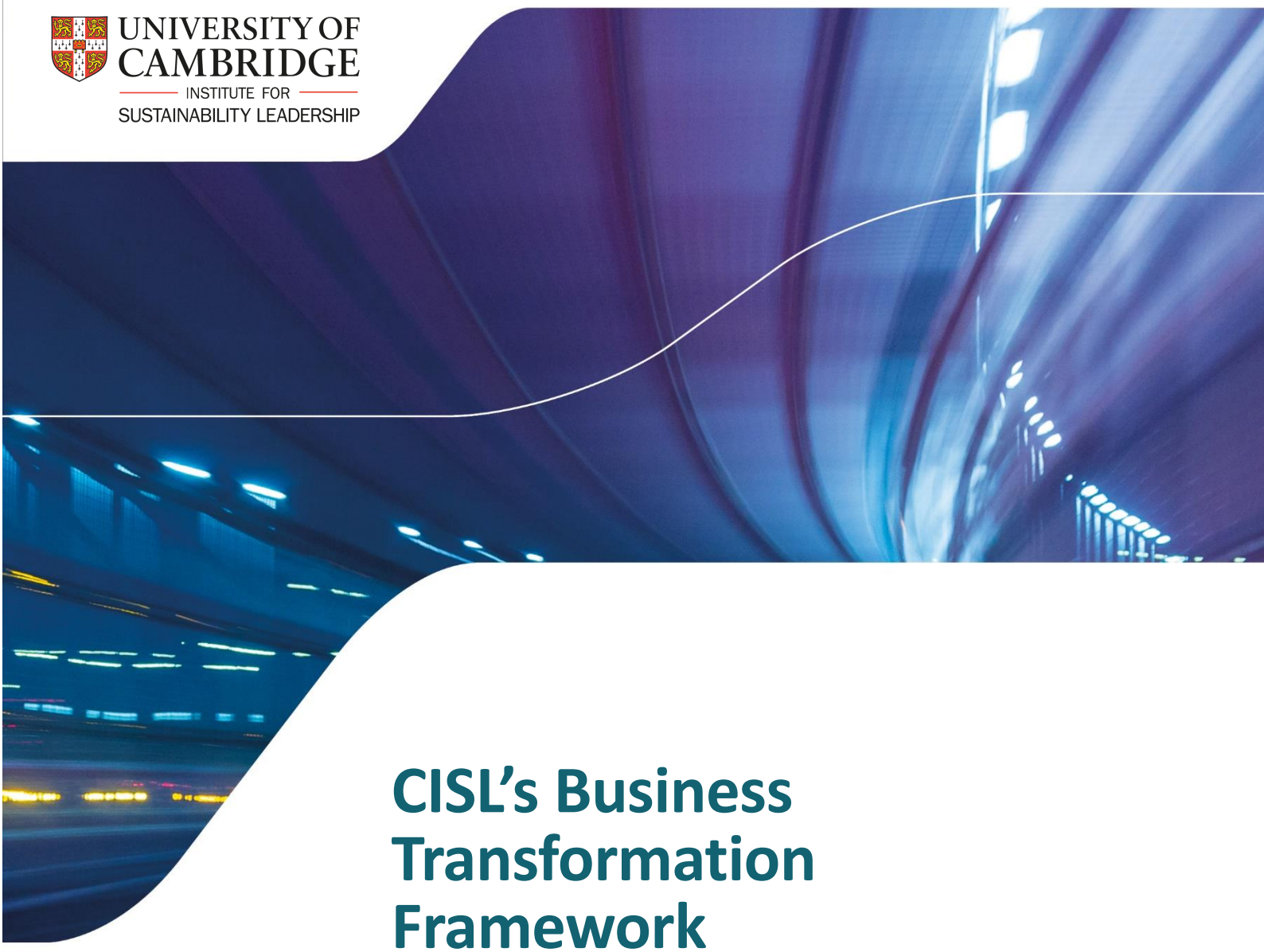
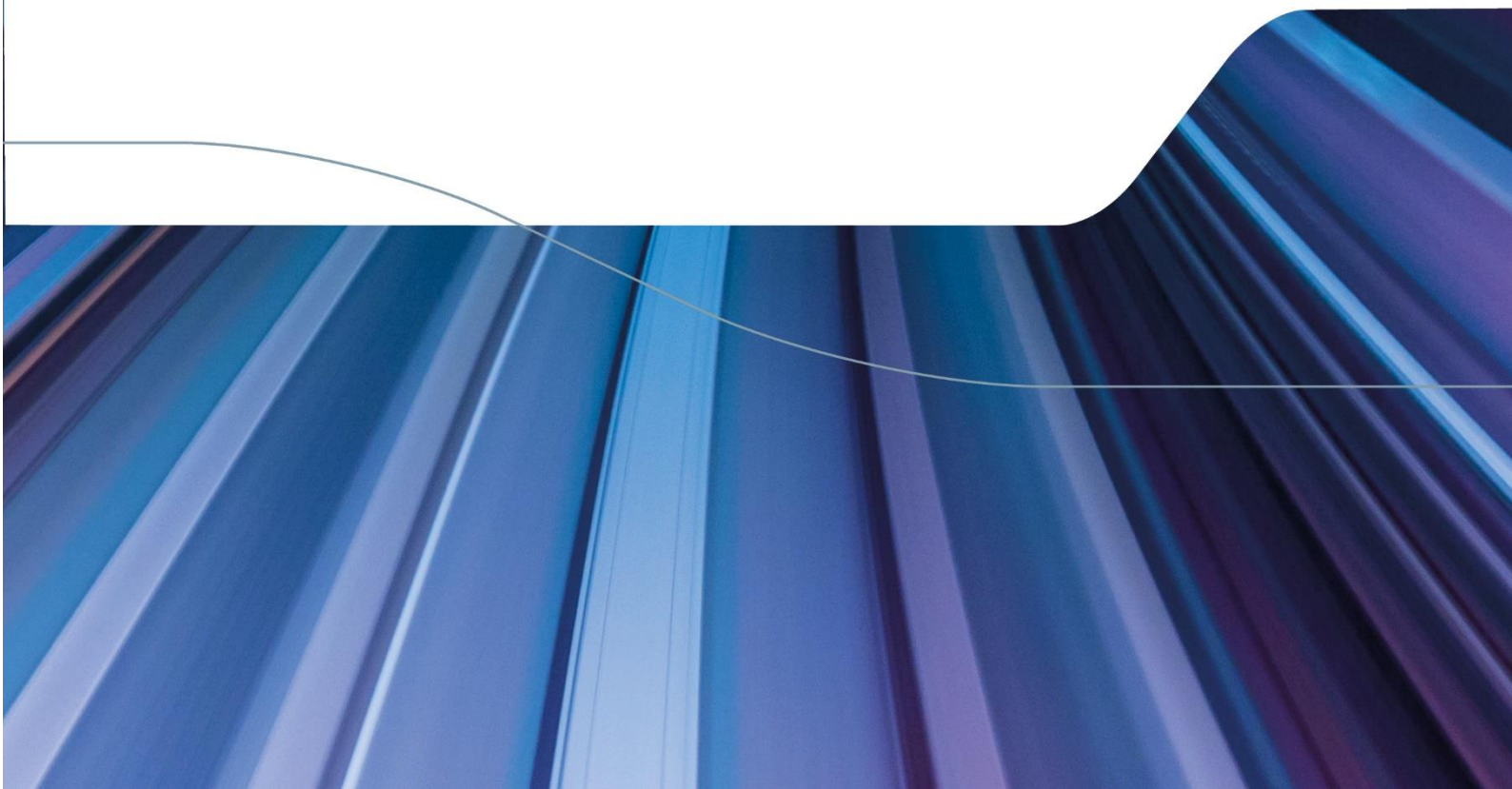
UNIVERSITY OF CAMBRIDGE
INSTITUTE FOR SUSTAINABILITY LEADERSHIP



CISL's Business Transformation Framework

Preliminary Diagnostic



The University of Cambridge Institute for Sustainability Leadership

The University of Cambridge Institute for Sustainability Leadership partners with business and governments to develop leadership and solutions for a sustainable economy. We aim to achieve net zero, protect and restore nature, and build inclusive and resilient societies. For over three decades we have built the leadership capacity and capabilities of individuals and organisations, and created industry-leading collaborations, to catalyse change and accelerate the path to a sustainable economy. Our interdisciplinary research engagement builds the evidence base for practical action.

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Citing this report

University of Cambridge Institute for Sustainability Leadership (CISL). (2023). *CISL's Business Transformation Framework: Preliminary Diagnostic*. Cambridge, UK: Cambridge Institute for Sustainability Leadership.

Acknowledgements

Members of the Business Transformation Group, including Aris Vrettos and Phil Ruxton at Croda, Anna Lungley at Dentsu International, Richard Wilson at Ingka Group (IKEA) and Ibrahim Al Zubi at Majid Al Futtaim, provided insightful feedback on the framework including through 'road testing' it with their businesses.

The development was supported by an external steering committee including Jenny Ahlen (We Mean Business Coalition), David Carlin (UNEP Finance Initiative), Patricia Dwyer (The Purpose Business), Sarah Gillard (A Blueprint for Better Business), Richard Marshall (Independent consultant), John Rosling (Contexis), Erinch Sahan (Doughnut Economics Action Lab) and Kate Wolfenden (103 Ventures).

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Introduction

Businesses are under intense pressure from a range of stakeholders to meet globally agreed goals and rising expectations on climate, nature and society and, in some cases, to achieve a stated corporate purpose which aligns with delivering sustainable outcomes for society. This needs to be delivered in a way that maintains business resilience and financial health, including to satisfy shareholders (some of whom may not support such action) – a task that is made ever more challenging by near-term shocks such as COVID-19, rising inflation and increasingly prevalent climate, nature and social emergencies.[1] Further challenge arises from the operating context; businesses act within an unsustainable system where markets and regulation do not always reward sustainable business performance.

Developing and embedding a greater societal purpose is a practical approach to navigating these tensions, in service of increased corporate sustainability. Today, purpose can be a significant indicator of a business's commitment to sustainability and a source of competitive advantage. Should markets and regulations begin to reward sustainability, purpose-driven organisations will be well placed on both sustainability and strategic clarity. To this end, the University of Cambridge Institute for Sustainability Leadership (CISL) has researched the organisational enablers for sustainable business performance. With the support of the Business Transformation Group, CISL has developed a Business Transformation Framework (BTF), which identifies some indicators of a business's progress towards purpose, in service of sustainability.

There are five key concepts underpinning the BTF. These are:

- **Purpose:** A business's reason to exist that is an optimal strategic contribution to the long-term wellbeing of all people and planet.[2]
- **Impacts and dependencies:** The business's impacts (eg pollution) and dependencies (eg usage) on the stocks (eg concentration of greenhouse gases in the atmosphere) and flows (eg the rate at which additional greenhouse gases are emitted) of natural, social, human, financial, intellectual and manufactured capital (the 'Six Capitals'). Examples of stocks include forests (including global forest stocks) and examples of flows include wood. (Note: we have aligned this definition with the Capitals Coalition and Taskforce on Nature-related Financial Disclosures,[3] but this is an evolving space.)
- **Parameters:** Decision-making boundaries which are set by the governing body or senior executives as limits that should not be breached when achieving the business's goals.[4] They include:
  - impact and dependency thresholds and guardrails, eg science-based targets for climate or nature that protect the health of the stocks and flows of value (see the Six Capitals referenced above)
  - values outlining which actions and methods the business deems acceptable/unacceptable in achieving its purpose and desired outcomes
  - risk parameters that reflect risk appetite and tolerance in pursuit of the purpose
  - required levels of stock and flows of capital resources, including financial – eg profit margin required for financial sustainability and shareholder commitments
  - legal requirements.

It is not possible to accurately assess business sustainability without considering the full 'value network' that the operation of the business relies upon – the impacts and dependencies outside its legal boundary – hence the importance of the parameters referenced above. Figure 1 illustrates the value network.

- **Value network:** A network of relationships, which creates both tangible and intangible value through a complicated dynamic exchange between individuals, groups and businesses.[5]
- **Strategy:** The plan to deliver the purpose, within its stated parameters, taking into consideration the internal and external context and assets.[6]

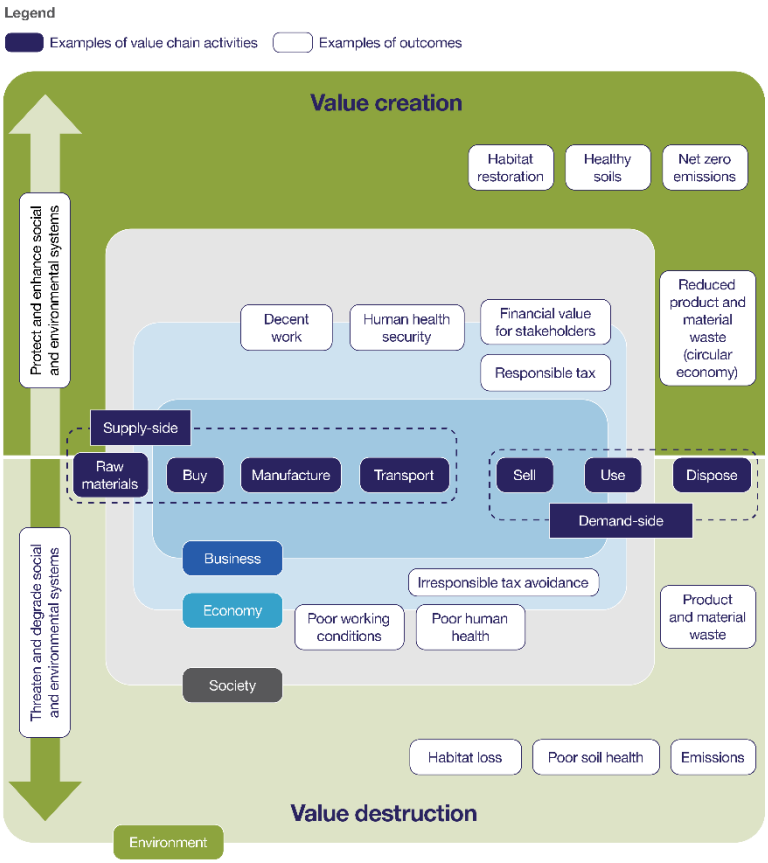


Figure 1: *Schematic diagram of the "value network" that shows activities that create and destroy value.*

Figure 1: Schematic diagram of the 'value network' that shows activities that create and destroy value
Source: CISL[7]

The objective of the Business Transformation Framework is to enable businesses in a wide range of sectors to:

- assess their current fit against four different business typologies, in terms of their alignment to sustainability and purpose
- identify gaps between their current position and where they aspire to be over the short, medium and longer term
- inform and inspire their transformation journey, including through engaging key stakeholders.

The BTF is likely to be most suitable for large, publicly listed businesses or major private enterprises, but the basic principles apply to any kind of organisation.

The content of the BTF builds on CISL's research into the organisational enablers of corporate sustainability. This includes CISL's collaboration with the recent *BSI PAS 808:2022* principle-based standard for purpose-driven organisations, the *Unleashing the Sustainable Business* white papers, the *Leading with a Sustainable Purpose* report, the *Net Zero Business Transformation* report and the *Leadership for a Sustainable Future* report. The BTF was developed through a peer review process (see note on Authors and Acknowledgements on page 2) and is currently being piloted by members of the Business Transformation Group under CISL's guidance. The framework will be further refined using feedback from this pilot.

The four business typologies identified in the BTF are distinguished by different levels of alignment to sustainability and purpose. These typologies are "short-term self-interest", "long-term self-interest

(developing)", "long-term self-interest (mature)" and "purpose-driven organisation". The first two typologies – "short-term self-interest" and "long-term self-interest (developing)" – broadly represent the current baseline of mainstream business. The latter two – "long-term self-interest (mature)" and "purpose-driven organisation" – represent more aspirational forms aligned with sustainable outcomes. A business may find itself in any of these typologies, and its progression towards becoming purpose-driven may well be iterative, rather than linear, as the business and its operating context change. The typologies are described in Table 1 below (see *Unleashing the Sustainable Business* Part 1[8] for a fuller account).

Table 1: Descriptions of four business typologies used in the BTF

Short-term self-interest	Long-term self-interest (developing)	Long-term self-interest (mature)	Purpose-driven organisation
	It can take some time to embed a long-term culture with a full understanding of the range of issues that threaten long-term financial value (eg climate change, nature, social inequality). In the BTF we therefore identify two forms of long-term self-interest – developing and mature.		
→ Goal: short-term financial value maximisation. → Sustainability is peripheral to core business activity. → Placate stakeholders' concerns about unsustainability through public relations (PR), reactive initiatives and philanthropy. These are subject to deprioritisation if stakeholder pressure wanes. → Approach sometimes classified as Corporate Social Responsibility (CSR).	→ Goal: long-term financial value maximisation, though in practice, more focused on short-term financial value. → Understand the risks that social and environmental dependencies pose to long-term financial value maximisation. → Some management of these impacts and dependencies, but only when directly linked to cash flows/profits. When they conflict, profit takes priority over sustainability.	→ Goal: long-term financial value maximisation. → Consider wellbeing of society and the environment as critical enablers. → Understand the risks that social and environmental dependencies pose to long-term financial value maximisation and the impacts that their business has on these; therefore operate within clear parameters to ensure wellbeing of society and the environment. → Approach sometimes classified as Enlightened Shareholder Value (ESV).	→ Purpose: a distinctive, optimal and unique contribution to sustainability. This is deeply embedded in values and culture. → Align all decision-making with purpose. Aim to create different types of value for society. → Ensure that business actively contributes to protecting and enhancing natural and social value across the whole value network. → Recognise that financial value is a vital enabler for pursuing purpose, paying bills and meeting stakeholder expectations.

The BTF sets out four tasks for business from CISL's *Rewiring the Economy* report – each comprising two to three organisational enablers – and a cross-cutting theme: individual and collective leadership. These tasks, enablers and theme are shown in Figure 2 below. The BTF maps likely indicators for each enabler onto the four different business typologies, so that businesses can self-diagnose their sustainability performance.

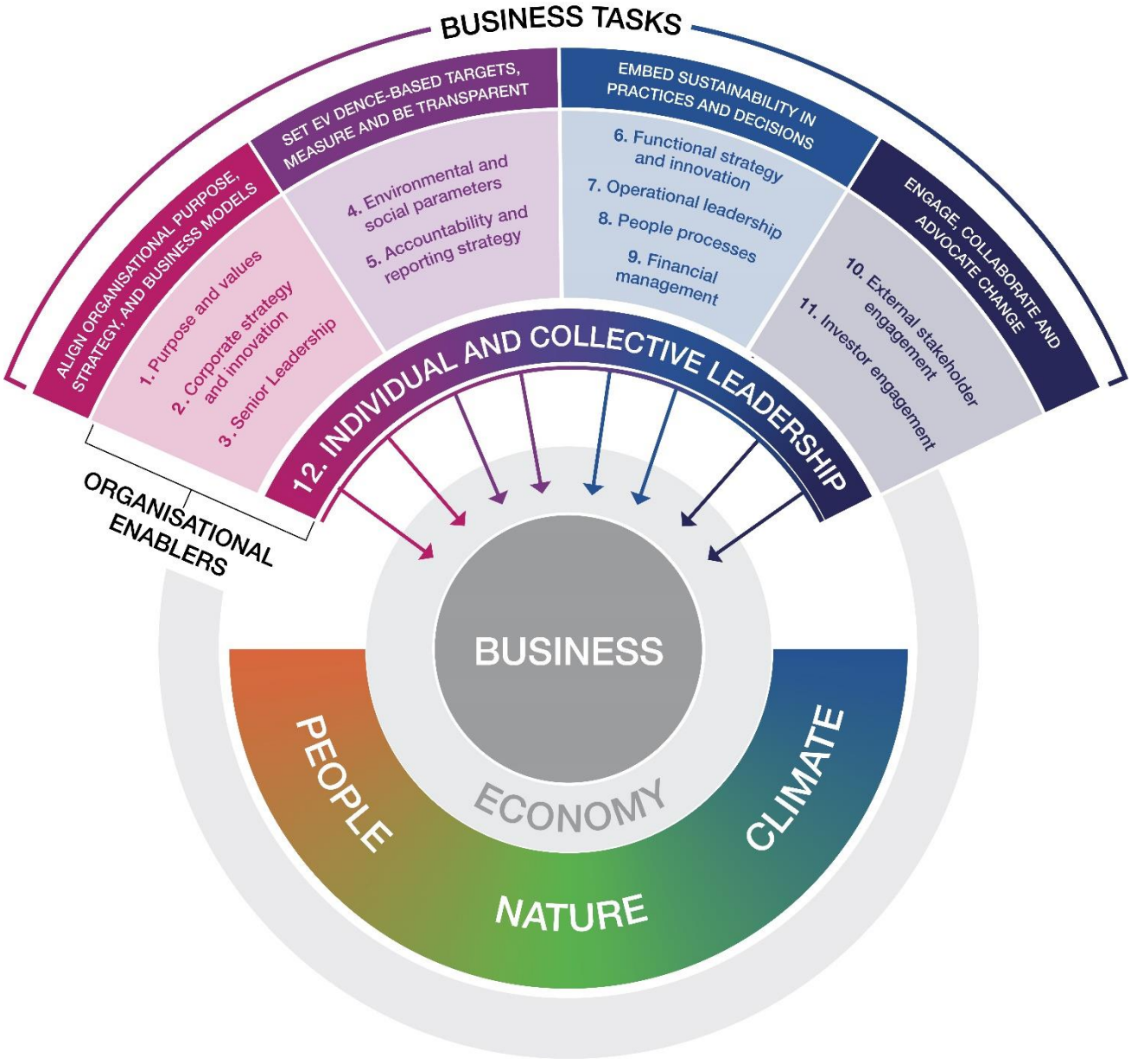


Figure 2: Summary of the Business Transformation Framework structure

How to use the Business Transformation Framework

The BTF is designed to practically assess a business's current sustainability performance, to help inform future ambition and strategy. It can, therefore, be used both prior to developing a purpose and strategy, during strategy development, or to assess the effectiveness of the implementation of purpose and strategy. A summary of the process is provided in Figure 3 and further guidance is provided below.

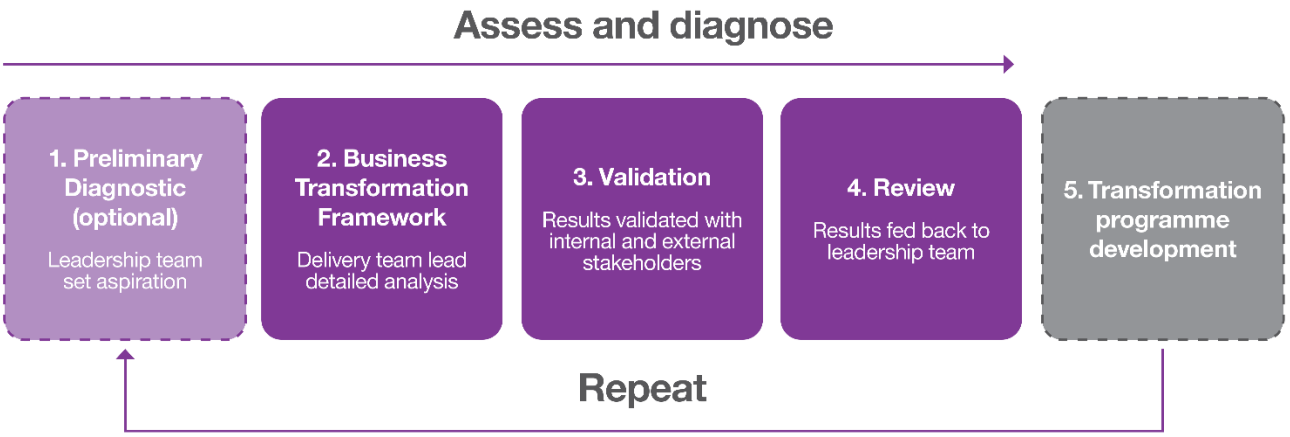


Figure 3: Summary of the full diagnosis process. Note that '5. Transformation programme development' is not a focus of this document but should be enabled by its use in the preceding four steps

Step 1: Set-up and Preliminary Diagnostic

The decision to use the BTF to diagnose a business's current approach is expected to come from its senior leadership team. This is because they influence, and have disproportionate control over, the tangible (eg facilities, uniforms) and intangible (eg values, ethos) cultural aspects which dictate the business approach. If the business is an international one, the leadership team should set the scope of the analysis and decide whether they wish to diagnose the business on a global or individual country basis. The leadership team should also identify a group of stakeholders, including relevant functional leads and external stakeholders likely to be most closely impacted by the business's operations and purpose, to give input on the findings of the assessment.

If they wish to do so, the leadership team or the chief sustainability officer can use the Preliminary Diagnostic tool presented in Table 2 for an initial light-touch diagnosis to identify a) which business typology they are currently most aligned with, and b) which of the typologies represents their desired ambition. This can be used to set the broad ambition, identify who needs to be involved and guide the more detailed assessment. Alternatively, businesses can go straight to the full diagnostic phase (Step 2) using the BTF.* This is likely to be delegated to a cross-functional 'delivery team' comprising an individual or group of subject matter experts, who will consult across the business to find the necessary evidence.

Step 2: Detailed assessment: Business Transformation Framework

The delivery team will assess the business against 12 aspects outlined in the BTF to determine which typology best characterises the current status of their business, for each aspect. Each description has

* The full diagnostic detailed in Step 2 is an extended version of the Preliminary Diagnostic that covers the same areas but in more depth and provides examples of artefacts or practical manifestations of the behaviours described. CISL intends to publish the full diagnostic in 2024 following further testing of the framework. However, the absence of the full diagnostic should not prevent businesses from undertaking the Preliminary Diagnostic and diving into Steps 3-5.

been written to be as identifiable as possible, including by providing examples of the types of evidence that might be sought.

The delivery team's determinations should be supported by identifying either an 'artefact' (such as a relevant written document aligned with the description) or a practical manifestation (such as a behaviour) of how the business is performing. Notes should be made of a) the desired typology as identified by the senior leadership team (if an initial diagnosis was performed), b) the current typology, c) the evidence ('artefacts' or behaviours) that support that determination, and d) which qualities of the desired typology are not met.

Step 3: Validation

Assessing all 12 areas against the four typologies provides a 'heat map' of the business's overall status and an understanding of the gap between the current and desired sustainability typology. The delivery team should then validate the results of the assessment by obtaining input from the stakeholder reviewers appointed by the leadership team, thereby preventing inaccurate self-assessments. The results of the assessment can be fed back to the leadership team.

Step 4: Review

The senior leadership team will review the findings and implications of the assessment for their aspirational typology with a view to determining the need to accelerate and improve implementation of, or to revise, their purpose and strategy.

Step 5: Transformation programme development

While the BTF will highlight areas needing improvement, it does not provide the detailed steps needed to achieve this. Instead, the BTF is designed to inform the development of a transformation programme and aid continuous improvement.

The completed assessment can be used in several ways, including:

- creating awareness of the business's current level of sustainability performance, for example if they are operating within the parameters identified
- prioritising individual aspects or geographies to move to a different business typology
- using the typology descriptions to inform which 'change levers' could be pulled to move towards the desired typology
- using the learnings to inform how the business acts across each aspect (eg adapting accountability and reporting approaches)
- setting long-term goals and aspirations.

Outcomes could include re-oriented strategy towards a longer-term approach; a more sustainability-focused and skilled workforce; greater adherence to social and environmental parameters, within the business and its value chain.

Note that the BTF is designed to determine the level at which the business is performing and where opportunities for improvement lie. Movement from one typology to another will require full attainment across all the organisational aspects explored in the BTF. (Arguably to become a truly purpose-driven and sustainable business, systemic change in the contexts in which businesses are operating – for example the regulatory context – is also required.) In practice, it is likely that most businesses will span multiple typologies across the different aspects assessed in the BTF – this is to be expected and reflects the fact that sustainable business forms are still developing.

Preliminary Diagnostic

Table 2: Preliminary Diagnostic

	Current baseline		Most sustainable	
	Short-term self-interest	Long-term self-interest (developing)	Long-term self-interest (mature)	Purpose-driven organisation
	DESCRIPTION OF BEHAVIOUR		DESCRIPTION OF BEHAVIOUR	
Align business purpose, strategy, and business models				
1. PURPOSE AND VALUES To what extent do the business's highest-level goals and decision-making parameters explicitly set out to improve people's lives while operating within the natural boundaries set by the planet?	The overall goal of the business is – implicitly or explicitly – **short-term financial value maximisation**.	The business has **long-term financial value maximisation** as its overall goal. This is recognised informally as desirable but, in practice, **the pursuit of short-term financial value dominates thinking** and activity.	The business's goal is **financial value maximisation over the long term**, and the **wellbeing of society and the environment are viewed as enablers of that**.	The business's stated purpose – or reason to exist – is to make an **ambitious and distinctive strategic contribution to long-term wellbeing for all people and planet**. This purpose will be achieved in line with parameters and values that ensure the protection of the value network and meet financial goals that support achievement of the purpose.
Alignment: Current (✓) and desired (X)				
2. CORPORATE STRATEGY AND INNOVATION How does the business, at the highest level, approach strategy and innovation to achieve its goals within social and planetary boundaries?	Strategy and innovation are geared primarily towards short-term financial value maximisation. However, **sustainability may be considered where it is beneficial for short-term financial value**.	Strategies and innovations are generally geared towards short-term financial value maximisation, but some risks and opportunities to enhance the health of society and the environment are recognised. Therefore, **some more sustainable activities and business cases are emerging**.	There is a clearly articulated and communicated plan for achieving the business's goal of long-term financial value maximisation. The strategy for achieving this is **constrained within clear parameters that ensure the wellbeing of society and the environment**. **Innovative approaches** to delivery of profit maximisation **consider and operate within these parameters**, while delivering against the financial objective.	There is a clearly articulated and communicated plan for achieving the business's purpose. The **business enables and rewards exploration of innovative approaches that will facilitate delivery of that purpose.** All members understand the parameters and values within which they must operate.
Alignment: Current (✓) and desired (X)				
3. SENIOR LEADERSHIP What does the business's senior leadership focus on in relation to sustainability performance and how does the culture it promotes support this?	The governing body and executive leadership are focused on short-term financial value maximisation. In addition, they ensure that the business complies with the law and understands the social and environmental trends that affect short-term financial value maximisation, including stakeholder pressure to act on sustainability.	The governing body and executive leadership are **sometimes prepared to leave short-term financial value 'on the table', if doing so helps secure the wellbeing of society and the environment in a way that supports financial value** maximisation over the longer term.	The governing body and executive leadership are aligned on their understanding of the business's long-term financial value maximisation goal, and on the need to **achieve this while operating within the hard parameters that ensure the health of the stocks and flows, stakeholders and of society and the environment**. They embed this across the business, including in the	The governing body and executive leadership are aligned on their understanding of **the purpose and of the parameters and values within which that purpose must be achieved**. They act to embed this across the business, including in the culture, organisational and people policies. They act as **external advocates for purpose** and collaborate with others in their

			culture, organisational and people policies, and decision-making.	industry and sector to share learnings and sustainability best practice.
Alignment: Current (✓) and desired (X)				
Set evidence-based targets, measure and be transparent				
4. ENVIRONMENTAL AND SOCIAL PARAMETERS How does the business navigate the tensions between commerciality and working within the environmental and social boundaries consistent with sustainability, understanding how it impacts and depends on its resources and stakeholders?	The business has put in place **some targets to mitigate risks linked to society and the environment**. These may be focused on 1) legal compliance and 2) areas of greatest stakeholder pressure which may threaten short-term profit maximisation if action is not taken. This business **may have regular communication with its commercial stakeholders** (eg shareholders, suppliers, clients), but may have **little to no communication with societal and environmental stakeholders** (eg local communities, environmental groups).	**Some executive leaders understand that the business model is under threat in the long term from risks relating to impacts and dependencies on society and the environment.** However, understanding of this across the business is limited, so a focus on short-term financial value maximisation prevails. **Some targets linked to environmental problems may have been set** (eg a science-based target for carbon). However, a **clear rationale for prioritisation is lacking**, which inhibits action. This business **may have regular communication with its commercial stakeholders** (eg shareholders, suppliers, clients), but may **have little to no communication with societal and environmental stakeholders** (eg local communities, environmental groups).	**The business has a thorough understanding of its material impacts and dependencies** on the full value network and clear, evidence-based parameters are in place that guide decision-making for achieving the goal of financial value maximisation while living its values **to the greatest extent compatible with that financial objective**. There are **effective processes in place to evaluate, communicate and improve performance against the parameters.** Senior leaders have put in place guidance and processes to follow when operating within the parameters is not aligned with achieving financial income maximisation. The business **regularly consults with and updates its commercial stakeholders** (eg shareholders, suppliers, clients), and **has some engagement with societal and environmental stakeholders** (eg local communities, environmental groups).	**The business has a thorough understanding of its material impacts and dependencies** on the full value network and clear, evidence-based parameters are in place that guide decision-making for achieving the **purpose, living its values and meeting financial goals**. There are **effective processes in place to evaluate, communicate and improve performance against the parameters.** Senior leaders have put in place guidance and processes to resolve operational conflict between parameters and financial goals. The business **regularly consults with and updates its commercial stakeholders** and **its societal and environmental stakeholders** (eg shareholders, suppliers, clients, local communities, environmental groups).
Alignment: Current (✓) and desired (X)				
5. ACCOUNTABILITY AND REPORTING Has the business set bold evidence-based targets, measuring social, environmental and economic criteria, and reporting progress to both internal and external stakeholders?	The goals of internal reporting are understood to be **communicating financial data** and aspects seen as vital to protecting short-term financial value maximisation. The goals of external reporting are understood to be **addressing financial and legal requirements** and keeping the most powerful stakeholders updated (eg investors, governments, staff).	Some decision-makers understand the aims of reporting as set out in the purpose-driven organisation category. In practice, reporting is **focused on those impacts and dependencies that most obviously threaten financial value in the short and long term**.	The aims of reporting are understood by all decision-makers as being: 1) To engage external stakeholders **that can support the business's long-term financial success**; 2) To enable internal stakeholders **to make decisions to manage risks to/ opportunities for long-term financial value**; 3) To adhere to the law. Internal and external reports demonstrate how **long-term financial value** is achieved, including progress against sustainability targets.	The aims of reporting are understood by all decision-makers as being: 1) To enable external stakeholders **to access information material to their wellbeing**; 2) To enable internal stakeholders **to support achievement of the purpose and supporting financial goals**; 3) To adhere to the law. Internal and external reports demonstrate how **delivery of the purpose within the parameters** (including enabling financial goals) is achieved.

Alignment: Current (✓) and desired (X)				
Embed sustainability in practices and decisions				
6. FUNCTIONAL STRATEGY AND INNOVATION How does the business achieve its sustainability goals and encourage innovative thinking at a functional level, within its parameters?	Functional sub-strategies and processes may ensure operation within certain thresholds. This is typically focused on parameters where not doing so would threaten the social licence to operate or present other risks to short-term financial value maximisation. **Functional innovation activity is not typically linked to social and environmental goals and is focused on incremental gains.**	There may be oversight of functional sub-strategies to ensure operation within a limited set of social and environmental parameters. This is typically confined to parameters that have gained the attention of senior leaders or important stakeholders and which are perceived as critical for long-term profit maximisation. Some decision-making processes for routes to innovation may be **aligned with specific parameters of concern but mindsets are not yet focused on transformational innovation in service of long-term income maximisation.**	A clear oversight process ensures that sub-strategies and business plans within every function **operate within the parameters**. Bold and novel approaches to delivering on sustainability, including new business models, collaborations and partnerships, are encouraged, but **long-term financial value maximisation remains the core goal and innovation is assessed in this context. Parameters are integrated into innovation processes.**	A clear oversight process ensures that sub-strategies and business plans within every function **optimise their contribution to the delivery of the purpose within the parameters** (including financial profit requirements). **Bold and novel approaches to delivering the purpose, including new and transformative business models, new collaborations and partnerships, and new ways of internalising externalities, are actively incentivised and embraced. Parameters are embedded in the innovation process from project conception.**
Alignment: Current (✓) and desired (X)				
7. OPERATIONAL LEADERSHIP What are core organisational principles, capabilities, behaviours and enablers geared towards?	Leadership skills and competencies are focused **on short-term financial income maximisation**. **Sustainability goals** such as environmental, social and governance (ESG) criteria **may be understood and adopted** but not routinely adhered to.	Leadership skills and competencies are mainly focused on short-term profit maximisation. **Some senior leaders try to create a culture that addresses social and environmental barriers to long-term financial success**, but these efforts **may struggle to gain traction**, particularly when in apparent conflict with short-term profit maximisation.	All decision-makers **understand why protecting society and the environment is important for the delivery of long-term financial value maximisation** and hence why the parameters apply to decision-making. They **are seeking to understand what foundational leadership principles, mindsets and competencies are required to deliver their goal within the parameters, and how these can be engendered in culture**. This is disseminated clearly and effectively **across the business and its operational processes**.	All decision-makers **understand the purpose and the parameters (including values), what foundational leadership principles, mindsets and competencies are required, and what culture is needed** to enable the business to deliver the purpose. They understand the need for **systems thinking** and for demonstration of **appropriate mindsets and behaviours**. This is disseminated clearly and effectively **across the business and its operational processes and beyond the business**, through its supply chain and its other partnerships and collaborations.
Alignment: Current (✓) and desired (X)				
8. PEOPLE PROCESSES How does the business align staff recruitment, development and reward systems to equip employees with the insight,	People processes and policies are designed to maximise short-term financial outcomes – directly or indirectly. The **business rarely recruits or trains for capabilities required to manage**	Most people processes and policies (for example, recruitment and remuneration), are geared towards short-term financial income maximisation.	All people processes and policies (for example, recruitment and remuneration) have been assessed and **aligned with the business's long-term financial goal and with the environmental and social parameters**	All people processes and policies (for example, recruitment, training and remuneration) have been **assessed and aligned with the purpose, parameters, strategy and functional sub-strategies.**

mindset and capabilities to achieve its goals?	**societal and environmental risks and opportunities, except in instances where these directly affect the ability to deliver short-term financial performance** (eg where they are required for regulatory compliance).	**Some people processes and policies have been assessed and aligned with the business's social and environmental risks and opportunities and the capabilities** required to deliver them. However, this is **not universal** across the business, and the competencies and skills required to manage the environmental and social parameters are not universally prioritised within recruitment or training.	within which the business chooses to operate. The **business recruits and trains staff using a competence framework aligned with the business goal and strategy** to ensure that employees have the skills and capabilities required to deliver the business goal.	The **business recruits, trains and rewards staff using frameworks aligned with the purpose and strategy**, to ensure that employees have and develop the skills and capabilities required to deliver the purpose.
Alignment: Current (✓) and desired (X)				
9. FINANCIAL MANAGEMENT How does the business's finance function ensure a long-term and holistic approach to value creation beyond short-term profit maximisation?	Financial planning and processes are geared for short-term financial value for members/shareholders. Investment decisions will be made that create other types of value for other stakeholders, but only where a business case can be presented that shows how the financial costs are outweighed by financial income in the near term.	Financial planning and other processes are overwhelmingly geared towards short-term financial value maximisation for members/shareholders, but this is being challenged. **New ways of thinking about non-financial risk and opportunity, and the business case for diverting funds to other stakeholders are emerging** and beginning to be incorporated into planning and processes.	Financial planning and other processes **recognise the importance of, and act to deliver, financial value in the long term**, and this is made clear to internal and external stakeholders. **Clear, reasonable expectations are set around residual financial asset allocation appropriate for maximising long-term financial value within the parameters** (while meeting short-term financial requirements).	Financial planning and other processes explicitly **recognise finance as a means to innovate for the purpose profitably**, rather than prioritising long-term profit maximisation, and **planning is underway to properly cost in externalities and thereby deliver 'true profit'**. Clear, reasonable expectations around residual financial asset allocation are set that are appropriate **for achieving the purpose within the parameters profitably** (including meeting short-term financial requirements).
Alignment: Current (✓) and desired (X)				
Engage, collaborate and advocate change				
10. EXTERNAL STAKEHOLDER ENGAGEMENT How does the business use its influence to engage communities and build public and government appetite for sustainable business, including engaging its stakeholders on its goals specifically?	Financial actors are the most frequently engaged stakeholders. **Other groups may be engaged if necessary to protect short-term financial value maximisation**. Lobbying activities are focused on optimising short-term financial income, **sometimes at the expense of keeping within safe climate or environmental thresholds**.	Financial actors are the most powerful stakeholders in decision-making and, while **some effort is made to engage other stakeholders** to ensure their continued support, these approaches tend to be **ad hoc and lower priority**. Lobbying activities are typically focused on **maximising short-term financial income, rather than advocating for change on social and environmental policy**.	The business understands that its **stakeholders are critical to managing the impacts and dependencies on natural and social resources** that underpin its financial value creation. It has a **sophisticated stakeholder engagement strategy**, and develops and maintains high-quality relationships with these stakeholders. The business undertakes **lobbying activities for a 'level playing field'** that will allow the company to move further, faster – by making ambitious protection of society and the environment mandatory, including making and supporting plans for internalising externality costs.	The business understands that its **stakeholders are critical to achieving its purpose, within the parameters**. The business has a **sophisticated stakeholder engagement strategy**, and develops and maintains high-quality stakeholder relationships. **Stakeholder insights from the value network are represented on the governing body** to inform strategy and operations. The business is an **active advocate for change** – for example to remove regulatory and policy barriers to delivering the purpose. This might include lobbying regulators for a level playing field as well as marketing to consumers on behaviour

				change. It **works with its stakeholders to this end.**
Alignment: Current (✓) and desired (X)				
11. INVESTOR ENGAGEMENT How does the business manage its relationship with financial investors to support the achievement of its goals?	Financial investors expect that financial returns are the business's overriding priority. This is reflected in the business's investor engagement activity, which **focuses on short-term financial value maximisation**.	**Some efforts are made to align investors with the stewardship goal of long-term** financial value – and some within the business recognise the utility of investors such as these (eg as potential providers of green finance), but investor engagement is **more focused on** satisfying the needs of financial investors orientated towards **short-term financial income**.	The **senior leaders actively seek to align investors' expectations with the stewardship goal of long-term financial** value that balances the need to satisfy short-term financial requirements with **environmental and social parameters**. This meets the emerging ESG monitoring and reporting requirements. The business sets clear investor expectations aligned with this longer-term approach. It is clearly communicated that financial **capital may be allocated to environmental and social improvements in order to optimise long-term financial value**.	The **senior leaders actively seek to align investors' expectations with the purpose, parameters and strategy, and attract investors who support purpose-led organisations**. Clear expectations are set with investors about their returns (eg capped returns) and the circumstances under which the primacy of the purpose and parameters may limit these. It is clearly communicated that financial **capital is invested to optimise achievement of the purpose within the parameters** (including maintaining short- and long-term financial health of the business).
Alignment: Current (✓) and desired (X)				
Cross-cutting theme				
12. INDIVIDUAL AND COLLECTIVE LEADERSHIP What are the foundational leadership principles, mindsets and practices that underpin the actions of individual and collective agents across the business and beyond, and how aligned are these with purpose?	Leadership prevails that is **limited in the scope of its understanding of complexity**. The qualities of connectedness (inclusivity), collaboration, creativity and courage may be present, but these are geared to optimise short-term financial value.	Across the whole business, leadership is starting to align with the principles detailed under Long-term self-interest (mature), though remains **predominantly aligned with those detailed under Short-term self-interest**.	Leadership prevails that **navigates the complexity and interconnectedness of complex-adaptive systems** and makes decisions to deliver long-term financial value. Leadership is seeking to understand, align and leverage the key leadership principles required to **maximise financial value over the long term**.	Leadership prevails that navigates the complexity and interconnectedness of complex-adaptive systems and **makes decisions to deliver impact for the flourishing society and the environment**. Leadership leverages connectedness (inclusivity), collaboration, creativity and courage to **deliver the purpose profitably within the parameters**.
Alignment: Current (✓) and desired (X)				

Appendix 1: Core concepts and definitions

The following are key terms used within this document:

Artefacts: Specific examples of tangible/intangible cultural aspects. Includes:

- behaviours, routines, practices (eg 'Town Hall' meetings covering sustainability)
- documents (eg capital project approval criteria on sustainability)
- systems, structures, processes (eg systems of sustainable procurement)
- assets, resources (eg staff sustainability training materials)
- knowledge, competencies, skills (eg staff qualifications).

Bold: Taking ambitious action to go further and faster towards achieving the business's goals, while being cognisant of and cautious towards people and nature.[9]

Business goals: The primary intended outcome of a business as a whole.[10]

Corporate Social Responsibility (CSR): A business-as-usual approach to sustainability, protecting businesses from the need to change to keep the system viable, exerting minimal power over how a business pursues and prioritises value creation.[11]

Culture (of the business): Business culture is a product of worldviews that give rise to shared norms and customs within the business, developed over time to optimise the success of decision-making. Culture has tangible aspects such as systems and processes, and intangible aspects such as behaviours and assumptions.

Enlightened Shareholder Value (ESV): A business approach that recognises and seeks to address business-as-usual's threat to the full suite of capitals upon which business activity relies, prioritising long-term over short-term value creation.[12]

Environmental: Concerned with the protection of the natural world of land, sea, air, plants and animals.[13]

Ethical: Behaviour that is in accordance with accepted principles of right or good conduct in the context of a particular situation and is consistent with international norms of behaviour. (International norms of behaviour are defined as expectations of socially responsible business behaviour derived from customary international law, generally accepted principles of international law, or intergovernmental agreements that are universally or nearly universally recognised.)[14]

Externality: Damage caused by a company's activities for which it does not pay, or something positive created by it for which it does not receive payment.[15]

Innovation: A new idea or method, or the use of new ideas and methods.[16]

Parameters: Decision-making boundaries which are set by the governing body or senior executives as limits that should not be breached when achieving the business's goals.[17] They include:

- impact and dependency thresholds and guardrails such as science-based targets for climate or nature that protect the health of the stocks and flows of value, including natural and social capital
- values that guide which actions and methods a business deems acceptable/unacceptable (eg stakeholder engagement/bribery) in achieving its purpose and desirable outcomes in the world

- risk parameters that reflect risk appetite and tolerance in pursuit of the sustainable purpose
- required levels of stock and flows of capital resources, including financial – eg profit margin required for financial sustainability and shareholder commitments
- legal requirements.

Sustainability: A state of long-term wellbeing for all people and planet.[18]

Threshold: Global limits for the health of foundational social and environmental systems.[19]

True profit: Revenue minus the internalised and externalised financial, social and environmental costs.

Value generation[20] timeframes: While in practice the time horizons considered to be short and long term by different businesses in different sectors are likely to vary significantly, the following are considered as approximations. Note that, where a business's ultimate goal may be aligned with long-term considerations, short-term considerations will not be neglected but balanced with a view to the higher-order goal.

Short-term: Typically 1–3 years.
Long-term: Typically 3–10+ years (in the 'long-term sustainable' typology, much longer timescales will be considered, in order to align with the timescales involved in meeting intergenerational and environmental challenges).

Value network: A network of relationships, which creates both tangible and intangible value through a complicated dynamic exchange between individuals, groups and businesses.[21]
The origin and flows of financial, natural and social value, plus the stakeholders that they flow through. This includes the following sources of value (see Figure 1):

- society and the environment globally, which businesses, organisations and society as a whole rely on for all activities and resources
- stocks and flows of value needed to run the business, including natural, social, human, financial, intellectual and manufactured capital (the 'Six Capitals')
- stakeholders of the business that embody and control capital inputs (see PAS 808[22] for relevant categories of stakeholders).

Values: Beliefs about desirable outcomes or actions defined by the business as good and important, to be explicitly or implicitly shared and applied by the business.[23]

Wellbeing: A positive state of being where current and future needs of people are met, such that there is the capacity and opportunity to flourish. This state is associated with sustainability.[24]

Wise: Having or showing experience, knowledge and good judgement towards achieving long-term wellbeing of all people and planet.[25]

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