASX50 companies understand their sustainability context, the research draws upon KPMG’s Expect the Unexpected: Building Business Value in a Changing World [1]. The report reviews 22 publications released by international agencies and bodies, to establish ten global megaforces that are likely to affect all sectors in the same way. Some will be more material or important to one sector than another. To try to understand if these megaforces are material to sectors within the ASX50, analysis was undertaken against Sustainability Topics for Sectors: What do stakeholders want to know? [12] (GRI 2013 STFS). This report has analysed KPMG’s megaforces against GRI 2013 STFS to provide an indication of whether an issue might be material to a certain sector, and to identify how ASX50 companies’ materiality assessment might compare with stakeholder interests at an international level.

Following this, further research was undertaken to understand how businesses are driving value from these megaforces, and how this is aligned to their corporate strategy. The Business Case for a Green Economy [13] identifies six value drivers. These are (Productivity (including Human Capital); Licence to Operate; Attracting Customers; Risk Profile; Securing Investment; and Brand Value & Reputation. These drivers help connect action on issues of sustainability to the creation of value. The ASX50 company disclosures were analysed against these six value drivers to see how companies are attributing the megaforces to the creation of value.

While it is outside the scope of this research to understand the why of the findings, the enablers for companies that have complex megaforces and multiple value drivers have been investigated. A limited number of companies, who demonstrated a sophisticated understanding of megaforces and attributed a higher number of value drivers per megaforce on average than their sector peers, were interviewed.

Limitations
Limitations of this study are as follows:

- We have focused on global megaforces as a proxy for understanding how companies address and understand their sustainability context. We acknowledge that a thorough materiality assessment will reveal different sustainability issues for different companies, and that some companies will argue that the issues and characteristics identified within the global megaforces do not fall within their materiality threshold.
- This research has been limited to the disclosures contained within the annual report, annual review, integrated and sustainability-reports. These documents contain sustainability-related information, and are subject to Principle Four of the ASX Corporate Governance Principles and Recommendations [7]. Public information outside of these documents, for example, sustainability strategies, CDP reports etc. fall outside the scope of this research. It is acknowledged that some companies may identify megaforces or value drivers in sources other than these primary publications.

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1 This publication, released in 2013, was developed by GRI through extensive consultation with a broad range of stakeholders. The material issues identified are at a generic sector level. Individual companies should use it as guidance to support their own materiality assessments.
Driving value from the sustainability context
Driving value from the sustainability context

Businesses that want to transition to a sustainable and resilient economy will adopt an approach to sustainability that is strategically proactive and transformative. These transformative sustainable corporations understand the sustainability context within which they operate, and how global megaforces will impact upon their core business. These businesses seek the opportunities of being early leaders and they bring their investors along on the journey by creating the business case for change, and seek to shape the policy that will enable this transformation.

Global megaforces inform the sustainability context within which a business operates. *Expect the Unexpected: Building Business Value in a Changing World* [1] identifies ten megaforces that are expected to impact business worldwide over the next 20 years. They include:

- Population Growth
- Climate Change
- Energy & Fuel
- Wealth
- Water Scarcity
- Urbanisation
- Material Resource Scarcity
- Ecosystem Decline
- Deforestation
- Food Security

Understanding and engaging with megaforces presents important value creation opportunities for businesses. There are many ways in which a company can drive value by acting to address and engage with these megaforces. The value drivers used for this analysis include [13]:

- Licence to Operate
- Risk Profile
- Securing Investment
- Productivity (including Human Capital)
- Attracting Customers
- Brand Value & Reputation

**Overarching findings**

**Company identification with megaforces**

It is encouraging that ASX50 companies broadly identified with the megaforces. On average, ASX50 companies identified with eight out of ten megaforces in their primary disclosures to market (Figure 2), demonstrating that they are beginning to embrace a range of sustainability issues. Eight of the 50 companies publicly identified with all ten megaforces, while one company identified with just three megaforces.

On a sectoral basis, the Forest & Paper Products industry identified with all ten megaforces. The Mining & Metals, Healthcare & Pharmaceuticals, Telecommunications and Materials sectors each identified on average with nine megaforces per company. The Media sector on average addressed the fewest number of megaforces, with an average of three, despite five megaforces being material to this sector [12].
Two sectors identified with more megaforces than were considered material in GRI 2013 STFS. These included Banks, Diverse Financials & Insurance and Telecommunications. This shows that while GRI 2013 STFS provides guidance at a sector level, companies in those sectors have undertaken materiality assessments for their particular company which have identified additional issues, suggesting that they are going above and beyond the bare minimum expected of a sector, and tailoring their disclosures to their particular stakeholders. Companies, in what is often considered high impact sectors, including Materials, Energy, Mining & Metals, Construction & Real Estate, and Transportation, fell short of addressing one or two material megaforces.

Figure 2: Average number of megaforces identified by each sector of the ASX50, compared to the number of megaforces listed as material to that sector in GRI 2013 STFS, and the number of companies within each sector
Driving value from the sustainability context

Climate Change, Energy & Fuel and Population Growth were the only three megaforces with which all ASX50 companies identified. This was closely followed by the Wealth and Water Scarcity megaforces. Food Security was the megaforce least discussed, with only 15 companies referencing this trend, less than half of any other megaforce.

![Figure 3: Number of companies identifying with each megaforce, versus the number of companies attributing one or more value drivers within each megaforce](image)

**Company use of value drivers**

On average 80 percent of companies identified with each of the megaforces, yet less than 40 percent identified a single value driver with each associated megaforce (Figure 3). Furthermore, 22 companies on average identified with less than one value driver per megaforce. For example, while all ASX50 companies identified with Climate Change, 17 failed to identify any value driver associated with this issue. Similarly, while all companies identified with Energy & Fuel, more than half (26) failed to identify any value driver.

This finding is concerning as it suggests that companies are failing to build a relationship between these sustainability issues and the business value creation story – a factor critical to integrating sustainability into corporate decision making.

Productivity (including Human Capital) was the most utilised value driver overall. This value driver was particularly dominant within the Population Growth megaforce. Brand Value & Reputation was the most common value driver used within each of the megaforces, followed by Productivity (including Human Capital), then Risk Profile and Licence to Operate, Attracting Customers and finally Securing Investment (Figure 4). This finding is consistent with global and domestic surveys, which have found Brand Value & Reputation is the leading driver for action on sustainability [19, 11].

![Figure 4: Total value drivers attributed to each megaforce](image)
Driving value from the sustainability context

Securing Investment was the least utilised value driver among ASX50 companies, with less than five percent of all value drivers used being attributed to Securing Investment; and just 14 companies in total utilised this value driver. Securing Investment was used the most against the Energy & Fuel megaforce, but still was only used by five companies. The Mining & Metals, and the Banks, Diverse Financials & Insurance sectors were the dominant sectors to use this value driver. Securing Investment was utilised on just 21 occasions across all megaforces; a quarter of which could be attributed to one company.

This finding raises some key issues. Firstly, companies continue to espouse that investors and other providers of capital are the primary audience of sustainability reports and disclosures, yet companies are failing to create a link that resonates most dominantly with this audience. Secondly, it suggests that investors and other providers of capital may not be prioritising sustainability credentials as an important factor in their investment decisions.

All but one sector identified value drivers for Population Growth, yet only two sectors identified a value driver for Deforestation, three sectors for Ecosystem Services, and four for Food Security. Even for Energy & Fuel, a megaforce with seemingly obvious connections with Productivity (including Human Capital) and Risk Profile, four sectors failed to identify any value drivers.

Within most sectors, all value drivers were used across all the combined megaforces (Figure 5’). Keeping in mind that there are fewer companies in some sectors than others, broadly the use of value drivers within sectors is evenly spread. In the commodity sectors Licence to Operate, Productivity (including Human Capital) and Risk Profile featured strongly; whereas in the consumer facing sectors Attracting Customers and Brand Value & Reputation featured strongly.

2 When reading bar graphs throughout this document, note that there is a different number of companies per sector.
Population Growth

Population Growth as a megaforce
Under moderate growth scenarios, the number of people on the planet is predicted to increase by 20 percent between 2011 and 2032, with two-thirds of the world’s population living in Asia, and one fifth in Africa. Price volatility and supply challenges from considerable population growth and resource demand will place a strain on ecosystems and business operations. As nearly all of this growth will occur in developing countries, housing, infrastructure, healthcare and employment issues will need addressing. In developed countries, hiring and retaining skilled workers will become more competitive, as businesses have access to smaller workforces, due to ageing populations.

By 2031, Australia’s population is expected to exceed 29 million people, most of which will be accommodated within existing urban areas. Almost 20 percent of Australia’s population at this time will be over 65 years (up from 14 percent in 2011), increasing health and aged care expenses by 189 percent in the 30 years to 2033 [21]. In 2030, the ‘dependency ratio’ – that is the ratio of people of working age to those aged 65 or older – will decline from 5:1 in 2010 to 3:1; meaning more people will have to work for longer [21]. This means businesses will need to place a greater emphasis on labour conditions, such as diversity policies, occupational health and safety, and workplace training in order to remain competitive.

ASX50 identification with Population Growth
All ASX50 companies identified with Population Growth (Figure 6). This is largely because labour practices are an important element of the Population Growth megaforce, and all companies are largely required to report on their corporate governance framework regarding diversity, workforce inclusion and employee development. This mirrors GRI 2013 STFS, which also found Population Growth to be material to all 12 sectors.

Discourse of companies’ focus on labour conditions was typically linked to staff retention and improved workforce engagement. Some reiterated that this focus gives a company a competitive advantage in an economy with a shrinking workforce caused by an ageing population.

Nearly all companies who reported against Population Growth identified with the need to provide training and create a diverse workforce. They also detailed the importance of representing the communities they operate in, and of reporting against ASX regulatory requirements in relation to diversity. Companies talked about leveraging diversity to provide good customer service to their diverse client bases, and linking diversity to competitive advantage as key strategy levers.

Despite the high recognition of Population Growth and its strong association with labour practices, other characteristics of Population Growth, such as impacts on products and services, were less identified with by ASX50 companies. For example, few companies identified with the pressure that Population Growth places on ecosystem services or in the innovation opportunities for products and services available to meet the needs of growing populations. Where identified, these characteristics tended to be espoused by the Mining & Metals and Telecommunications sectors.
Westpac

Westpac has identified the rapidly changing shifts in societal demographics as one of four material issues to its business. The organisation focused on the ageing population and their preparedness for retirement as an opportunity to both mitigate labour risks and create new products.

In anticipating the future needs of ageing customers, Westpac has developed new financial planning, investment and insurance products and services, to increase financial security through different life stages, particularly into retirement, including:

- **BT Financial Group’s Wrap Capital Protection**, a product allowing Australians to generate growth for retirement through their investment portfolio while preserving a minimum outcome at the end of an agreed term.
- **Development of a Self-Managed Super Fund (SMSF) bundle** that combines relevant banking and wealth products.
- **A contact centre for Prime of Life customers aged 50+**.
- **Single Topic Personal Advice for life insurance** – an advice package that provides customers with recommendations on life insurance and superannuation tailored to their situation.

In addition, Westpac has expressed the desire to have a workforce that reflects society’s demographics. They have established programs that support older employees, carers and people with disabilities. A critical component of a financially secure retirement occurs amongst women, who on average have significantly less superannuation than their male counterparts due to career breaks and less opportunities for progression. Westpac have addressed this by offering flexible working arrangements and targeting women for management positions, increasing the women in senior management from 32 percent to 42 percent in just three years. These changes have been reflected in employee engagement scores of 87 percent. This strategy has also improved their measure of leadership capability, which increased from 87 percent to 89 percent.

Like most developed western nations, Australia is about to embark upon a fundamental demographic transition with powerful implications for business. The baby boomer generation born 1946-1964 began transitioning out of the workforce in 2011; by the mid-2020s this generation will be fully exposed to the retirement stage of the life cycle. It did not matter when a boomer turned 30 or 40 or 50 because they were still in the workforce paying tax. It matters when they turn 65 because all of a sudden the demographic dividend of rising spending and taxation revenue converts into demographic liability as more boomers exit than millennials enter the workforce.

This places pressure on government’s capacity to deliver services and on businesses to deliver skills and experience. But there are also opportunities: boomers, who are spilling into their late 50s and early 60s, create demand for succession planning and for financial planning more generally. There must be an upsurge in the demand for health care and wellness services.
Value drivers for Population Growth

Productivity (including Human Capital) was by far the most significant value driver used within Population Growth, with 48 out of the 50 companies identifying with this value driver (Figure 7), making it the most attributed value driver across all megaforges. The next most common value drivers identified were Risk Profile and Licence to Operate (13 companies each). Securing Investment was the least recognised, with just one company identifying with this value driver.

The Consumer Services and Telecommunications sectors each identified on average three value drivers within this megaforce. All other sectors identified between one and two value drivers, except Media which did not identify any value drivers within this megaforce.

Figure 7: Number of companies by sector attributing each value driver to Population Growth
“The opportunity in business is to better anticipate and respond to demographic challenges than competitors. This may require a review of staffing and other human resource policies relating to talent retention as well as a review of strategic direction to ensure that the business is fundamentally aligned with expected growth areas in the economy affected by demographic change.”

Bernard Salt,
renowned demographer | Partner in Charge – Demographics, KPMG Australia
Climate Change as a megaforce

Climate Change is the one megaforce that directly impacts on all the others, and poses six key types of risk to business: physical, regulatory, reputational, competitive, social and litigation risk. The IPCC estimates that global mean temperatures will increase 4°C above pre-industrial levels by 2100, creating severe, pervasive, and irreversible impacts [14]. These include acute and widespread impacts on unique and threatened systems, substantial species extinction, large risks to global and regional food security, and the combination of high temperature and humidity compromising normal human activities, including growing food or working outdoors in some areas for parts of the year. Even with early and effective action, it is still anticipated that Climate Change impacts are likely to cause annual output losses to businesses of one percent per year, but could be as much as five percent per year if action is not taken [23].

Australia is likely to see [22]:

- Marked decreases in agricultural production if projections of severe dry conditions are realized
- Increased hot weather in major population centres
- Increased loss of life, damage to property, and economic loss due to bushfires in southern Australia
- Increased frequency and intensity of flooding from extreme rainfall events, causing damage to infrastructure
- The iconic Great Barrier Reef eliminated by mid to late-century

ASX50 identification with Climate Change

Climate Change was one of three megaforces identified by all ASX50 companies (Figure 8). This aligns with GRI 2013 STFS, which found Climate Change as material across all 12 sectors. The focus of Climate Change discourse by ASX50 companies remained firmly on greenhouse gas emissions measurement and mitigation initiatives, as opposed to adapting to current and future Climate Change impacts. Less than half of the companies in the ASX50 extended their discussion of Climate Change to adaptation strategies. Only 19 companies identified the impact that adverse weather has or could have on their operations, either because of increasing severity or frequency of extreme weather events. Very few explicitly drew the link between Climate Change and extreme weather events.

Figure 8: Percentage of companies by sector that identified with Climate Change and its materiality according to GRI 2013 STFS
Launched in June 2013, ASX50 companies Insurance Australia Group and Westpac, along with the Australian Red Cross, Investa Property Group, Munich Re, and Optus formed the **Australian Business Roundtable for Disaster Resilience and Safer Communities**. The Roundtable believes it is of national importance to make communities safer and more resilient to extreme weather events. It plans to do this by working collaboratively with government to effect change in public policy and increase investment in safer and more resilient communities, and by improving the capacity of people and businesses to better withstand future natural disasters.

The Roundtable is encouraging the Australian Government to place resilience at the centre of government decision making, and consider a comprehensive, national coordinated approach and commit to a long term annual pre-disaster fund.

The Australian Government, like many governments, has historically focused more on disaster recovery rather than mitigation. However, cost-effective pre-disaster activities can reduce the impact on government budgets of having to respond to disasters by more than 50 percent. This was one of the key findings from the 2013 White Paper published by the Roundtable. ‘*Building our Nation’s Resilience to Natural Disasters*’ notes a more sustainable and comprehensive approach to managing natural disasters in order to save lives, reduce damage to property and vital national infrastructure as well as freeing taxpayer money to spend on essential public services.

In 2014, the Roundtable launched its latest report ‘*Building an Open Platform for Natural Disaster Resilience Decisions*’, which calls for open access to critical data and research. The paper notes that it is imperative that communities, businesses, governments and individuals have access to the latest research founded on accurate data to enable more informed decisions on how best to build property and infrastructure, and protect communities from the impact of natural disasters.

Specifically, the Roundtable’s second report calls for:

- A centralisation of key natural perils data via an open source platform which provides more timely and relevant information
- More focused research, through the removal of barriers in research and promoting greater collaboration and engagement with stakeholders
- The establishment of a national prioritisation framework for funding resilience initiatives and research

Value drivers for Climate Change

Even though all companies identified Climate Change as a megafource, 17 companies did not identify any value drivers for this megafource. When describing the value that a company might derive from identifying with Climate Change, the Telecommunications, Mining & Metals, and Materials sectors highlighted the most value drivers, with on average over three value drivers per company (Figure 9). Some sectors failed to identify any value drivers for Climate Change, including Consumer Services, Healthcare & Pharmaceuticals and Media. There was also a range of value drivers used broadly within this megafource, with two sectors using all six value drivers and four sectors using five value drivers.

Risk Profile was the dominant value driver with which companies across sectors identified (22 companies); followed by Productivity (including Human Capital) (19 companies), and Licence to Operate (17 companies). All companies in the Materials sector, and the majority of companies in Energy and Mining & Metals sectors, identified Risk Profile as a value driver for Climate Change. Similarly, all companies in the Mining & Metals sector identified Productivity (including Human Capital) as a value driver for Climate Change. Securing Investment was the value driver least identified with across all companies, with only four companies utilising this value driver.

Despite the potential investment exposure of the Banks, Diverse Financials & Insurance sector to Climate Change, companies in this sector identified on average with less than one value driver for Climate Change; moreover five companies failed to identify a single value driver. Furthermore, despite the Banks, Diverse Financials & Insurance sector engagement in sustainability being broadly focused on the appropriate management of investment risk, coupled with Climate Change now considered globally as almost certain [14], this research found that only three companies from this sector identified Risk Profile as a value driver for engaging with Climate Change. One company from this sector explicitly ruled out Climate Change as being a risk to its business.

Figure 9: Number of companies by sector attributing each value driver to Climate Change
A cost management and compliance focus by Australian companies on climate change reflects a short term focus on the issue, an underestimation of the likely speed and degree of change in international markets, misjudgement of the extent of physical impact from more than two degrees of warming and a volatile domestic climate policy environment.

**Too many think there is advantage in delay** – Some in Australian companies believe that Australia should extend returns on sunk investments for longer than other countries and undertake still further emissions intensive investments, until larger nations make economic concessions to redress climate change. This view of capital value preservation, limits the level of corporate engagement with how markets, supply chains and technology will change in response to climate change.

**Companies endure a volatile, negative and cost-focused climate policy debate** – Companies that are open to change are stymied by a negative climate narrative on energy costs and regulatory impost in the policy debate, which means getting traction for more ambitious responses to climate change within companies can be challenging.

**Long term vision and analysis are still in short supply** – But still too few companies are investing enough in understanding how markets will change over time or performing sufficient upstream and downstream supply chain analysis based on climate drivers and risk factors. Few are planning for the non-linear and potentially devastating climate impacts of more than two degrees of warming. Even fewer incorporate these potential costs in their capital allocation and management decisions. Those that are undertaking this work will reduce risk for their investors and are more likely to prosper.

The implications of these factors for companies and investors are an increased risk of stranded assets and insufficient investment in new industries. Without a rapid reorientation of focus to ensuring economic competitiveness in a rapid low carbon transition, the diversity, resilience and productivity of Australia’s corporate landscape is likely to lag that of trading partners and competitors.

Nathan Fabian, Chief Executive Office, Investor Group on Climate Change
Energy & Fuel

Energy & Fuel as a megaforce

Energy security will become more important as fossil fuel markets become increasingly volatile and difficult to predict; global consumption patterns change; supply and production becomes progressively more uncertain; and regulatory intervention increases. Market opportunities surrounding energy efficiency and renewable energy technology will continue to take more market share and conventional fossil fuel markets will become increasingly uncertain.

In Australia, total energy consumption per unit of GDP decreased by approximately 20 percent between 1990 and 2010. This was largely caused by a shift within the economy from energy-intensive manufacturing to the services sector. The declines in energy intensity were mostly seen in the services (0.7 percent annual decrease), manufacturing (0.7 percent), transport (1.3 percent) and residential sectors (0.3 percent). However, the Mining & Metals and Agricultural sectors have seen increases in energy consumption of 2.3 percent and 1.1 percent respectively.

ASX50 identification with Energy & Fuel

Energy & Fuel was identified with by all ASX50 companies (Figure 10). While this megaforce was not identified as material to the Banks, Diverse Financials & Insurance sector in GRI 2013 STFS, it was reported by companies in this sector nevertheless. Discourse by the companies surrounded either the disclosure of the company’s own energy and fuel consumption, or their exposure to energy and fuel markets. The strategies to lower energy and fuel use, simultaneously with lowering GHG emissions, was well explored by reporting companies, with a small selection discussing the potential costs or risks associated with non-compliance with carbon emission reductions. Most companies also identified the potential volatility in the price of fuel or changes to governmental legislation as posing a threat to their operations.

Figure 10: Percentage of companies by sector that identified with Energy & Fuel and its materiality according to GRI 2013 STFS
GPT Group

GPT Group is acutely aware of future energy security and the need to act on climate change. Their commitment to climate change and energy is guided by their aspiration to achieve carbon neutrality. In addressing energy and climate change, GPT Group aims to:

- Minimise the impact of rising energy prices on its tenants and investors
- Meet and exceed regulatory and tenant expectations and requirements
- Play their part in the mitigation of dangerous climate change

GPT Group’s Climate Change & Energy policy is driven by two broad principles [26]:

- “The GPT Group is committed to carbon neutrality in areas within our control, with use of offsets as the method of last resort
- The GPT Group is committed to supporting and encouraging our stakeholders to reduce GHG emissions and energy use in areas within our influence”

Recent regulatory and energy price uncertainty means that GPT Group has executed a diverse approach to reducing its reliance on fossil fuels, including: implementation of diverse energy efficiency measures, introducing innovative fuel switching and renewable energy projects, and purchasing government accredited Green Power.

As a founding member of the Better Buildings Partnership in 2011, GPT Group continues to help the City of Sydney reduce the overall energy consumption for the commercial property sector across the city. Collaborating with tenants such as ANZ, Westpac and National Australia Bank to achieve their carbon neutrality goals also contributes to strong customer relationships. The implementation of solar energy systems at Charlestown Square, 5 Murray Rose and Rouse Hill Town Centre in Sydney are examples of ways in which GPT Group is increasing its energy security and adding value to these properties.

These projects and initiatives have resulted in significant energy and cost savings, whilst reducing future energy and regulatory risk exposure. In 2013, GPT Group had reduced its energy intensity by 34 percent since 2005 (50 percent in its Office portfolio), saving the company A$17.4 million.
Value drivers for Energy & Fuel

Despite all companies identifying with Energy & Fuel as a megaforce, more than half (26 companies) failed to identify any value driver associated with this megaforce (Figure 11). The value drivers utilised by companies to engage in action around Energy & Fuel is most prominent amongst Mining & Metals, Materials and Energy sectors, who on average used 3.6, 2.3 and 2.1 value drivers per company respectively. Within Mining & Metals the most frequently used value driver was Licence to Operate, followed by Productivity (including Human Capital). More than half of companies within Banks, Diverse Financials & Insurance, Construction & Real Estate and Food & Consumer Staples Retailing identified no value drivers for this megaforce. The Consumer Services, Forest & Paper Products, Healthcare & Pharmaceuticals and Media sectors did not identify any value drivers within the Energy & Fuel megaforce.

The leading drivers utilised within Energy & Fuel was Productivity (including Human Capital) and Licence to Operate (14 companies respectively). All Mining & Metals companies utilised Licence to Operate, and four out of five used Productivity (including Human Capital) to justify activity on Energy & Fuel. More than half of Energy companies attributed Brand Value & Reputation to this megaforce. Securing Investment was the least used, with only five companies identifying with this value driver. That said, Energy & Fuel is the megaforce in which Securing Investment was most used.

Figure 11: Number of companies by sector attributing each value driver to Energy & Fuel
As population rises from 7 billion today toward 9 billion by 2050, the inevitable logic of exponential growth in both population and consumption is now hitting the limits of global ecosystems and resource availability. The immediate pressure points are energy security, climate change, biodiversity loss and, water and food availability, issues which along with the related matter of financial instability, are converging rapidly in an unprecedented manner. But these are only the tip of the broader global sustainability iceberg; further material resource constraints and limits are fast becoming evident as major developing countries, particularly China and India move up the growth escalator. The limits we now face are global, rather than regional, and cannot be circumvented as we have done in the past. What was workable in a relatively empty world of two-three billion people post-WWII is not workable in today’s full world of seven billion, let alone the nine billion to come. Humanity today requires on average the biophysical capacity of 1.5 planets to survive. If everyone lived at Australian levels we would require four planets. This cannot continue indefinitely as we are fast destroying the global “commons” of clean air, water and the fertile soil and oceans on which we depend for our food supply and life support.

Our ideological preoccupation with a market economy, based on political expediency and short term profit maximization, is rapidly leading toward an uninhabitable planet, as sustainability issues of theoretical concern for decades manifest themselves physically, particularly in regard to climate and energy. These issues are inextricably linked albeit they are typically treated in separate silos.

This report’s findings suggest that Australian companies still regard sustainability in the Energy & Fuel arena as a secondary ESG issue and not as the fundamental determinant of value creation which it has become. They are not grasping the tectonic shifts currently underway globally, which have created a totally different context for development. Globally, the outmoded high-carbon business model of the 20th Century is being rapidly replaced by the low-carbon world of the 21st Century. This change will impact every sector of business, and unless our companies take leadership in moving into this new world, political negativity notwithstanding, the economic cost to the nation, and the destruction of shareholder value even in the short term, will be substantial.

On the other hand, with real leadership, Australian business has the potential to prosper even more in the low-carbon world than it has in the high-carbon world which we must now exit.

Ian Dunlop,
Non-executive director, former Chair of the Australian Coal Association and former CEO of the Australian Institute of Company Directors
Wealth

Wealth as a megaforce
As both populations and incomes rise in developing countries, the purchasing power of the global emerging middle class will have a much stronger influence over global demand for goods and services. Of the eight billion people, more than five billion will be defined as middle class by 2030 [21]. As workers become empowered, their expectations for wages and working conditions will also rise, diminishing the availability of cheap labour and placing an increased focus on human rights. Organisations who are able to meet this changing dynamic, while operating in an increasingly resource constrained market, should gain competitive advantage.

In 2014, the wealthiest 20 percent of people in Australia have five times the income of the bottom 20 per cent, and hold 71 times more wealth. In fact the richest seven individuals in Australia hold more wealth than 1.73 million households in the bottom 20 per cent [24]. Over the next 20 years, it is expected that income and wealth inequality will become even more pronounced [21].

ASX50 identification with Wealth
Wealth is a well identified megaforce by ASX50 companies, with 48 companies providing some form of disclosure on this megaforce (Figure 12). The two companies who did not discuss this trend were from the Media and Construction & Real Estate sectors, despite Wealth being one of three megaforces highlighted as important to all sectors in GRI 2013 STFS.
This research found that community investment and philanthropy has a strong influence within this megaforce. All 48 companies who identified with the Wealth megaforce reported on their community investment either specifically in Australia or internationally.

Although the concept of the Wealth megaforce centres on the issues and opportunities arising from the increased purchasing power of the emerging middle class, it was found that only 46 percent of those companies that identified with Wealth did so for this reason. Furthermore, while Human Rights also play a role in tackling income equality within Wealth, only 28 companies disclosed on this issue.

Value drivers for Wealth

Despite 48 of the ASX50 companies identifying with the Wealth megaforce, only 31 companies identified any value drivers for this megaforce (Figure 13). The Telecommunications sector identified on average three value drivers within this megaforce. This was followed by Consumer Services and Mining & Metals, where on average two value drivers per company were identified. Forest & Paper Products, Healthcare & Pharmaceuticals, and Media did not identify any value drivers within this megaforce. The majority of companies within Banks, Diverse Financials & Insurance, Construction & Real Estate, and Transportation sectors also failed to identify any value drivers for this megaforce.

The primary value driver within the Wealth megaforce was Attracting Customers, with 16 companies identifying with this value driver. This was followed by Licence to Operate (12 companies). Only four companies identified with Securing Investment, which was the least utilised value driver.

Four out of five Mining & Metals companies identified Licence to Operate as the primary driver for engaging with the Wealth megaforce; while two out of three companies in the Materials sector identified with Attracting Customers, and the same number in the Food & Consumer Staples Retailing identified Brand Value & Reputation as the primary driver.

ANZ

In recent years, ANZ has differentiated itself from other Australian banks by adopting a ‘super-regional’ strategy serving 33 markets across the Asia Pacific. This strategy is founded on the view that the future of ANZ’s home markets (Australia and New Zealand) are increasingly linked to the fast-growing region of Asia through trade, capital and wealth flows, as the region matures and lifts out of poverty.

A key value driver identified by ANZ is the demand from customers who want a bank that meets their needs across markets. Through its regional presence, ANZ offers customers insights into various national economies and supports them to expand and grow their business in the region.

ANZ’s 2014 half-year results demonstrate that the ‘super-regional’ strategy is delivering diversified growth and stronger returns, with the International and Institutional Division of the bank increasing its profit by nine percent on the previous year.
Business and consumer understanding of the need to create work conditions that provide a living wage is already emerging. Initiatives like Fairtrade have brought this issue to attention, and have empowered impoverished workers to achieve not only a living wage but better working conditions.

This said, inequality and inequity is tied to the stifling of sustainable economic development. Slavery and human rights abuses remain a significant global issue. Billions of people are living below the poverty line and yet have paid employment. Lack of transparency in the supply chains make it challenging for business to understand their impacts on issues of Wealth.

It is promising to see the commitment of ASX50 companies to philanthropy in Australia and internationally. Philanthropy will always be necessary, but will never solve the challenges associated with inequality of Wealth. Rather a more equitable distribution of access to work and fair living wages along the value chain will ensure that those at the bottom have a chance to lift themselves out of poverty.

Though my work at Fairtrade, I am delighted to see large Australian companies and multi-nationals work with agricultural producers to identify solutions to their collective problems, enhancing production, reducing inefficiencies, and creating new markets. It is these types of initiatives, which I believe will help address the Wealth megafource.

Molly Harris Olsen,
Chief Executive Officer,
Fairtrade Australia and New Zealand

Figure 13: Number of companies by sector attributing each value driver to Wealth
Water Scarcity

Water Security as a megaforce
Potential water shortages, or a decline in water quality, pose a serious threat to business growth and development. It has been predicted that by 2030, the global demand for freshwater will exceed supply by 40 percent. The interconnected nature of water, energy and food systems coupled with the growing global demand for water, highlights the need for businesses and populations alike to become more efficient with their usage.

Water security will remain a significant issue for Australia as climate change advances. Total water consumption in Australia is forecast to rise by 42 percent by the year 2026, and 76 percent by the year 2056 compared to 2009 levels [23]. The increased demand for water is likely to result in associated price rises.

In Australia, the biggest consumer of water is the agricultural sector, accounting for 55 percent of water consumption [21]. However, the same sector has decreased its water consumption by 57 percent in the decade to 2011.

As water and other resources become scarce, relative to demand, the risk of conflict is heightened. Statistical analyses revealed that countries which share rivers have a higher probability of military disputes [23]. This conflict may take many forms. For example, in Australia there is much “paper warfare” about the allocation of water resources in the Murray Darling Basin.

ASX50 identification with Water Scarcity
Forty-four out of the ASX50 companies placed water monitoring and scarcity on their agenda (Figure 14). Despite not being identified as material to Telecommunications and Banks, Diverse Financials & Insurance in GRI 2013 STFS, companies in these sectors reported on this issue nonetheless. Although it is material to the Media sector according to GRI 2013 STFS, this sector did not identify with this issue.

Droughts across Australia in recent decades mean that most companies understand the value of water and have identified the need to monitor and reduce consumption, making water management one of the most mature areas of sustainability for many companies. However, few companies have articulated the risks associated with potential conflicts over water supplies, whether in Australia or globally. The commitment to eliminating impact upon local water quality was evident from the companies who created direct impacts in this area.

Figure 14: Percentage of companies by sector that identified with Water Scarcity and its materiality according to GRI 2013 STFS
Water Scarcity

Value Drivers for Water Scarcity

Although 44 companies identified with Water Scarcity as a megaforce, only 18 attributed a value driver to this megaforce (Figure 15). The dominant value driver identified was Risk Profile (14 companies), followed by Licence to Operate (11 companies) and Productivity (including Human Capital) (nine companies). Very few companies identified with the remaining value drivers, with just one or two companies for each.

The Mining & Metals sector was the only sector in which all companies identified value drivers for this megaforce, with 2.6 value drivers on average per company; followed by Energy with 1.8 value drivers on average per company. Within Mining & Metals, all companies identified Licence to Operate and Risk Profile as value drivers for Water Scarcity. Two out of three companies within the Materials sector also identified with these value drivers. Energy companies identified most strongly with Risk Profile (four companies) followed by Licence to Operate and Productivity (including Human Capital) (three companies each). The Energy sector was the only sector to identify across all value drivers for this megaforce.

Consumer Services, Forest & Paper Products, Healthcare & Pharmaceuticals, Media, and Telecommunications all failed to identify any value drivers for this megaforce.

Fortescue Metals Group

As a representative of the extractive sector, Fortescue Metals Group Limited (FMG) is an intensive user of water, primarily through its mining operations. This includes ore processing and dust suppression on roads and mining areas, as well as supplying camp drinking water for mining staff. Due to the remote locations in which they mine, FMG rely on the extraction of groundwater which is regulated by groundwater licences and associated environmental approvals. Responsible water management that complies with regulation is essential for FMG to maintain its Licence to Operate, whilst also managing the associated risk to protect a resource that is integral to their operations.

In tandem with its Groundwater Management programs, FMG have also pioneered a Managed Aquifer Recharge scheme whereby surplus groundwater is injected into the original or similar aquifer. This innovative scheme provides FMG with productivity gains as well as effectively halving the potential environmental impacts on the groundwater aquifers, ensuring that water of equivalent quality is returned to the natural water system, reducing Risk and maintaining Licence to Operate.
“One of the most pressing global issues of the twenty-first century is the scarcity of water of a quality appropriate to ensure economic, environmental and social sustainability,” wrote Professors Chalmers and Godfrey, of Monash University, in 2012.

Despite the recent completion in Australia of a comprehensive set of Water Accounting standards (recognised as ground breaking internationally), which comprises of a Conceptual Framework, Accounting and Assurance Standards, plus comprehensive Model Accounts, the uptake of robust water accounting has been low, apart from certain state water corporations. Why? Water is no longer pervasively in drought across Australia. Nor is the cost of water fully and truly understood. Until new “crises” of shortage or cost to produce arises indolence will reign (and not rain).

Every public company in Australia has to prepare accounts in accordance with legal rules. But, not so their use of water, the second most essential resource known to humankind (after air).

Some responsible organisations do show their use of water in terms of year-on-year efficiency and improvements in productivity. But this ignores the context in which that water occurs or is harvested.

Water is an intergenerational equity issue. Even long term institutions are failing to consider our long term needs because they are unwilling to sacrifice short term beneficiary needs. Governance and risk management of water in the Murray Darling Basin epitomizes the challenge between today’s and tomorrow’s water.

But accounting for water is not really a matter of life or death, it just happens to be far more important than that.

Peter Day, non-executive director; Former Chairman of the Water Accounting Standards Board; and the Australian Accounting Standards Board and Deputy Chairman of the Australian Securities & Investments Commission

Figure 15: Number of companies by sector attributing each value driver to Water Scarcity
Urbanisation

Urbanisation as a megaforce
Nearly all the projected population growth for the next 30 years is expected to happen in urban areas, placing a strain on urban infrastructure, health, waste and sanitation, telecommunications, education, utilities, transport, safety and green space. This provides opportunities for businesses to develop efficient and innovative solutions for operating in and serving densely populated cities and will also provide to access a diverse workforce.

The population across Australia’s capital cities will rise from around 15 million today to 24 million by 2050 [20]. Increasing urbanisation and a growing middle class will drive investment in housing and infrastructure.

Despite Australian cities ranking amongst the highest in liveability indexes, they lag behind in energy consumption, car dependency and equity (between those in inner versus those in outer suburbs) [21]. In Australia, urban fringe development is set to continue as populations increase, potentially contributing to increased pressure on ecosystem services, more congestion and greater demand for infrastructure and services. Rapid outer growth presents significant challenges, such as displacing agricultural activities and degrading ecological habitats. Increased fringe development also has the potential to create social isolation of outer suburb living and continued lack of access to services. Furthermore, as the majority of Australia’s urban areas are coastal, they are also heavily exposed to climate change impacts.

ASX50 identification with Urbanisation

Forty-two of ASX50 companies identified with Urbanisation, spanning the majority of sectors, but was least recognised by the Energy, Construction & Real Estate, and Transportation sectors. This is particularly surprising given these three sectors have perhaps the greatest impact upon, and opportunities in, Urbanisation. The vast majority of discussions by companies in relation to Urbanisation related to effective waste management strategies (Figure 16), rather than more complex issues, such as the increased strain on infrastructure resulting from rapid population growth or social exclusion in urban fringe developments.

Discourse by companies suggested that by diverting waste away from landfills, the stresses caused to urban systems to provide increasingly expensive disposal options are minimised. Companies with a more comprehensive understanding of this megaforce discussed the need for the provision of services, such as telecommunications networks, housing resources and infrastructure development.

Figure 16 Percentage of companies by sector that identified with Urbanisation and its materiality according to GRI 2013 STFS
Urbanisation

Only 13 of the 42 companies that identified with Urbanisation also identified any associated value driver (Figure 17). Five sectors – Banks, Diverse Financials & Insurance, Consumer Services, Forest & Paper Products, Healthcare & Pharmaceuticals, and Telecommunications – did not identify any value drivers within this megaforce. The Mining & Metals sector identified the most value drivers within this megaforce, with 1.6 value drivers on average per company; this was closely followed by the Materials sector, which identified 1.3 value drivers on average per company.

The value drivers identified were evenly spread amongst the top four, Brand Value & Reputation (eight companies), Licence to Operate (seven companies), Attracting Customers (six companies), and Productivity (including Human Capital) (five companies). Only one company identified with Securing Investment, while three identified with Risk Profile.

According to the ‘Stockland Liveability Survey’ results in 2013, 75 percent of residents nationally have indicated that they are “Satisfied” with their current communities. Key areas for improvement have been noted by Stockland and the outcomes from the survey have been shared with their stakeholders.

Stockland
As a key property owner and developer, Stockland is committed to the creation of sustainable livelihoods by working closely with the communities and its stakeholders. Their commitment can be observed through the adoption of both “hard” and “soft” approaches in developing communities, including:

- Community development which encompasses all the elements considered in design, construction and operation of their projects and assets. This includes built infrastructure such as schools, childcare facilities, parks and playgrounds, shopping centres, recreational facilities and community centres
- Community involvement which includes programs and initiatives in place to enhance Stockland’s involvement and contribution to their communities. For example, Stockland partners with the Heart Foundation, parkrun and the Touched by Olivia Foundation to run various community events

Stockland has also introduced an innovative Liveability Index, a multi-faceted approach to enable pro-active engagement, market research and to monitor the satisfaction of the residents in their communities. The key liveability elements included in the index are:

- Affordable living
- Economic prosperity
- Lifelong learning
- Access and connectivity
- Wellbeing and healthy living
- Lifelong learning and prosperity
- Sense of belonging and vitality

It is noted that despite waste being the most identified characteristic within this megaforce, only a few companies attributed the Productivity (including Human Capital) value driver. Furthermore, there were no consistent patterns of where particular sectors identified strongly with one value driver over another within this megaforce.

Urbanisation is of obvious significance to the Construction & Real Estate, Transportation and Energy sectors. Yet, just two companies within Construction & Real Estate identified any value drivers for Urbanisation, one in Transportation and three in Energy. None of these sectors identified Securing Investment as a value driver. And no company from Construction & Real Estate or Transportation sectors identified Risk Profile as a value driver.

Furthermore, while agricultural lands are at risk with growing Urbanisation, both domestically and internationally, companies within the Food & Consumer Staples Retailing sector did not identify this as a risk to their businesses.
For the first time in history, more than half the world’s population live in cities. By 2050, this figure will rise to around 70 percent. In Australia, two-thirds of people already live in our capital cities – and these cities will swell as an additional 10 million people call them home by 2056.

Urbanisation has a raft of implications for our economy, our society and our environment. Where will these people live? Will they live in our existing cities or in cities not yet even imagined? How will we create the infrastructure, the jobs, the opportunities and the resources? As the Council of Capital City Lord Mayors states: get it right for cities, and you get it right for the nation.

It is clear Australian business is still grappling with the implications and is yet to seize the opportunities. Innovative and entrepreneurial businesses are already looking at how to make better use of materials, reduce and reuse waste, improve our energy and water efficiency, refine operational processes and assess the lifecycle impacts of products and services. What this amounts to is learning to do more with less – and those companies able to do so will be the ones that not only survive, but thrive.

Romilly Madew, Chief Executive, Green Building Council of Australia

Figure 17: Number of companies by sector attributing each value driver to Urbanisation
Material Resource Scarcity

Material Resource Scarcity as a megaforce

As population growth and industrialisation rates in developing countries continue to soar, global demand for natural resources will significantly increase. This translates into fiercer competition for businesses to access resources, and presents opportunities to develop more efficient resource recovery technology or substitute materials.

As the mineral resources boom comes to an end, much of Australia’s natural mineral wealth potentially remains in the ground as extraction costs exceed market value. This will have implications for jobs in Australia and for the economy, which has been dependent on mining [21].

In addition [21]:

- Of the 150 fish stocks assessed in 2010, 65 percent were deemed sustainable. Although for 26 percent (five percent of total catch), there is insufficient information to determine stock sustainability.
- Sustainable levels of timber resources have decreased by over 50 percent over the past two decades, largely due to reduced public multiple-use native forest area from which timber can be harvested.
- According to 2011 data, brown coal has by far the longest estimated resource life (ERL) at 510 years, followed by uranium (180), ilmenite (120), nickel (110) and copper (95). Resources with ERL of 20 years or less included crude oil (nine years), manganese ore (15) and liquid petroleum gas (16).

ASX50 identification with Material Resource Scarcity

Thirty-six companies identified with Material Resource Scarcity; with the majority focusing on energy, water and paper reduction targets. The sectors that identified most with Material Resource Scarcity were Materials, Forests & Paper Products, Healthcare & Pharmaceuticals, Consumer Services, and Telecommunications sectors (Figure 18).

Most of the discourse related to Material Resource Scarcity was concerned with the recovery of materials through recycling initiatives related to waste management, rather than the declining discovery of key materials or innovations around substitute materials, although there were some exceptions. Those in the Mining & Metals sector tended to stand-alone in their discussions of the risks associated with declining rates of discovery of minerals.

The increasing pressure of Material Resource Scarcity is a twofold problem – competition for resources is increasing as a result of Population Growth, Urbanisation and Wealth, coupled with a declining resource discovery rates. Companies did not explore in detail the interaction of resource scarcity with other megaforces or demonstrate an understanding that these demand and supply issues are unevenly distributed geographically.
Rio Tinto is a miner of non-renewable resources internationally and therefore has a strong interest in the availability of material resources. Rio Tinto recognises that the increasing complexity of mining, together with declining resource grades and increased labour costs has increased the capital intensity for mining. According to Rio Tinto, the economics and feasibility of projects, particularly in iron ore and copper, have been threatened by resource nationalism, government rent extraction, and increased uncertainty. Rio Tinto incorporates these market conditions into its core business strategies and risk management frameworks.

Looking forward, Rio Tinto is committed to the stewardship of their products across their full life cycles. Product stewardship is important for Rio Tinto to maintain and grow access to the market. They have identified various drivers for this:

- Systematic compliance with emerging product regulations
- Anticipating and responding to increased consumer desire for responsible use of products throughout their whole life cycle
- Reputation building from having product brands recognised for consistently being derived from responsible production processes and supply routes
- Associated cost savings

In understanding the full life cycle of their products, Rio Tinto has found that there are a diverse range of off-site reuse options for mineral waste materials and non-mineral bulk processing waste materials. They ranged from the use of mineral materials in civil works operations, through to non-mineral bulk processing materials being used in the agricultural and fertiliser industry. In all situations, the use of these materials is diverting them from being disposed, resulting in the reduced need for new materials. By better understanding material needs into the future, Rio Tinto is able to assess and act upon existing and new resource extraction opportunities.
Value drivers for Material Resource Scarcity

Despite 36 companies identifying with this megaforce, only 13 companies attributed value drivers (Figure 19). Productivity (including Human Capital) was the primary value driver identified (nine companies), followed by Risk Profile (seven companies), Attracting Customers (six companies) and Brand Value & Reputation (five companies). Three companies identified with Licence to Operate and just one company identified with Securing Investment.

The most consistent sectors reporting on this megaforce were the Forests & Paper Products, with on average three value drivers per company, followed by the Materials and Telecommunications sectors, with on average two value drivers. Consumer Services, Healthcare & Pharmaceuticals, and Media did not identify any value drivers for this megaforce. All other sectors identified more than zero and less than one value driver on average per company.

Within the Materials sector, two out of three companies identified both with Productivity (including Human Capital) and Risk Profile. In all other sectors, there were rarely two companies that identified with the same value driver.

Figure 19: Number of companies by sector attributing each value driver to Material Resource Scarcity
Heightened concern over resource scarcity is not a surprise. Even if scarcity is experienced on a short to medium-term basis, and is therefore only temporary, the experience is real and often felt directly by businesses and consumers. For example, the impact with regard to rare earth minerals has been felt in electronics and other manufacturing.

Where scarcity is real it can promote alternatives – such as the use of other natural resources – and efficiencies or product substitution. But questions of scarcity are also an opportunity to go directly to the source and better understand and support what it takes to respond to scarcity (real or perceived) and promote responsible, stable sources. I would argue that the notion of responsible extraction (or sourcing) should be embedded in the concept of stability and growth in supply as a response to scarcity.

Green technology, specifically green power, is one example. Consider the issue of the limited supply of some rare earth minerals, many of which are used in electronics and green power technology. Or consider the use of lithium for batteries. Can environmental and social best practices in mining and sourcing (on the part of buyers and manufacturers) increase confidence in supply? At first glance this may seem counterintuitive. However, there is growing evidence that responsible, ethical supply chain management is partially driven by risk control on the part of manufacturers.

And what about a new “green deal” that takes a look at the entire supply chain and promotes and rewards responsible development at every step, not just at the product phase? Can we extend the experience from other supply chains into minerals, energy and food? Recalibrating incentives and pricing on this basis might be good for society in a number of ways, including promoting new, responsibly developed supplies.

Stephen D’Esposito, President, RESOLVE [28]
Ecosystem Decline

Ecosystem Decline as a megafactor
As natural resources become scarcer and water supply and water quality diminishes, the critical services ecosystems provision will become more costly and difficult for businesses to retrieve. The seminal *Millennium Ecosystem Assessment* [15] found that two thirds of ecosystems globally were degraded or being used unsustainably. Indeed, while 15 services had degraded over the past 50 years, only four had been enhanced (three in agricultural production). These ecosystem services, currently largely unaccounted for by business, will soon either cease or become costly to business [27].

Well-functioning ecosystems ensure the security of food and water supplies; the production of medicinal products; protection against climate change; and the supply of essential materials and fibres for construction and clothing [21].

The *2011 State of the Environment Report Australia* [25] divides the country’s biodiversity into 14 components, seven of which are in poor condition and in declining state, only four are in good condition and none are better than good. In Australia, 14 percent of pre-European ecosystems have been cleared, while a further 62 percent have been subject to varying degrees of disturbance. This has happened mostly in the east and south-west for agricultural purposes, where many of the areas have less than a quarter of their native vegetation remaining.

ASX50 identification with Ecosystem Decline
Thirty-four of the ASX50 companies, who identified with Ecosystem Decline, were mostly from the Forest & Paper Products, Healthcare & Pharmaceuticals, Mining & Metals, and Telecommunications sectors (Figure 20). It was least identified with by the Consumer Services sector.

The leading issues discussed within this megafactor were biodiversity loss, avoiding contamination of land and rehabilitation of disturbed land. Very few companies associated Ecosystem Decline with the future availability of ecosystem services in production and operations. As such, while companies are concerned with the impacts that they have on biodiversity, it seems that they are less concerned with the failure of ecosystems to deliver services required for production and operations. The current and predicted future state of ecosystem decline, both in Australia and globally, is poor. It is disturbing that this research has revealed that this issue has a limited consideration amongst Australian companies.
BHP Billiton

BHP Billiton’s effective management of biodiversity and ecosystems is critical to maintaining their Licence to Operate. Government and community decisions to grant land access are dependent on effective land stewardship.

BHP Billiton has developed policies regarding decisions to establish or maintain operations in or adjacent to protected areas. BHP Billiton’s explicit requirements are:

- BHP Billiton will not explore or extract resources within the boundaries of World Heritage-listed properties
- BHP Billiton will not explore or extract resources adjacent to World Heritage-listed properties unless the proposed activity is compatible with the World Heritage outstanding universal values
- BHP Billiton will not explore or extract resources within the boundaries of International Union for Conservation of Nature (IUCN) Protected Areas Categories I to IV unless a plan is implemented that meets regulatory requirements, and takes into account stakeholder expectations and contributes to the values for which the protected area is listed
- BHP Billiton will not operate where there is a risk of direct impact to ecosystems that could result in the extinction of an IUCN Red List Threatened Species in the wild

BHP Billiton mandates the assessment, planning and management of the potential land and biodiversity impacts of its operations throughout their life cycle. Operations are required to have Land and Biodiversity Management Plans that incorporate baseline and impact assessments, controls designed to mitigate impacts on biodiversity, land use and water resources, and monitoring programs to verify effectiveness of controls. BHP Billiton apply a mitigation hierarchy, in which they aim to avoid land disturbance and, where this is not possible, BHP Billiton seek to minimise their impacts, including rehabilitating land (both during operations and closure). Where unacceptable impacts remain, they look to undertake compensatory actions, such as biodiversity offsets.
Ecosystem Decline

Value drivers for Ecosystem Decline

Of the 34 companies that identified with this megaforce, ten identified associated value drivers (Figure 21). The sectors that identified value drivers within this megaforce were Mining & Metals, Construction & Real Estate, and Energy. In fact, all Mining & Metals companies identified value drivers for this megaforce. Eight sectors identified no value drivers at all for this megaforce, including Banks, Diverse Financials & Insurance, Consumer Services, Food & Consumer Staples Retailing, Forests & Paper Products, Healthcare & Pharmaceuticals, Materials, Media, Telecommunications, and Transportation.

It is concerning that despite the reliance of the Food & Consumer Staples Retailing, Forests & Paper Products, Healthcare & Pharmaceuticals sectors upon ecosystem services, that none of these sectors have identified Ecosystem Decline as a risk to their business.

The most frequently cited value drivers were Licence to Operate (eight companies) and Brand Value & Reputation (eight companies). Each of the remaining value drivers were only cited by two to three companies. Again this shows company concern with their impact upon ecosystems, rather than the impact of declining ecosystems upon companies.

Figure 21: Number of companies by sector attributing each value driver to Ecosystem Decline
Ecosystems support life on earth. From Tactical to Strategic highlights ten megaforces – six of which (climate change, energy and fuel, water scarcity, material resource scarcity, deforestation and food security) could be argued are forces created by ecosystems declining in their capacity to provide services at the same quality, quantity or rate.

We no longer make the connection between nature and our survival. For a society that claims to love the bush and a population that clings to the coast, Australia’s ecosystem management leaves a lot to be desired.

While conservationists have inherently understood the value of ecosystems, we are learning through environmental accounting methods to value these in economic terms. Of concern are the very few companies in the study that associated ecosystem decline with the risk of not having future ecosystem services to ensure future stability of operations. Those that did make the connection, appear focused on their impact on ecosystems. They have yet to understand or value their dependence on ecosystem services and the associated risks if ecosystems fail to deliver.

The risk from ecosystem decline for any specific industry sector will vary based on the health of which ecosystems, where, and what supply chain inputs. Primary and secondary industries with high dependency on natural capital should map their dependencies a region and analyse the associated risks from Ecosystem Decline. For example an Agriculture company may need to focus on the productivity of soils in a certain area of operation and the maintenance of water supply in another location.

Business urgently needs to make the connection; only once they recognise the business risks of ecosystem decline will society be able to generate the investment needed to reverse the trends.

Angela Howden, Programme Manager – Australia,
Flora and Fauna International
Deforestation

Deforestation as a megaforce
Forests cover 31 percent of the land area on our planet – they provide oxygen, carbon sequestration, and other ecosystem services. According to the Organisation for Economic and Cooperative Development, between 2005 and 2030, global forest areas are predicted to decrease by 13 percent, largely due to land clearing for agriculture and timber production.

Although the rate has slowed, deforestation continues to occur in Australia. For the decade starting 2000, just less than 130,000 square kilometres of forest were converted to other uses or lost to natural causes each year. The large-scale planting of forests in temperate regions has helped slow net loss from approximately 83,000 square kilometres per year during the 1990s to 50,000 square kilometres per year in the 2000s [23].

Further, the average yearly capture of emissions by natural processes in the Australian landscape from 1990 to 2011 was approximately 69 percent (±25 percent) of the carbon emitted by burning fossil fuels and net deforestation each year. This was roughly twice the global proportion, mainly because Australia has a comparatively large area of land available to capture and store emissions.

ASX50 identification with Deforestation

Overall, just 30 companies identified with Deforestation (Figure 22). The sectors that most identified with this megaforce were Healthcare & Pharmaceuticals, Telecommunications and Forests & Paper Products. Media identified least with this megaforce, despite it being material to this sector according to GRI’s 2013 STFS.

The discourse by ASX50 companies surrounding this megaforce focused almost exclusively on paper reduction or procurement trade initiatives such as Forest Stewardship Council (FSC) or Programme for the Endorsement of Forest Certification (PEFC), rather than upstream impacts of Deforestation, such as the destruction of forests to ensure land for other industries and its impacts on ecosystem services. Several companies also mentioned initiatives to plant trees either as part of their philanthropy programs or as part of a team building exercise.

Companies who do not have a direct impact upon forests, still provided details regarding initiatives aimed at ensuring that their procurement decisions were safe-guarding forests. Reference to these initiatives was almost always around paper consumption, and often excluded other material sourcing such as timber.

For several companies that had a direct impact upon forest, strong initiatives to reduce impacts were evident. Commitments to international sustainable forest procurement programs were discussed. Aside from a couple of leading companies, there was a noticeable absence of the Mining & Metals sector identifying with Deforestation.
Brambles
Brambles is a significant user of wood in the production of its pallets. It is important to the success of their Productivity, and Brand Value & Reputation that Brambles is able to reduce the loss, cycle times and damage of these assets. Fundamental to these efficiency efforts is the focus on “reduce, reuse, recycle.” As part of its environment strategy, Brambles has two commitments, which will reduce its impacts on forests globally. These commitments include:

1. Lumber sourcing – Chain of custody certification for lumber purchased for CHEP pallets by 2015
2. Lumber waste – Zero CHEP lumber waste to landfill by 2015

Brambles CHEP has strict lumber sourcing policies and has a target of achieving chain of custody certification for purchased lumber for pallets by 2015. In 2013, more than 94 percent of CHEP production is from sustainable sources. This was achieved by giving preference to suppliers who are able to provide sustainable sources, and, where Brambles holds plantations, meeting Forest Stewardship Certification. CHEP also identified 58 tree plantations that are suitable for their pallets, none of which are on IUCN’s Red List of Threatened Species “endangered” list – although two are “near threatened” and one “vulnerable”. Brambles continue to work with suppliers to limit the use of these pines.

Brambles also work to extend the life of their pallets, which in turn contributes to Productivity (including Human Capital) and Licence to Operate. In line with its target of zero lumber waste to landfill by 2015, CHEP is implementing a number of programs. Improved productivity in CHEP’s USA waste stream has improved the recycling of lumber waste to over 80 percent, and is used in various products, such as heating fuel and energy production. In Europe, 23 usable elements per pallet are reclaimed from end-of-life lumber. Lower quality scrap lumber not suitable for repair is mulched and used for landscaping, garden projects, making compost or energy generation.
Deforestation

Value drivers for Deforestation

Of the 30 companies that identified with this megaforce, only three companies identified any associated value drivers, two from the Food & Consumer Staples Retailing sector and one from Forests & Paper Products (Figure 23). Of these three companies, all identified with Licence to Operate; two with Brand Value & Reputation, one with Attracting Customers and one with Productivity (including Human Capital).

The rate of destruction of forests worldwide is significant and the outlook bleak. It is therefore surprising to see no company attribute Risk Profile to Deforestation.

Figure 23: Number of companies by sector attributing each value driver to Deforestation
The Forest Stewardship Council (FSC) was created in the early 1990s after discussions between business and civil society recognized the link between the growing problem of deforestation and the need for a system that could credibly identify well-managed forests.

FSC works with stakeholders around the world to generate increases in the demand and the supply of products carrying the FSC Label.

Research within our networks has shown the demand side as being the strongest current driver of growth in the sourcing of FSC Certified product. Both consumer and corporate demand underpin this.

Companies may seek a competitive advantage, while others may simply want to ensure access to an international marketplace that is increasingly aware of the negative social and environmental impacts of unmitigated deforestation.

However, in the face of increasing global deforestation, more companies are also recognizing the need to lock in sustainable long term supply. For many, FSC certification is an important assurance that the forests they source from are managed to ensure long term economic, social and environmental viability.

The challenge moving forward continues to be ensuring that supply meets demand, and vice versa, as we work to scale up FSC’s influence and impact. Increasing the awareness of companies and consumers regarding the link between responsible forest management and other issues such as carbon storage, socio-economic development and the maintenance of water catchments will be vital.

Natalie Reynolds, Chief Executive Officer, Forest Stewardship Council Australia
Food Security

Food Security as a megaforce
Access to sufficient affordable food will come under threat over the next 20 years, as other megaforces – Population Growth, Water Scarcity, Climate Change, and Deforestation – dramatically impact global food prices. Agriculture will have to compete for access to land and water supplies with other resource intensive industries, such as mining and forestry. It is likely that regulatory intervention will be necessary to avoid local food shortages and overfishing.

The global, rising middle class, centred on Asia, will see increased demand for Australian food in years to come. Meat exports, for example, are expected to increase to 52 percent of Australian food exports by 2050.

In Australia, the agricultural sector accounts for 2.4 percent of GDP in 2010-11, and 7.5 percent of jobs in regional Australia. As Australia’s population urbanises and ages the number of farmers are declining, as are the number of agricultural students, suggesting that there may not be sufficient labour for this market in years to come.

Food waste in Australia was estimated to account for 35 percent of municipal waste and 22 percent of commercial and industrial waste, and contributes to 33 percent of greenhouse gas emissions from solid waste [21]. The total cost of food waste is A$5.2 billion per annum.

Changing consumption patterns will also affect food security. While organic and fair trade products are on the increase, so too are pre-prepared, processed and take-away foods. Some Australians in regional and remote communities, or those on low incomes, may face challenges in being able to access healthy and affordable foods, with food now accounting for 19 percent of household expenditure in low income households, four percent higher than high income households.

ASX50 identification with Food Security

Food Security was the megaforce least identified with by ASX50 companies, with only 15 companies identifying with the megaforce (Figure 24). The sectors that most identified with Food Security were the Mining & Metals, Forest & Paper Products, Foods & Consumer Staples Retailing, and Materials sectors.

Disclosures by companies in relation to Food Security predominately included commentary on minimising food waste, advancing farming innovation, and general land remediation to improve agricultural outcomes.

For those sectors that are associated with food production, discourse related to improving agricultural outcomes, ensuring food longevity and food safety for consumers; whereas, for those companies operating in environments with low food security, the focus was on enabling agricultural production to ensure sufficient nutrients for the community. For the Banks, Diverse Financials & Insurance the focus was on creating a global economic environment that would ensure investment in agriculture remained strong.

It was surprising to see that the Construction & Real Estate, Energy and Transportations sectors, who could have a significant impact on soil quality and conflicting land uses, did not identify more with Food Security.
Woolworths

Woolworths’ Fresh Food Future program works with partners across Australia to enhance the sustainability of Australian agriculture and safeguard Australia’s future food security.

The program was established in 2007 to promote sustainable agriculture, reducing their Risk Profile in this megatrend. It focuses on two key areas: skill shortages – attracting young people and talent to farming; and increased productivity and innovation – helping reduce the lag time between Research & Development and on-farm adoption of innovation.

Woolworths has invested over A$9 million in its Fresh Food Future program to date, of which A$6.5 million, in partnership with Landcare Australia, has been invested in 180 projects to help farmers adopt innovative farming methods. The remaining A$2.5 million has been invested in developing talent and leadership in the agricultural sector.

Woolworths has also developed a commitment to zero waste by 2015 and is on its way to achieving this target. Woolworths’ strategy has involved improved ordering and stock rotation to limit products going out-of-date, and discounting blemished produce or products with damaged packaging to generate sales rather than losses. Woolworths has partnered with Foodbank and local food charities, and has established diversion programs, which sees food diverted from composting and waste to energy facilities.
**Value drivers for Food Security**

Of the 15 companies that identified with this megafocus, only four identified any associated value driver, all from different sectors (Figure 25). Brand Value & Reputation (four companies) was the most commonly used value driver, followed by Attracting Customers (two companies) and Licence to Operate (two companies). The remaining value drivers were each identified by one company.

One company, from the Food & Consumer Staples Retailing sector, stood out in identifying with five of the six value drivers, excluding Licence to Operate.

![Figure 25: Number of companies by sector attributing each value driver to Food Security](image-url)
The fact that these results appear to show complacency about food security is perhaps indicative of the excellent access to food that many of us currently enjoy in Australia.

Nevertheless, globally, food security is a looming threat for affluent societies, just as it is a current issue for many developing nations.

As weather patterns change, as the global population approaches 9 billion and the natural resources that underpin our ability to produce food cheaply and efficiently decline, Australia’s agribusinesses are also affected, with broad economic and social impacts.

While some agribusinesses in Australia would be aware of the looming food crisis, the ability to enhance food security lies within the sphere of influence of the entire business community.

Financial institutions can influence how much climate changing pollution ends up in the atmosphere through the flow of capital. Paper companies can choose whether to support forests that also protect land, water and biological resources. Construction companies can choose whether to develop arable lands or how they impact on fresh water sources.

The good news is food production methods are continuing to improve, allowing us to produce more food, more efficiently with less land. But the threat of food insecurity remains, particularly to the poorest in societies. In a global economy, businesses involved in all aspects of feeding 9 billion people, are key solution providers to ensure a stable, prosperous and equitable future.

Dermot O’Gorman
Chief Executive Officer, WWF - Australia
Driving value from the sustainability context

Observations of companies across sectors & market capitalisation

This research has sought to investigate if there was a correlation between those companies that were able to consistently identify with multiple characteristics of megaforces, and those which consistently align with multiple value drivers. Did companies focus on identifying just a limited number of material megaforces, but then push the value drivers across every angle? Or did those that demonstrated a sophisticated understanding of megaforces, also tend to identify on average with more value drivers per megaforce?

In general terms, those companies that identified with more characteristic of the megaforces also identified with more value drivers per megaforce (Figure 26). Similarly, those companies that identified with fewer characteristics of the megaforces also identified with fewer value drivers per megaforce. There were few companies that focused on a limited number of megaforces and created the business case using many value drivers.

From a sectoral perspective, the Mining & Metals sector broadly identified with many megaforces and many value drivers per megaforce. The Materials, Food & Consumer Staples Retailing, and Energy sectors also tended to fall broadly into this quadrant. The Transportation, Media, and Consumer Services sectors tended to fall into the quadrant that identified fewer megaforces and fewer value drivers. While Banks, Diverse Financials & Insurance, and Construction & Real Estate sectors were more evenly spread, although the majority did fall below average regarding the identification of a number of value drivers.

Figure 26: Companies by sector, total megaforce characteristic by the average number of value drivers per megaforce
This research then sought to investigate if consistently identifying global megaforces and multiple value drivers differed amongst company rankings within the ASX50. Figure 27 shows that while the ASX20 identify with megaforces well, they are spread regarding their recognition of multiple value drivers. The majority of the ASX30-50 sits in the quadrant with low recognition of megaforces and value drivers. That said, a noticeable number of companies within the ASX21-30 have both high identification with megaforces and high level of use of value drivers.

It is not within the scope of this research to investigate why these findings are the case. However, to provide some clue of the enabling factors that allow some companies to have this oversight, interviews were conducted with companies that demonstrate a sophisticated understanding of megaforces, and who also identified on average with a significant number of value drivers per megaforce. This is explored in the next section of this report.

Figure 27: Companies by market capitalisation, total megaforce characteristic by the average number of value drivers per megaforce
Enablers for driving value
Enablers for driving value

This research was able to identify that some companies were able to consistently identify with more characteristics of the megaforces, and a higher ratio of value drivers per megaforce, demonstrating greater oversight and understanding of the sustainability context within which they operate and the value that this creates for the company. This research has then sought to understand the common enablers that have allowed these companies to achieve this outcome.

In order to verify if particular enablers allowed some ASX50 companies to drive value from the megaforces with which they have identified, a small number of interviews were conducted with companies from a diverse range of sectors – all at different stages in the evolution of corporate sustainability. From the interviews and their public disclosures, it was clear that to progress along the corporate sustainability spectrum, companies needed to enable particular organisational processes to drive value from megaforces.

**Corporate governance**

The way in which sustainability is positioned and governed within an organisation is critical to it being successfully aligned with corporate strategy. Board understanding and commitment to corporate sustainability is often the first element that will allow sustainability to be embedded within an organisation. Five of the seven companies interviewed had board committees dedicated to sustainability. This dedicated focus on sustainability gives the board a unique view of medium to long term risks, and a deep understanding of stakeholders’ views of the company.

> When we established the Chief Sustainability Office, it was really important we had good governance structures at the most senior level. The Telstra Executive team and the Board have been genuine champions of sustainability at Telstra.  

*Tim O’Leary*  
Chief Sustainability Officer, Telstra

Many companies also commented that commitment and leadership from the chief executive and executive leadership team is critical. It is here at which corporate culture and values are set, and where decisions regarding investments and financial allocations are made. Tying remuneration at the executive level to sustainability performance is a common practice.

Some companies have created internal or external sustainability councils, which bring together key staff from the executive and/or middle management, or leaders from civil society to assist the organisation to embed sustainability and to keep on top of emerging topics and systemic tensions. For these companies, the primary sustainability council is often supported by specific issue-based committees, such as indigenous or environmental management committees. This cascading of committees, particularly within very large companies, ensures that the right people are staying on top of the right issues at the right time. It also ensures the insights and debates are communicated to the executive management and board.

The development of sound sustainability policies, standards, procedures and protocols is also reflective of companies that have embedded sustainability. Balancing a compliance approach with a softer ethical decision making approach is also important to ensuring that employees can do the right thing in the right circumstance.

While each of these governance elements is vital, nearly all interviewees expressed the importance of company culture and organisational values as ultimately motivating an organisation to embed sustainability.
Stakeholder engagement

Companies who drive value from sustainability are more likely to create robust sustainability strategies informed by a wide range of stakeholder perspectives – be they providers of capital, customers, government, employees, suppliers or community. Stakeholder engagement allows an organisation to understand its stakeholders’ needs and expectations in order to make decisions on how to best address them. Strong stakeholder engagement processes are proactive, transparent, and involve a wide range of divergent activities [2]. Accountability to internal and external stakeholders is also a key feature.

Stakeholder engagement can be a source of competitive advantage. Done well, stakeholder engagement builds trust and cooperation over the long term and can allow a company to pursue more efficient terms of contracting [2]. Furthermore, external stakeholders, particularly investors, are essential allies in ensuring sustainability remains a focus of the organisation, particularly within a changing business environment.

There are three features of stakeholder engagement that are evident in companies aspiring to be leaders in sustainability [2]:

- **Before engagement:** Companies are more likely to train their managers in stakeholder management practices, and perform their due diligence by undertaking an examination of costs, opportunities and risk. They also identify issues and stakeholders that are important to their long term success.

- **During engagement:** Companies will ensure that all stakeholders raise their concerns and develop with their stakeholders a common understanding of the issues relevant to the underlying issue at hand. These companies will agree with the involved stakeholders: the target of the engagement process; the type of engagement; and appropriate grievance mechanisms.

- **After engagement:** Companies will provide feedback of the engagement directly to the board or other key departments and they will make the results of the engagement available to the stakeholders involved and the broader public.

An important element of having a wide reaching and deep stakeholder engagement process is to allow companies to better understand and tackle the complex tensions that surround the systemic and multiple issues of sustainability. Tensions can appear where different stakeholders have different concerns surrounding a single issue. Balancing a company’s position on a particular topic, where stakeholder views are opposing, can be difficult. Understanding all stakeholder views is important to inform decision making.

Building upon successful stakeholder engagement, several companies also mentioned the future role of **collaboration** and **partnerships** in addressing value adding corporate sustainability and risk avoidance. Meaningful engagement with stakeholders opens a narrative that allows potential partnerships and collaborations to emerge, which can be mutually beneficial to all parties. These partnerships will allow complex, multidimensional and multi-stakeholder issues of sustainability to be addressed, while creating value for an organisation.

Our corporate culture, along with prevailing investor attitudes, makes it very unlikely that AGL would dramatically alter our approach to sustainability.

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**John Hobson**

*Head of Capital Markets, AGL*
Enablers for driving value

Accountability and transparency
Measurement and disclosure of non-financial data is another enabler that can help drive value from sustainability. Transparency and accountability builds trust and is increasingly expected by stakeholders. It is vital for internal and external stakeholders to have access to appropriate performance metrics in order to inform decision making.

All the companies interviewed adhered to multiple international sustainability frameworks, principles or indices. These include the Global Reporting Initiative, Dow Jones Sustainability Index, CDP, United Nations Global Compact and Integrated Reporting Framework.

Assurance is critical and it is coming… when the stock exchanges start requiring assurance, people are going to want it assured. There is a real maturation in the assurance processes.

Clare Luehman
General Manager Global Sustainability & Carbon, Incitec Pivot Limited

There was also a tension amongst companies interviewed regarding the burden of reporting and disclosure. Companies identified several benefits from measurement and disclosure. Firstly, it acts as a management tool, helping companies improve their performance year-on-year. Secondly, it helps companies think about and manage the complexity and systemic nature of sustainability issues. Finally, it is a communication tool for organisations to be accountable and transparent to its stakeholders. It gives a narrative to the role of the company in context and builds further trust with their stakeholders.

Long term investment
A long term perspective is demonstrated by companies that have embedded sustainability into strategy. It was clear from the interviews that the investments being made in sustainability – the sophisticated governance structures, the building of long term relationships, and the careful considerations of complex and systemic issues of sustainability – reflect long time horizons and long term decision making. Furthermore, capturing data on sustainability issues over the long term also allows companies to avoid surprises and prepare for regulation (where it emerges).

There’s no doubt that the transparency agenda will continue to intensify and we will be under increasing pressure to release more information and data, however, there is a point at which that doesn’t actually increase transparency… What we would like to see is the disclosure of information relevant to our businesses and our stakeholder’s interests in a form that they can use and interpret correctly.

Ian Wood
Vice President Community Relations and Sustainability, BHP Billiton

Lenders are more comfortable with PNG risk because we have a good track record. Ten years ago all the banks required political risk insurance to lend to Oil Search. Now the majority of them don’t require that anymore, so we borrow from those banks without any political risk insurance because they recognise that we manage PNG in-country risks proactively.

Stephen Gardiner
Chief Financial Officer, Oil Search

A long term approach to sustainability and decision making was generally found to pay off. For some companies, a long term approach to sustainability is now a source of competitive advantage, by providing access to new markets and increasing access to capital.
The transition to a sustainable economy is inevitable as global populations and consumption grow, societies rise out of poverty, environments degrade and scarce resources are stretched. Companies must prepare for these pressures, which will most certainly impact their business.

The successful navigation through this transition is dependent upon the ability of companies to identify and respond to the sustainability context in the short, medium and long term, whilst also understanding the perspectives of internal and external stakeholders regarding the impacts that the business creates. It is the nexus between these factors that enables a corporation to be well prepared for sustainability risks.

This research demonstrates that a handful of leading companies consider sustainability as core to corporate strategy. These companies understand their sustainability context and espouse a sophisticated understanding of the megaforces. They are working across the organisation to drive value, to eliminate threats and take advantage of the opportunities. They consistently identify multiple value drivers that reach across the organisation and sustainability is critical to their corporate strategy.

It is promising that most companies are addressing the impacts of their operations; however they do not demonstrate a regard for the ways in which they might be impacted by shifting global dynamics. The threat of the strategic sustainability risks coupled with new reporting requirements in this area, presents an opportunity for companies to communicate a more sophisticated understanding of the sustainability context.

A majority of ASX50 companies focus on compliance, short term mitigation and efficiency gains, rather than the complex and systemic megaforce whose impacts are felt over the short, medium and long term.

Company identification with most of the megaforces tends to be narrowly focused on one characteristic of each megaforce, and did not deal with the holistic complex nature of individual megaforces, or their impacts compounding upon one another.

For example:

- Within Water Scarcity companies were more likely to focus on water efficiency strategies than investigating the risks associated with future water scarcity issues
- Within Urbanisation and Food Security, companies related almost entirely with waste management strategies. Few were able to draw a link to other features of Urbanisation such as infrastructure and amenities required in a growing urban population; or Food Security associated with Population Growth, the growing middle class and increased meat consumption
- In Material Resource Scarcity and Deforestation, ASX50 companies related almost entirely to the efficient consumption of energy, water and paper; as well as the introduction of recycling initiatives. Few explored the deeper challenges within each of these themes, such as the impacts of changing land use practices on Deforestation and its associated systemic impacts on ecosystem decline

There is little evidence of companies having thought systematically about the issues of sustainability that confront them, or undertaken thorough investigations to understand megaforces and their implications for the business. To create a resilient economy, businesses will need to address the causes of what affects their operations not just the symptoms. Systems thinking around sustainability embraces the entire structure of the megaforces rather than their individual characteristics [1], and to how megaforces compound each other.

Companies are not only falling short of demonstrating a sophisticated understanding of the megaforces, they are also failing to draw upon the significant value creation opportunities that these megaforces present. Those companies that identified with fewer megaforces were also more likely to identify less value drivers per megaforce.

Twenty-two companies used less than one value driver on average per megaforce with which they identified – meaning for many megaforces, there was no justification as to why they were considered valuable to these companies. In addition, for seven out of ten megaforces, less than half of the companies that identified with the megaforce attributed any value driver.

While Brand Value & Reputation was the most frequently cited value driver within each of the megaforces, companies are failing to capture the value of sustainability for Securing Investment. Securing Investment was rarely disclosed as a value driver amongst ASX50 companies, with less than five percent of all value drivers used being attributed to Securing Investment. In fact, the maximum number of companies using this value driver for any one megaforce was just five companies (within the Energy & Fuel megaforce).

The use of value drivers is key to maintaining cross-organisation ownership of sustainability issues and ensuring action to address stakeholder concerns. Investors are increasingly demanding to understand how companies drive value from sustainability, therefore it is concerning to see that there is such little use of value drivers, and particularly multiple value drivers across each
Conclusion

Broadly, most ASX50 companies are simply not connecting the sustainability context and stakeholder concerns to their core business.

However, a small handful of companies are driving sustainability from the top, embedding it throughout the organisation, and have a culture which focuses on the long term. They also have excellent stakeholder relations, bringing the stakeholder voice within the organisation to inform decisions, and are transparent and accountable to these stakeholders.

It is the companies with these enabling factors that are better positioned to understand the sustainability context within which they operate. They have deep and long term relationships with their internal and external stakeholders in order to better understand and mitigate the sustainability risks to which they are exposed. Through this, these companies will be better able to recognise and drive value from sustainability for their business.

**Recommendations**

- Organisations should seek to understand the sustainability context within which they operate. They should draw from objective and available information and peers and experts that understand the conditions and goals that may affect the business locally, regionally and globally over the short, medium and long term. They should think about the complexities and systemic impacts inherent within these issues, how they create compounding impacts upon one another, and factor these conditions into their decision making and engagement with stakeholders. Detailed and systemic scenario mapping should inform decisions about the future.

- Lack of certainty surrounding complex issues of sustainability should not prevent company action. Where a company has sought to be reasonably informed on the sustainability context and stakeholder concerns, the board should be supported to act on sustainability.

- Investors and regulators need to create the right incentives to enable the board to take a longer term view.

- Companies should seek to understand where the sustainability impact occurs, within the businesses sphere of control or their sphere of influence. Companies should then treat these impacts appropriately.

- Companies should seek to create the conditions that enable sustainability to be embedded within the organisation. Sustainability-related risks should be held as a responsibility of the board and executive management team (as is emerging with the changes to the ASX Corporate Governance Principles) – with risk treatment aligned to broader organisational enterprise risk management.

- CFOs, risk managers and actuaries should seek to better understand the limitation of traditional approaches to risk identification when considering sustainability risks. They should seek to understand the sustainability context and views of their stakeholder to understand sustainability risk.

- Boards and executives should inform company decisions with the concerns of their stakeholders. The stakeholder voice should be brought within the organisation. Companies should develop deep and long-lasting relationships with their stakeholders. Engagements should be strategic and proactive, and insight from the engagement should cascade through the organisation informing decisions across the organisation and amongst the board and executive.

- To maximise opportunities presented in managing sustainability issues and in driving value, companies should think across business functions regarding material sustainability issues and common stakeholder concerns. This will guide a company to not only understand how they can develop innovative solutions to broad stakeholder concerns, but will assist the business in addressing these issues systematically.

- Relationships with stakeholders should inform robust sustainability strategies, with transparency and accountability underpinning the company’s commitment to sustainability.
Bibliography
Bibliography

Glossary

• **Licence to Operate**: refers to the level of acceptance of a company and its activities by its stakeholders. These stakeholders typically include government, local communities, the general public, the media and civil society. A Licence to Operate provides a company with the legitimacy to conduct its operations and having a strong Licence to Operate provides companies a margin of error when negative events occur.

• **Risk Profile**: describes a company’s accountability regarding their actions and impacts and how they answer to, and report on, these impacts to government (through regulation) and to civil society (negative media exposure). A company’s approach to Risk Profile has direct financial implications as the risk of a negative event, for example extreme weather, can impact upon operational risk and a company’s ability to maintain production.

• **Securing Investment**: refers to a company’s ability to access both equity and debt capital, which fuels company growth and their ability to invest and expand.

• **Productivity (including Human Capital)**: relates to a company’s ability to turn inputs into productive outputs in a cost-effective manner; be it through maximising corporate knowledge from attracting, retaining and developing employees or a company’s operational efficiency, achieved by minimising costs and maximising resource productivity.

• **Attracting Customers**: pertains to a company’s ability to attract and retain customers via its products, services, brand and reputation.

• **Brand Value & Reputation**: reflects greater loyalty among existing customers and continual improvement in reaching new customer bases.
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Citation

When citing this report, please use:
CPA Australia, KPMG Australia & GRI Focal Point Australia (2014) From Tactical to Strategic: How Australian businesses create value from sustainability, GRI Focal Point Australia, Sydney

cpaaustralia.com.au
kpmg.com.au
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