Towards a sustainable economy

The commercial imperative for business to deliver the UN Sustainable Development Goals
The University of Cambridge Institute for Sustainability Leadership

For 800 years, the University of Cambridge has fostered leadership, ideas and innovations that have benefited and transformed societies. The University now has a critical role to play to help the world respond to a singular challenge: how to provide for as many as nine billion people by 2050 within a finite envelope of land, water and natural resources, whilst adapting to a warmer, less-predictable climate.

The University of Cambridge Institute for Sustainability Leadership (CISL) empowers business and policy leaders to make the necessary adjustments to their organisations, industries and economic systems in light of this challenge.

Rewiring the Economy

Acknowledging the Economy is our ten-year plan to lay the foundations for a sustainable economy. The plan is built on ten interdependent tasks, delivered by business, government and finance leaders co-operatively over the next decade, to create an economy that encourages sustainable business practices and delivers positive outcomes for people and societies.

The United Nations Sustainable Development Goals (SDGs) represent a global strategy for achieving economic growth that is consistent with the planet’s carrying capacity, society’s basic needs and priorities, and the capabilities and stability of the economy.

Achieving them will be both a unique opportunity and a profound challenge. To maximise the chances of delivering the SDGs effectively and efficiently by 2030, a compelling business narrative and a systemic approach are required to help shift current thinking about economic progress towards models that deliver sustainable development.

Without this shift, business commitment is unlikely to be sustained and rewarded with commercial success.

Executive summary

Key findings of this report include:

1. There is no business as usual. The operating context for business is already changing, increasingly characterised by scarcity, disruption and instability, while societal shifts and changing expectations mean that companies are being asked to take a more active role in addressing society’s problems. Delivering the SDGs will involve radical changes and innovations, but many of the business models and practices that are expected to reshape industry are already emerging.

2. There is a strong commercial case for business to lead the shift to a sustainable economy that can deliver the SDGs as a whole. Failing to deliver will result in disruption and missed opportunities for business.

3. Delivering the SDGs will create winners and losers. Early movers, who align products, services and practices with a sustainable economy, gain and less to lose. Slow adopters face major risks and costs.

4. Delivering the SDGs will require, and trigger, structural transformations. A systemic perspective is needed to manage shared risks and opportunities, and enable companies, governments, investors and other actors to work effectively together.

5. To maximise the chances of moving to a sustainable economy, companies can take specific approaches to: align their core business with the SDGs; help build commitment and ambition on key issues in their sector; and create space for innovation and leadership in the wider system. Most of these approaches are collaborative and require a long-term view.

6. Making sustainable practice the norm will depend on enabling the right operating context, for example government policies and financial market incentives, which will need to be based on a new quality of relationship between business, government and finance.

Comprehensively assessing business cases across 17 Goals and bringing them into a practical and inspiring agenda is challenging for business and individual leaders, but there is an emerging commercial case for moving towards a sustainable economy. This report shows that there are strong indications of robust commercial incentives to see the SDGs succeed, and for business to help deliver them. Not only are there sizeable growth opportunities associated with implementing the SDGs, but failing to do so would undermine business continuity and stability.

Given the significant interdependencies between the SDGs, and their scale and urgency, cherry-picking the SDGs that have the easiest business case would be insufficient and potentially counterproductive. A more holistic approach is needed, whereby the SDGs are delivered through a vision for the future of business in society that is capable of: inspiring interest and creativity, identifying opportunities for future growth, and framing strategy for difficult trade-offs and problem solving.

Companies will have to focus on a systems approach to actively ‘rewire’ the operating context.

Forward-looking companies can demonstrate the case for long-term value creation. They can play a significant role in ensuring economic development is consistent with the outcomes demanded by the SDGs, making it easier for governments to take the political leadership needed.

We have identified at least eight business-led approaches that have the potential to promote systemic change towards an economy that delivers the SDGs.

Align the core business with sustainable outcomes

1. Acknowledge the need for change and position the business for a sustainable future.
2. Experiment with sustainable business models.
3. Treat the SDGs as a holistic agenda.

Demonstrate leadership on key issues and build followership

4. Take an early lead on the most material issues and communicate your ambition to others.
5. Set a vision for a sustainable sector and build the evidence for others to follow.

Create space for innovation, collaboration and leadership

6. Bring the key parties on board to create a better conversation and collectively intervene.
7. Bring people along on the journey.
8. Help governments raise the bar.

Adopting these approaches will require new strategies and capabilities that are not commonly found in mainstream business today. These include: an openness to a long-term, science-based perspective and to ‘incomplete’ versions of the future; the ability to operate collaboratively; the confidence to challenge the current paradigm; and to use one’s position to set an agenda for the direction of the business in an uncertain context.

However, the companies we represent are already demonstrating many of these characteristics and positioning themselves to benefit by helping their sectors and wider societies to become more sustainable. What’s more, we suggest that leading companies have both the appetite and a strong interest to set the stage for change - and reap the commercial benefits of delivering the SDGs.
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The UN Sustainable Development Goals (SDGs) are a comprehensive set of global economic, social and environmental priorities that are to be achieved by 2030. Taken together, the SDGs represent a global strategy for sustainable growth that provides business with a long-term direction of intent.

This report is based on the findings of the University of Cambridge’s Institute for Sustainability Leadership (CISL) Rewiring the Economy Inquiry Group. It identifies key trends, risks and opportunities that, together, indicate why and how business can engage with the SDGs. It is recommended that additional rigorous research and a full cost benefit analysis are undertaken as a next step.

At its heart, this report provides a commercial case for action. It examines how delivery of the SDGs is imperative for business, in terms of both the anticipated corporate growth and revenue opportunities, and also the cost of inaction, such as opportunities missed or value destroyed. The intention of this initial assessment is to provide helpful insights into commercially-relevant trends, and encourage more companies to explore their individual case for change, including how to create and protect value.

The report is relevant for anyone who is interested in better understanding the commercial drivers for sustainable business, and the opportunities for change. It is primarily aimed at business leaders considering their commitment and approach to the SDGs, and policy makers tasked with their implementation. It is intended to encourage business leaders to examine their own case and capabilities for change and to engage effectively, and collaboratively, with the SDGs.
Part 2

The relevance of the SDGs to business

For business, the SDGs represent a unique opportunity by providing:

- A global framework with a visible set of outcomes, which is endorsed by government, society and business.
- A long-term horizon that offers direction for policy, investment and innovation, pointing to new, mostly untapped, markets.
- A common language on social, environmental and economic issues that can help to improve communication, co-ordination and collaboration.

However, it is not evident how the current path and prevailing models of the global economy can deliver the SDGs without significant changes. And despite business being widely seen as a key SDG funder and delivery partner, the commercial motivation and the role of business in implementing the SDGs remain unclear.

If the global economy is to generate outcomes that come anywhere close to achieving the SDGs, businesses will need to shift the conversation away from how they can contribute to the efforts of governments, towards why and how they will deliver them, in terms of corporate risk, growth and resilience.

Launched in 2015, and endorsed by more than 190 governments, the SDGs are a set of 17 global priorities, ranging from growth, sustainable cities and climate change, to poverty, health and education. They are:

Interconnected:
None of the Goals can be delivered in isolation.

Universal:
They apply equally to developing and developed countries.

Comprehensive:
To date there are 17 Goals, 169 targets and 230 indicators.

Ambitious:
No country is close to achieving them yet.
Rewiring the Economy: ten tasks, ten years

Rewiring the Economy is CISL’s ten-year plan to lay the foundations of a sustainable economy that is capable of delivering the SDGs. The plan starts from the principle that the economy can and should be delivering the outcomes demanded by the SDGs. It outlines a set of ten interconnected ‘tasks’ that target the systemic changes required across government, finance and business, including businesses’ role in enabling the structural and cultural transformations needed.

These tasks are not unique to the plan. Rather, Rewiring the Economy shows how they can be tackled co-operatively during the next decade to create an economy that encourages sustainable business practices, and thus delivers the positive social and environmental outcomes demanded by the SDGs.

Rewiring the Economy arranges the 17 SDGs into six areas of social and environmental impact: basic needs, wellbeing, decent work, climate stability, resource security and healthy ecosystems. Each impact area encompasses one or more SDGs, making it easier to visualise the connections between them. The Investment Leaders Group (also convened by CISL) is developing a set of metrics to help companies assess their social and environmental impact in each area.

Figure 2: Six outcomes and ten interconnected tasks

1. Scale and urgency

There is real concern among forward-looking companies that the ambitious, long-term and holistic nature of the SDGs is not consistent with how most industries currently operate, the signals from financial markets, and the incentives and objectives laid down by governments. The major shift required to correct the current path of the global economy is too extensive to be delivered by any single actor or sector alone, especially if the SDGs are to be achieved by 2030.

2. Current social and political context

Meeting the SDGs will require companies, as well as other actors, to adopt a long-term, system-wide strategy. Such an approach will be essential to address key implementation challenges, including:

3. Business responsibility

One executive survey across nine key sectors shows that more than a third of the SDGs – including the ones relating to poverty, inequality, ecosystems, peace and justice and, surprisingly, cities – were not seen as a material priority for business. Yet we have seen signs of changing public expectations, such as increased transparency from big companies and a greater role of business in solving key challenges and speaking up for the values, priorities and needs of employees and communities. Many of these areas may lie outside the comfort zones of business, but some companies are already communicating in this way or coming together to raise these concerns, as exemplified by the Chief Executives of General Electric, Apple and other US companies regarding climate change and international trade.

4. Interdependency

Almost none of the SDGs can be delivered effectively in isolation from the others. “No SDGs interact with one another – by design they are an integrated set of global priorities and objectives that are fundamentally interdependent.”

To deliver the SDGs business needs to take a systemic perspective and engage alongside other actors in driving change to manage shared risks and opportunities and to reap the commercial rewards. These risks and opportunities are explored further in part 3.

“If the operating conditions for business were to change – the policy environment, accounting techniques, cost of capital and business norms of particular industries – so too would the economics of sustainable business.”

Rewiring the Economy (CISL, 2015)
3.1 Major trends shaping the business operating environment

Following the publication of Rewiring the Economy, we asked ourselves: what is the commercial case for implementing the SDGs and what are the priorities for change? To answer these questions, we first examined key business and sustainability trends that will be shaping each sector during the next decade.

These trends reveal that the operating context is shifting and challenging, and that business needs to respond or face significant disruption. Any forward-looking commercial case must take account of this and not assume there is a ‘no change’ scenario for business as usual. Factors such as demographics, regulation, new technologies, customer trends or ecological events can influence the operating context of current business models. Our discussions highlighted the following four main changes and trends:

1. Dwinding capacity of natural ecosystems, increasingly limited resources and climate-related impacts and shocks are likely to affect business models and continuity.

For example, the decreasing availability of land for agriculture and forestry is creating operational disruptions for companies relying on primary inputs. At the same time, there are signs that climate instability and limited natural resources are beginning to affect economic development, adding to conflict - population movements and instability.

“Our market, like most, flourishes when there is civil unity, relative peace and a sense of security in the community. Population movements, particularly when driven by scarcity and conflict over vital resources like food and water, can lead to civil unrest and security incidents. Security concerns mean fewer people, less business and increased security costs. Investment and confidence can falter.”

Louise Ellson, Hammerson plc

2. Changing consumer expectations, preferences and lifestyles, accelerated by digital innovation, could disrupt many sectors.

Changing trends around health and consumption in mature markets – such as growing health consciousness, concerns for animal welfare and the environmental impact of red meat production, particularly among the young – are resulting in lower dairy, meat and alcohol consumption, and a preference for locally-sourced products. New market entrants, such as tech companies in the transport sector, are bringing different values and features to challenge incumbents, including autonomy and connectedness. These values appeal to new customers and can severely undermine the competitive position of incumbents who find it challenging to think beyond their existing business model and ways of working.

3. Stronger environmental regulation may affect current models of profitability but also create new opportunities and encourages innovation and market growth.

The closer we get to environmental limits, and the clearer the impacts, the greater the public pressure will become for environmental responsibility and government intervention on issues such as resource stewardship, pricing of externalities and new environmental standards. Shifting public expectations and well-designed regulation can provide the impetus for innovation and new growth. For example, the development of the circular and sharing economy opens up economic opportunities for businesses that move from product to service provision, and creates opportunities for collaboration with new partners.

An example of this is Jaguar Land Rover’s REALCAR (REcycoyled Aluminium CAR) project, launched in 2008 in collaboration with US aluminium can recycler Novelis and funded by Innovate UK. Supported by CSLI, this project sought to create a closed-loop value chain to recycle vehicles at the end of their lifecycles and has led to Jaguar Land Rover making a commitment to incorporate a sustainable aluminium alloy that contains up to 75% recycled content into all of its vehicles.

4. Rising political uncertainty and protectionism hampers co-ordination and encourages short-term thinking.

Recent challenges to the geopolitical order, widespread dissatisfaction with governing elites and populist insurgencies threaten to slow progress towards implementing the SDGs. In this environment, it is unlikely that the short-term, narrowly-defined attitudes towards investment and returns and unco-ordinated policies that incentivise unsustainable business practices will change dramatically. At the time of writing, although these trends do not appear to be changing the overall direction of travel, significant political uncertainty remains.

For all the sectors involved in this inquiry, social and environmental issues are already shaping the operating context. The pace and scale of the trends will undoubtedly play a role in the implementation of the SDGs. On their own, however, these trends cannot tell us whether the operating context will either remain on a business-as-usual trajectory or shift to a more sustainable one. What’s more, we suggest that business today has little direct control over most of these trends. However, business could be much more influential if it started working differently with peers and other sectors.
Two scenarios for 2030

1. ‘Stuck in a conventional world’

A business-as-usual or ‘dynamic-as-usual’ scenario where, despite notable progress, the world remains off course on meeting most of the SDGs.

Although the amount of SDG-related investments by business and government continues to rise, the lack of collaboration, long-term vision and leadership means that most of today’s challenges exhibit only small improvements above historical trends. Most countries have not learned the lessons from major crises, and critical planetary boundaries may be breached, further exposing at-risk populations and undermining economic growth. Improvements in resource management, water efficiency and agricultural productivity are not enough to compensate for major problems, such as land degradation and the loss of ecosystem services, which exacerbate vulnerabilities in food, water and energy security.

Using outcomes and targets laid out in the SDGs, and insights from recent future-looking exercises in the literature, we present two different visions for 2030:

- C I S L’s ‘Rewiring the Economy’ plan starts from the principle that “the economy can, and should, be delivering the outcomes demanded by the SDGs”. For some, however, the SDGs remain a set of purely aspirational tasks for government, or a corporate responsibility box-filling exercise for companies, or else they are viewed as largely irrelevant to most citizens and consumers.

To examine the commercial case, we developed two high-level scenarios that take account of the major trends (as previously identified) to explore which policies, behaviours and values reflect an economy that is delivering the SDGs, and which do not.

Looking into the future allows us to evaluate the task of implementing the SDGs against major drivers of change and uncertainties, and enables us to uncover risks and opportunities that are beyond our current thinking. Working back from the two 2030 scenarios helps us to evaluate how these may differ from today’s characteristics, and so build an understanding of the type and level of change that is likely to occur.

Using outcomes and targets laid out in the SDGs, and insights from recent future-looking exercises in the literature, we present two different visions for 2030:

- The relationship between business, government and markets remains political and transactional. Short-termism has prevented the emergence of new institutions or mandates.

- Environmental regulation and implementation differ significantly around the world, hindering global businesses.

- The value of assets at risk or ‘ stranded’ is an all-time high and financial markets are characterised by significant volatility.

- Renewable energy and green sectors continue to grow but many high-polluter industries are trying to create barriers to fight off disruptive new entrants who seek to change the rules.

- Technologies of the ‘Fourth Industrial Revolution’ have improved outcomes for some, but a lack of long-term planning means that many jobs are being lost to automation, causing dissatisfaction and exacerbating inequalities.

- A lack of leadership and public inertia have kept many sustainable models such as fast fashion competitive and only a few countries are attempting to address overconsumption.

2. ‘Moving towards a sustainable economy’

A transformative scenario where the world is on course to meet the SDGs.

Although the SDGs have not yet been met in full, and major issues such as inequality, security and climate stability require attention, a new trajectory has emerged that is aligned with preserving natural systems, eliminating hunger, improving job security and health, and tackling the worst effects of climate change. Most countries are learning the lessons from major crises and have started to align economic growth with sustainable development and climate change targets. The spread of new business models, financial mechanisms that provide improved accessibility and long-term regulations are helping to achieve a more equitable wealth distribution.

Undoubtedly the world in 2030 will include elements from both of these visions. Even so, there is little doubt that, although perhaps more convenient, a world of small improvements offers little to get excited about. A world that delivers the SDGs is a much more inviting place – a healthier society, cleaner cities and more empowered individual and communities.

This high-level exercise also highlights that many of the differences between the ‘sustainable’ and ‘conventional’ scenarios reflect different degrees of change – deep transformations against incremental adjustments. What’s more, the deep transformations involved in delivering the SDGs reflect completely different levels of co-ordination, engagement and transparency, as well as shared purpose and responsibility.

- Business sectors engage constructively with government to reform corporate tax structures, more accurately reflecting the true externalities of business activity.

- After “peak stuff”, investments in education, economic incentives and local engagement have inspired a deep review of common values and behaviours.

- All large companies use natural capital accounting to reveal a more holistic view of business performance, and most listed companies now disclose their strategies, risks and opportunities around the SDGs.

- Investors eliminate their reliance on fossil fuels and help channel capital towards high-performing sustainable companies, projects and technologies.

- Leading companies have spent a decade introducing sustainable business models and building a critical mass of customer support for higher environmental and social product standards.

- Consumers have the tools and information to differentiate in favour of products, services and companies that are aligned with sustainable outcomes.

- Urbanisation continues but good planning and management between communities, business and authorities have widened access to effective services and improved quality of life for most.

- Dietary changes and more active lifestyles have reduced the consumption of meat, and created growth for organisations that offer protein alternatives.

‘Anticipating exactly what will emerge when, where and at what level is challenging, if not impossible, so we present these two black-and-white scenarios to illustrate key differences. We recommend that a next step could involve a more extensive scenario-planning exercise and modelling to attach values to some of these parameters. These scenarios are not exhaustive and are not intended to provide direct comparisons on each selected topic, for example on taxation, regulation and consumption. Instead, they are used as different types of examples to illustrate different behaviours.’

Table 1: Summary of the key characteristics of the 2030 scenarios

<table>
<thead>
<tr>
<th>Policy and governance</th>
<th>Finance</th>
<th>Industry and business</th>
<th>Society</th>
</tr>
</thead>
<tbody>
<tr>
<td>The relationship between business, government and markets remains political and transactional. Short-termism has prevented the emergence of new institutions or mandates.</td>
<td>Market mechanisms designed to address social and environmental externalities remain weak, compromised by lobbying and poorly functioning political systems in most major economies.</td>
<td>Renewable energy and green sectors continue to grow but many high-polluter industries are trying to create barriers to fight off disruptive new entrants who seek to change the rules.</td>
<td>A lack of leadership and public inertia have kept many sustainable models such as fast fashion competitive and only a few countries are attempting to address overconsumption.</td>
</tr>
<tr>
<td>Environmental regulation and implementation differs significantly around the world, hindering global businesses.</td>
<td>The value of assets at risk or ‘stranded’ is an all-time high and financial markets are characterised by significant volatility.</td>
<td>Technologies of the ‘Fourth Industrial Revolution’ have improved outcomes for some, but a lack of long-term planning means that many jobs are being lost to automation, causing dissatisfaction and exacerbating inequalities.</td>
<td>High-consumption lifestyles and associated values persist, and continue to be adopted in developing countries. Many inequities are characterised by pollution and extreme social divides.</td>
</tr>
</tbody>
</table>
3.3 The business implications of the two scenarios by sector

The sustainable economy scenario might instinctively seem like the right bet. But, as some of the changes are likely to be disruptive, at least in the short term, without a clear commercial motivation companies are unlikely to invest above and beyond their current commitments to sustainability. A clear case that included the implications for business growth, risk and resilience would make it more straightforward for companies to commit effectively to supporting the SDGs.

However, in their current form, the SDGs – encompassing 17 Goals, 169 targets and 230 indicators – can be overwhelming. Building the narrative and the evidence for 17 different ambitious priorities makes the development of a business case difficult. This challenge can lead to companies focusing on a smaller sub-set of the SDGs, thereby ignoring their interconnected nature and exposing the company and its stakeholders to invisible risks and unintended consequences.

To simplify the task, we used CSLs’ Rewiring the Economy impact framework (see section 2.1), which has arranged the 17 SDGs into six areas of social and environmental impact: basic needs, wellbeing, decent work, climate stability, resource security and healthy ecosystems. By looking at the two scenarios through this framework, we were able to examine the implications of success or failure to meet the SDGs on the business model of each sector – the market, the supply chains and the operating environment.

We asked the members of this Inquiry Group how the two scenarios would impact a real estate company? What would a deteriorating climate mean for a healthcare provider? How could diminishing natural resources benefit a construction company?

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The business implications of the two scenarios by sector

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<th>Retail</th>
<th>Automotive</th>
<th>FMCG packaging</th>
<th>Construction and built environment</th>
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<tbody>
<tr>
<td>Basic needs</td>
<td>Basic needs</td>
<td>Resource security</td>
<td>Basic needs</td>
<td>Basic needs</td>
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<td>Decent work</td>
<td>Decent work</td>
<td>Climate stability</td>
<td>Decent work</td>
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<tr>
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<td>Wellbeing</td>
<td>Resource security</td>
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**Table 2: Select examples of commercial implications by sector**

<table>
<thead>
<tr>
<th><strong>Stuck in a conventional world in 2030</strong></th>
<th><strong>Moving towards a sustainable economy in 2030</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• If basic needs are still met, people will continue to prioritise food over medicines and it will be difficult to grow markets in the developing world.</td>
<td>• Basic human needs are sufficiently covered, the general health of the population will increase. Health systems will be based on a more holistic approach focused on the long-term health of the population by interaction with the individual, communities and associated industry sectors.</td>
</tr>
<tr>
<td>• The lack of decent work will restrict health budgets and lead to increased migration towards developed countries, putting additional pressures on health systems and potentially deterring interest in paying for innovation in healthcare.</td>
<td>• For companies that are committed to achieving climate stability, which may reduce profit in the short term but increase long-term resilience.</td>
</tr>
<tr>
<td>• Climate instability will lead to a lack of investment, as political attention and resources will be diverted to climate adaptation emergency measures, instead of improving people’s long-term health, preventing illness or transforming health systems.</td>
<td>• The ‘democratisation of mobility’ will create room for locally relevant innovation, such as local energy generation for propulsion.</td>
</tr>
</tbody>
</table>

**“The challenges businesses face from climate change are significant and will impact on ‘business as usual’. We must work collaboratively to reduce CO₂ emissions in line with science informed targets.”**

Munish Datta, Marks & Spencer
3.4 The commercial cases for implementing the SDGs and taking a leadership position

Following the sector analysis, we examined two commercial cases for companies to take a leadership position.

Commercial case 1

Failure to deliver the SDGs is bad for business, but forward-looking companies may be more resilient.

For all companies, failing to deliver the SDGs is likely to result in severe disruption and missed economic opportunities.

Business stability requires access to resources, fair incomes, thriving communities and a stable climate. Without these, the business operating context will be characterised by scarcity and instability.

Table two highlighted that failure to improve on key environmental and social conditions will damage business prospects across all sectors surveyed.

Companies may be able to avoid certain costs or make short-term gains by not investing in the solutions for a sustainable economy. However, unexpected events around climate stability, social security demands and resource scarcity can lead to abrupt and poorly designed regulations, creating significant and unpredictable costs. Most companies need time to commercialise new, unfamiliar models and solutions.

Companies that are becoming more adept at creating value with fewer natural resources, experimenting with more inclusive and sustainable business models, and building strong, trust-based relationships with key stakeholders will be more resilient to shocks, regulatory changes and market costs. These companies will have seen some investments fail and may face higher costs until regulatory incentives ‘catch up’ – but this loss of profitability will be much less significant than the effects of abrupt regulatory interventions that will be felt by those who stay relatively still.

By contrast, companies that are remaining reliant on coal.

Despite short-termism and a lack of political action, business can make the case for action on the basis of enlightened self-interest. The fundamental challenges of delivering the SDGs will not change, regardless of daily fluctuations in politics – and ignoring them risks over-investment in unsustainable practices that could end up as next year’s stranded assets. Many companies in the USA, such as General Electric, Google and Walmart, have not abandoned their climate commitments even though US national commitments have now been scaled back – the inherent risks of failing to become more sustainable in a world of diminishing resources are arguably more tangible for a long-term CEO.

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Companies may be able to avoid certain costs or make short-term gains by not investing in the solutions for a sustainable economy. However, unexpected events around climate stability, social security demands and resource scarcity can lead to abrupt and poorly designed regulations, creating significant and unpredictable costs. Most companies need time to commercialise new, unfamiliar models and solutions. Companies that are not anticipating or have not adapted are likely to be hit the hardest, as demonstrated by the energy or utility companies that have remained reliant on coal.

These companies are also more vulnerable to disruption from new entrants whose business models are better aligned with the new regulatory and consumer trends, as in the example of the automotive sector.

By contrast, companies that are becoming more adept at creating value with fewer natural resources, experimenting with more inclusive and sustainable business models, and building strong, trust-based relationships with key stakeholders will be more resilient to shocks, regulatory changes and market costs. These companies will have seen some investments fail and may face higher costs until regulatory incentives ‘catch up’ – but this loss of profitability will be much less significant than the effects of abrupt regulatory interventions that will be felt by those who stay relatively still.

Despite short-termism and a lack of political action, business can make the case for action on the basis of enlightened self-interest. The fundamental challenges of delivering the SDGs will not change, regardless of daily fluctuations in politics – and ignoring them risks over-investment in unsustainable practices that could end up as next year’s stranded assets. Many companies in the USA, such as General Electric, Google and Walmart, have not abandoned their climate commitments even though US national commitments have now been scaled back – the inherent risks of failing to become more sustainable in a world of diminishing resources are arguably more tangible for a long-term CEO.

“It is very hard to picture what will happen if key ecosystems reach their limits of production.”

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If real progress is made towards delivering the SDGs, forward-looking companies will benefit.

Moving towards the SDGs will create commercial benefits for forward-looking companies. Their business models are evolving to deliver products and services that lead to sustainable solutions.

For example, Unilever reported that its Sustainable Living brands grew 30% and >50% faster than the rest of the business in 2014 and over 50% in 2016, respectively. A recent study comparing over 600 companies found that “the long-term-focused companies surpassed their short-term-focused peers on several important financial measures, created significantly more jobs and delivered above-average returns to shareholders.”

It is clear that forward-looking companies are more aligned to a trajectory that is consistent with the SDGs. These companies are more likely to have changed their business models, products and services and be prepared for the challenges ahead. They will have anticipated and possibly supported regulation designed to improve social and environmental outcomes. Levelling out the playing field will play to their competitive advantage, opening up new geographies, new business models and new customer segments.

The transition to a sustainable economy will be much more disruptive for companies that fall, or are slow to respond. Consumer preferences and markets are already changing. For example, evidence suggests that younger consumers choose to drink less, eat more healthily, exercise more, are less likely to own cars and more likely to choose products and companies with higher sustainability attributes and stronger sustainability credentials.

It is possible that these consumers will walk away from unsustainable products and companies, for example soft drinks and juices containing added sugar, or even from traditional sectors that are not involved in providing the more connected and informed urban communities with asset sharing or tailored services, such as mobility.

In an increasingly sustainable economy, we would expect to see more innovations aligned to the SDGs – cleaner technologies, energy-efficient products, affordable and accessible quality services, and business models connecting peers. These developments will help to address environmental issues, create jobs and distribute wealth more equitably – but they will require businesses to be proactive in considering net impacts relative to the SDGs. New business models can have both positive and negative impacts, as we have seen with the digitalisation of services such as online film services and shopping, which put some high street stores out of business.

*Based on the input from members of the Inquiry Group, it is clear that forward-looking companies see significant, largely untapped, opportunities in achieving the SDGs and big risks and costs associated with failure to do so. A more detailed analysis is recommended to assess the implications of the two scenarios in quantitative and financial terms, including the effects of the transition period on business and key stakeholders.*

**Economic opportunities from implementing the SDGs**

The Better business better world report identifies 60 sustainable and inclusive market ‘hotspots’ across four sectors: energy, cities, food and agriculture, and health and wellbeing. It predicts economic growth in these hotspots to be two to three times faster than average GDP during the next 10-15 years, generating at least US$12 trillion and creating 380 million jobs by 2030.* At the top of the list are mobility systems, new healthcare solutions, energy solutions and housing. More than half of the value of these opportunities is expected in developing countries.

The report also suggests that pricing externalities into these market opportunities adds almost 40% to their value.

“If you are really good at winning competition by being sustainable you don’t lose the ability to innovate, to find value pockets, to look ahead even when others catch up. In a race to the top, the first movers, the leaders, shape the direction.”

Anna Swaithes, SABMiller
What could companies do in practical terms to promote a new quality of dialogue between business, government and finance, and to improve the economics of sustainable business?

“…to deliver the SDGs means that by 2030 we will have built a lot of climate resilience for extremes into the buildings. Will this happen anyway? It is not the natural trajectory, there is a lot of fragmentation in the sector, and it will require a real shift.”

Louise Ellison, Hammerson plc

Part 4

Enabling change: how companies can engage to rewire the economy

We have already seen that delivering the SDGs will require, and trigger, deep transformations; we have also demonstrated that business needs to take a systemic perspective and engage alongside other actors in driving change to manage shared risks and opportunities and to reap the commercial rewards. Yet systemic change is complex and unpredictable. At the same time, we know that certain features that govern the behaviour of most systems may highlight what types of interventions, and hence strategies, shift the system to a sustainable economy. Having reviewed the systems change literature and engaged with systems experts, four important characteristics stand out:

1. Change is non-linear and unpredictable. There can be unintended consequences where action in one area might meet resistance and have desirable or undesirable effects in other areas.
2. Some systems exhibit tipping points. When these thresholds are crossed, a new state might become inevitable, but generally they are hard to detect and measure.
3. No one actor or driving force is in control. As a result, collaboration and co-ordination between multiple actors and actions may be necessary to create change.
4. Small changes to certain parts of the system can produce large effects in the behaviour of the overall system. For example, those identified in the ten interconnected tasks. Identifying these points is important.

According to Professor Bob Scholes, “one strategy to shift the system is to apply ‘gentle’ pressure toward the new, desired state (promote change), form coalitions, and then take the opportunity when the stage is set for change, for example when governments are ready to price externalities.”

Although businesses cannot control change, they can experiment, monitor and learn from interventions to catalyse it. In this context, being visible and enabling others to follow is an important aspect of leadership.

Eight business-led approaches with the potential to promote systemic change

Although this is not a comprehensive list, by drawing examples from the companies involved in this inquiry, we have highlighted a series of approaches that business can take to help create a more enabling environment for change towards achieving the SDGs.

1. Acknowledge the need for change and position the business for a sustainable future
2. Experiment with sustainable business models
3. Treat the SDGs as a holistic agenda
4. Take an early lead on the most material issues and communicate your ambition to others
5. Set a vision for a sustainable sector and build the evidence for others to follow
6. Bring people along on the journey
7. Bring the key parties on board to create a better conversation and collectively intervene
8. Help governments raise the bar
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### Align the core business with sustainable outcomes

**Acknowledge the need for change and position the business for a sustainable future**

So far, we have looked at the early identification and adoption of trends to innovate and refine business models. But as well as being an ‘early adopter’, there is also value in being an ‘early abandoner’. Giving up markets that are clearly not aligned, or even detrimental to achieving the SDGs, and accepting the loss of volume in the near future, can create space for new corporate growth opportunities and protect long-term viability.

This change will not be easy. It may challenge current perceptions and business models that are difficult to rethink and may strain shareholder relationships. In the automotive industry, for example, it is clear that growing the business for traditional vehicles, even if compliant with increasingly tight emissions legislation, will not be compatible with reaching the 2040 goal for sustainable transport. Forecasting for growth and compliance delivers a good business case for building a new factory for traditional engines, but back-casting from the end goal of having an electric fleet by 2040 could render that new factory a stranded asset.

**Take an early lead on the most material issues and communicate your ambition to others**

Most companies need time to launch solutions. Unless they build the knowledge, the vision, the capacity to collaborate and think beyond today, they may find that others are more competitive by 2030.

“Today many customers want 100% certification and labelling. They could have gone to competitors or used different materials because of the lack of certification and the entire sector would have suffered. We can only deliver this now because we started small ten years ago with FSC labelling. Two years later, one competitor followed, then another one. We have all voluntarily agreed to sign a common pact that has enabled all of us to do it.”

Mario Abreu, Tetra Pak

**Set a vision for a sustainable sector and build the evidence for others to follow**

Significant change is required in how different sectors plan and work with each other. Sustainable business models cannot emerge without challenging the current paradigm in order to create the new materials, supply chains and practices required.

Keller Group is working to define a decarbonisation trajectory for the construction industry that will provide the science-based evidence needed to improve understanding of the physical, regulatory and industry risks, not only for itself but also for others to follow. Tetra Pak has been working to remove fossil fuels from its products and move to bio-based packaging, and has produced the world’s first fully renewable package for food – the Tetra Rex® Bio-based package – which is available globally.

**Experiment with sustainable business models**

The future is closer than we think – many of the business models and the disruptions with the potential to reshape industry are already in the marketplace in some shape or form. Such business models do not emerge fully formed – online music stores existed five years before Apple developed the iPod to service that new market.

Forward-looking companies are finding ways to evolve and test new models in order to explore emerging priorities and begin future-proofing their business.

**Treat the SDGs as a holistic agenda**

Taking a traditional materiality approach – focusing on a small set of issues endemic to the sector and its stakeholders – fundamentally misunderstands the interdependencies between the SDGs. It can leave the business exposed to changing expectations and business risks, create gaps in the implementation of the SDGs that add further pressures, and fail to account for the ‘hidden’ business opportunities and risks that emerge by looking at the connections between different issues and sectors.

“Inequality may appear less disruptive in the short term, but it will have potentially severe long-term impacts in many regions and markets.”

Ian Ellison, Jaguar Land Rover

Hammerson became the first real estate company to launch a comprehensive Net Positive strategy. Building on the company’s key strengths and levers for change, the strategy covers both environmental and socio-economic impacts and makes it clear that its success depends on collaboration with many actors across different sectors.”

M&S has integrated the SDGs into ‘Plan A 2025’, the new customer-focused version of its landmark sustainability strategy. The new plan focuses on helping to transform 1000 communities, helping ten million people live healthier, happier lives and making M&S a zero waste business. It includes 100 bold commitments that are due to be completed during the next eight years.”

**Demonstrate leadership on key issues and build followership**

**Towards a sustainable economy**

Enabling change: how companies can engage to rewire the economy

M&S has an established track record of innovative change. As the first non-governmental organisation (NGO) in the world to be awarded an 80% score for its human rights performance by the United Nations, the company has created a sustainable future for its business and for others to follow.
### Bring people along on the journey

If citizens and consumers across the value chain are not empowered to participate meaningfully in decision-making and the transformational changes that are required to achieve the SDGs, long-term solutions are unlikely. Business can play an important role towards:

**I. Developing a more co-ordinated ‘social infrastructure’ in cities and local communities around the world.** This requires co-ordination, risk sharing, co-investment and collaboration with policy makers and investors. Forward-looking companies can provide evidence and support for better development and integrated energy, land and transport policies, for example, and be an advocate for giving citizens a voice in design and decisions.

“For Hammerson, commercial benefits would include increased chances of winning developments run by local authorities and ‘better’ development control decisions by building trust and social capital in local communities. In terms of design, inclusivity in design means enabling not just people with different accessibility requirements to come into our assets, but their family and friends too.”

Louise Ellison, Hammerson plc

**II. Restoring the tattered ‘social contract’ in many developed countries, including by providing access to decent work, health and wellbeing.** Helping to build on social foundations – dignity, a sense of a shared future and faith in governing institutions – will increase the probability that citizens will support and sustain the long-term changes necessary for achieving the SDGs.

“People must be the priority. A global agreement by international companies on minimum living conditions and wages will make a huge difference.”

Michael Sinclair-Williams, Keller Group

**III. Helping consumers to understand the impact of their decisions.** Working with policy makers, civil society (including social media) and others, companies can help develop credible ways of communicating product information – such as certification of forestry products, labelling and traceability – that will help consumers distinguish between sustainable and unsustainable products.

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### Bring key players together and collectively intervene

Many of the responses required to achieve the SDGs are complex and require co-ordination and collaboration among different actors. Business has led the creation of highly successful and influential collaborations, such as the Marine Stewardship Council, The Prince of Wales’s Corporate Leaders Group and RE100.

In response to the dramatic rise of urban diabetes (two thirds of the 415 million people with diabetes live in cities), Novo Nordisk initiated the Cities Changing Diabetes™ partnership with academic institutions, health research institutions and a range of local partners including the diabetes/hand community, city governments and civil society organisations to map the problem, share solutions and drive real action.

**Help governments raise the bar**

Governments can create momentum, new markets and new standards, and set the direction that enables businesses to invest in the SDGs. If policies and incentives encourage short-term solutions, business can help reframe the discussion towards the longer term. Innovative businesses that have pioneered higher standards or new products and services will be well placed to defend their competitive advantage as soon as the rules of the game change.

“More regulation can mean greater cost and companies look for appropriate regulation with realistic time horizons to implement. But we must recognise that regulation is necessary to create incentives and drive behaviour in the short to medium term.”

Michael Sinclair-Williams, Keller Group

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### Help governments to identify opportunities for phasing out externalities and regulating out harmful products.

In the process, this can help to generate tax revenue and create new industries, as the introduction of the landfill tax did for the waste and recycling sectors.

“It will potentially open conversations with regulators and payers to factor into their decisions aspects of medications and medical devices beyond clinical safety and efficacy. We believe that circular and sharing economies may be useful ways to create an effective ecosystem of healthcare, based on a more holistic approach to providing healthcare services that cover the entire value chain, from discovery to delivery.”

Susanne Stormer, Novo Nordisk

**II. Providing market evidence that demonstrates what is possible and supporting policy efforts with ‘positive lobbying’.* The impact of business involvement in the Paris climate change agreement serves as an example of this potential relationship.**

**III. Co-ordinating internationally to help governments and markets take leadership positions by agreeing new global standards and effective procurement sustainability criteria.**

“We have to think about the common land and resources that we share. Ideally there should be agreements across regions on water, CO₂, etc. Policy makers can hear conflicting stories from companies within the same sector that find themselves in different circumstances and levels of sustainability ambition. Which voice do they listen to? As businesses, can we make it easier to look at the scientific evidence, the common good and the long term?”

Mario Abreu, Tetra Pak

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### Businesses can play a key and influential role by:

1. **Helping governments to identify opportunities for phasing out externalities and regulating out harmful products.**
2. **Providing market evidence that demonstrates what is possible and supporting policy efforts with ‘positive lobbying’.**
3. **Co-ordinating internationally to help governments and markets take leadership positions by agreeing new global standards and effective procurement sustainability criteria.**
Conclusions and future work

The UN SDGs represent a new global strategy for achieving economic growth that is consistent with the planet’s carrying capacity, society’s basic needs and priorities, and the capabilities and stability of the economy. To succeed, a more holistic approach is urgently needed, whereby the SDGs are presented as a vision for the future of business in society that is capable of: inspiring interest and creativity, identifying opportunities for future growth, and framing strategy for difficult trade-offs and problem solving.

The SDGs represent a unique opportunity and a profound challenge. This report has shown that sizeable growth opportunities are associated with implementing the Goals, and that failure to do so would undermine business continuity and stability.

There are benefits for early movers and leaders across the sectors surveyed, but the full rewards may be contingent on the creation of an enabling environment.

Given the significant interdependencies between the Goals, their scale and urgency, and the changing expectations on business, cherry-picking the Goals that have the easiest business case will be insufficient and potentially counterproductive. For business commitment to be sustained and rewarded with commercial success, key incentives and mechanisms responsible for directing capital, talent and resources need to be aligned.

Companies need a systems approach to rewire the operating context and help to maximise the chances of this enabling environment emerging. Navigating this complexity and turning the SDGs into a practical and inspiring agenda is challenging for businesses and individual leaders.

These approaches will require capabilities that are not readily found in business today. These include: an openness to a long-term, science-based perspective and to ‘inconvenient’ versions of the future; the ability to operate collaboratively; the confidence to challenge the current paradigm; and the determination to set a direction for the business in an ambiguous context through purpose.

The shift that business needs to make is dramatic, but the companies involved in this report have already demonstrated some of these characteristics and positioned themselves to benefit by helping their sectors and wider operating context to become more sustainable. What’s more, this report suggests that leading companies have both the appetite and a strong interest to set the stage for change and reap the commercial benefits of delivering the SDGs.

This report has identified eight business-led approaches that have the potential to promote systemic change. It is intended to encourage business leaders to examine their own case and capabilities for change, and to engage effectively, and collaboratively, with the SDGs.

CISL, together with the corporate members of the Inquiry Group and other interested parties, will now scope the next phase of this project, which could include:

- Further research and analysis into business-led approaches to delivering the ten ‘Rewiring’ tasks to enable a sustainable economy, including organisational capabilities, to deliver.
- Modelling scenarios to further investigate the fiscal implications of these initial findings and produce quantitative and financial data.
- The formation of a standing business group to foster collective action and engagement with key partners towards a systemic response to delivering the SDGs.
- A review of collaborative opportunities for value creation, based on the intersections between the SDGs.
- The formation of SDG100, an international network of companies committed to promoting a sustainable economy that is capable of delivering the SDGs, based on a similar model to RE100 – the global, collaborative initiative of influential businesses committed to using 100% renewable electricity.

To succeed, a more holistic approach is urgently needed.

If you are interested in participating in the next phase of this project, or learning more about our work on Rewiring the Economy, please contact us at info@cisl.cam.ac.uk.
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The University of Cambridge Institute for Sustainability Leadership (CISL) brings together business, government and academia to find solutions to critical sustainability challenges.

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