3

Current Topics Under Analysis

In this chapter, summarized versions of three research notes prepared by the team of *The Observatory of the SDGs in Portuguese Companies* are presented, exploring key sustainability issues in the corporate context. The first provides an analysis of Corporate Governance, discussing the strategic alignment between governance practices and Sustainability. The second addresses the strategic integration of the SDGs for organizational success, offering practical examples of how companies can develop competitive advantages by aligning their operations with the SDGs. Finally, the third focuses on Sustainability reports, emphasizing the importance of incorporating and effectively communicating the SDGs.

3.1.
Corporate Governance: Strategic Alignment with Sustainability

3.1. Corporate Governance: Strategic Alignment with Sustainability

Download the full research note here

3.1.1. What is Corporate Governance and Its Relationship with Sustainability?

In the mid-20th century, driven by the increasing size and complexity of companies, the need arose for organizations to establish structures and practices that ensure transparency, accountability, and management efficiency. In this context, Corporate Governance began to gain prominence (Passos, 2017).

Despite the passage of many years since its emergence, the concept of Corporate Governance still has different interpretations and is not completely clarified (Passos, 2017).

In this study, Corporate Governance is defined by considering the differences, complementarities, and convergences between the concepts presented in the research note that inspired this section[1]. Important elements of Corporate Governance include:

- Attention to the interests and engagement of stakeholders;
- Management accountability for impacts generated on stakeholders;
- A long-term focus;
- Focus on performance and sustainable development;
- Setting the company's strategic direction;
- Oversight by the governing body members;
- The goal of serving the interests of shareholders, partners, and investors;
- Compliance with ethical standards, reinforcing trust in corporate management agents;
- Operational efficiency and performance;
- Establishment of business rules and conduct;
- Transparency.

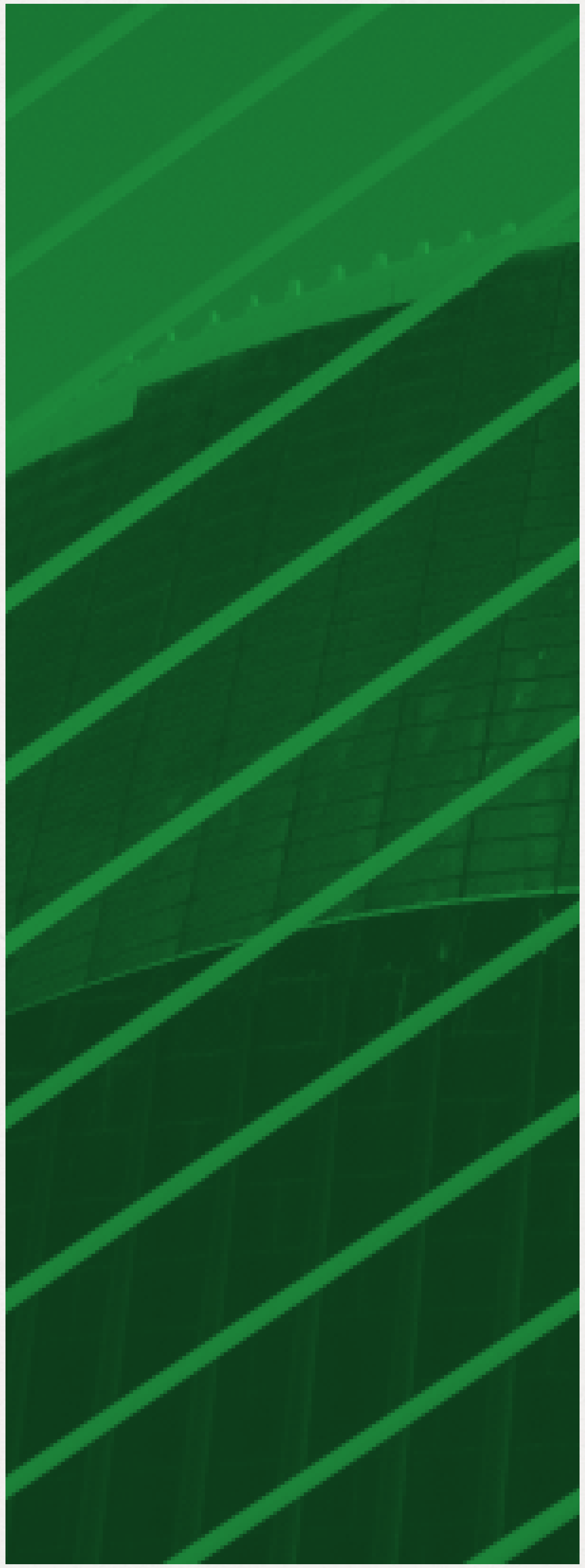
All these points are somehow related to the concept of Sustainability.

In its G20/OECD Principles of Corporate Governance 2023 report, the OECD supports this assertion, adding a specific chapter on the topic — **VI. Sustainability and Resilience**. The same happened in the 2023 revision of the Corporate Governance Code of the Portuguese Institute of Corporate Governance (*Instituto Português de Corporate Governance — IPCG*), where a new chapter — Chapter I — was dedicated to Sustainability.

Building on these examples, *The Observatory of the SDGs in Portuguese Companies*, through the research note Corporate Governance: Strategic Alignment with Sustainability, published on the Observatory's website, aims to explore the following **research question** based on Year 2 project data:

Is there a relationship between the studied Corporate Governance variables and the implementation of Sustainability and SDG policies?

[1] In the research note, the following concepts are presented: OECD Principles of Corporate Governance, the Corporate Governance Code of the Portuguese Institute of Corporate Governance (IPCG), the Business Roundtable Portugal Association, and Tihanyi et al. (2014).



- Hypothesis: Companies with better Corporate Governance (i.e., Corporate Governance that includes relevant Sustainability variables — such as stakeholder engagement, motivation for Sustainability, diversity, gender equality, and partnerships) have a higher perception of Sustainability and the SDGs.

To address this, the key agents of Corporate Governance and their responsibilities are briefly presented. The Corporate Governance process and its connection with executive management are also discussed, relating this cycle to Sustainability and the importance of stakeholder engagement. The results of correlation analyses between Corporate Governance variables and Sustainability and SDG variables, based on responses from Large Companies in Year 2 of the project, are then presented.

Finally, the conclusion highlights key insights and findings of the study.

3.1.2. Importance of Corporate Governance in the Corporate Context and Sustainability

In a corporation, Corporate Governance is carried out by different agents: the General Assembly (composed of shareholders), the Board of Directors (including both executive and non-executive directors), the Executive Committee (when applicable, composed of executive directors and possibly managers), Oversight Bodies, and Internal Committees that manage relationships with other stakeholders.

In general, these agents assume decision-making, leadership, and monitoring roles, as well as encourage stakeholders to comply with the rules and decisions made at the corporate governance level. To this end, principles, rules, norms, structure (power and control), processes, and incentives are defined and followed to generate sustainable value for all stakeholders.

The Board of Directors is an integral part of Governance, while Executive Management (formalized in the Executive Committee or, simply, executive directors when such a body does not exist) operates within

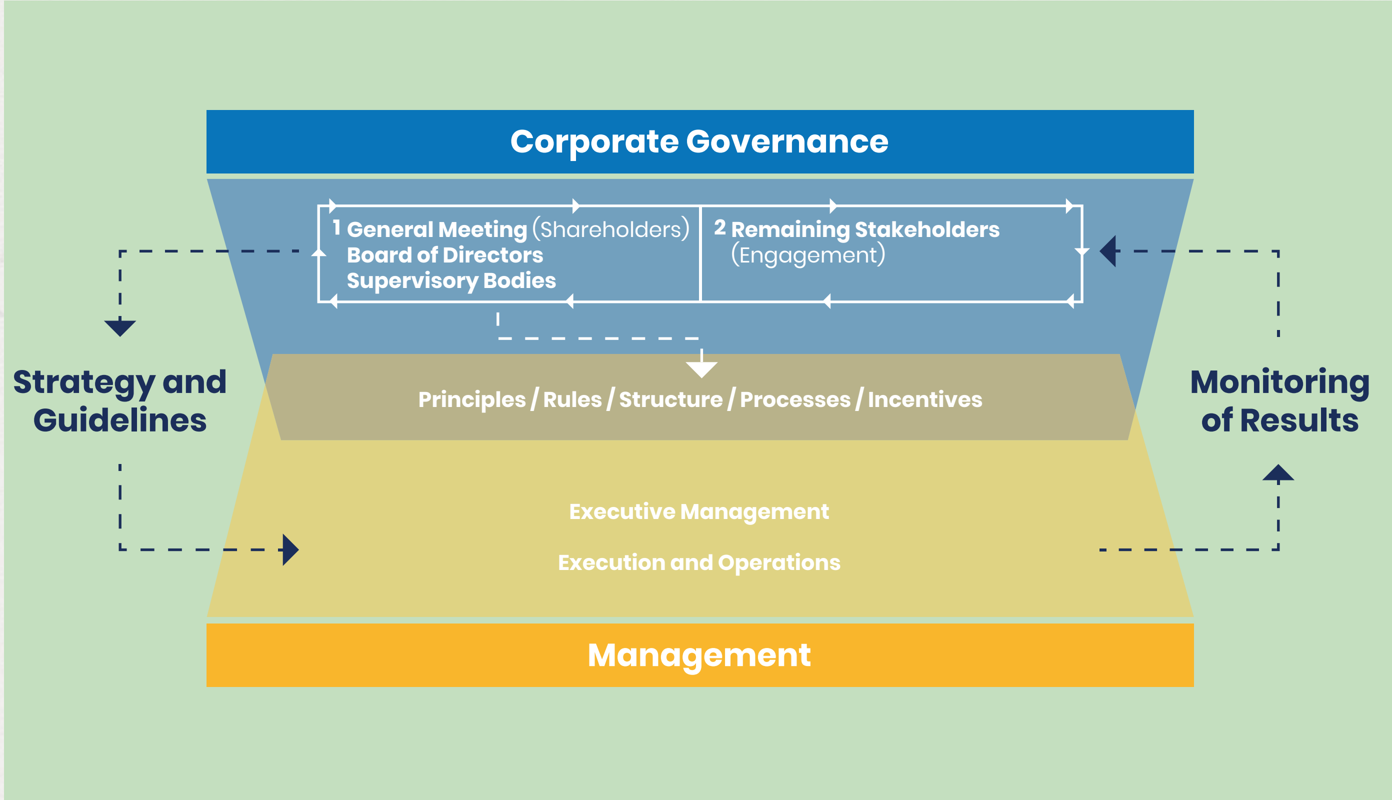


Figure 3.1.2.1. – Elements of Corporate Governance and the Governance-Management Cycle
Source: Authors

the company's Management function, with strong interaction between the two.

For Corporate Governance to positively contribute to company performance, Management — through its executive directors or Executive Committee — must fulfill its role. Based on this premise, there is a clear intersection between Corporate Governance and Management. The latter executes strategies and guidelines from the Board of Directors (which sets strategy) through decision-making and operations, generating results for shareholders and other stakeholders. This completes the Corporate Governance cycle: strategic guidelines lead to executive actions, which create results, monitored to inform new guidelines, actions, and outcomes, perpetuating the cycle. This cycle is illustrated in Figure 3.1.2.1 – Elements of Corporate Governance and the Governance-Management Cycle, presenting the main agents, instruments, and processes explained above.

If this cycle starts with Corporate Governance and its decisions, it becomes evident that Sustainability-related decisions stem from the strategic guidelines defined by Corporate Governance.

Therefore, Corporate Governance is the mechanism that, ultimately, influences the entire functioning, decisions, and operations of an organization. Through its practices, a company defines and follows a path where Sustainability becomes THE Corporate Strategy. In other words, Sustainability should be integrated into the company's core business, spanning Strategy, Marketing, Operations, Human Resources, Finance, etc. Corporate Governance also accounts for the management of all stakeholder interests (multistakeholders) and environmental interaction. This multistakeholder management is critical for Sustainability topics, as engaging all stakeholders can improve practices such as environmental management, social responsibility, and adherence to ethical standards (de Bakker et al., 2019).

This vision is becoming mainstream. However, practice shows a long road ahead between Corporate Governance and Sustainability. Greater interaction between these two domains is needed for a company to operate long-term. Moreover, a gap exists between recognizing the importance of Sustainability and implementing Sustainable practices within Corporate Governance. This study contributes to advancing the Sustainable Development Agenda, supported by sound Corporate Governance.

Governance na CSRD / ESRS

By Angela Lucas

If integrating Sustainability into corporate strategy and operations is a condition for maintaining a company's license to operate in the medium-to-long term, the reality is that such integration can only be effectively and efficiently achieved when the company's governance assumes responsibility for it. For Sustainability to permeate and disseminate across the company — always stemming from leadership and its integration into corporate strategy — it needs structures, instruments, and procedures to "institutionalize" it. Through these mechanisms, the company ensures preparation and capacity-building, while defining and implementing the appropriate incentives for executing, monitoring, and reporting various Sustainability topics.

Governance ensures that the company listens to its various stakeholders and balances their interests. It also allows a long-term focus on the corporate strategic vision, enabling compliance with high ethical standards, establishing policies, conduct, and rules based on transparency mechanisms, including due diligence processes, and ultimately achieving sustainable performance and development within and by the company.

Precisely because it is an essential element, governance is explicitly and comprehensively addressed in European Sustainability Reporting Standards (ESRS). According to these standards, companies must report under the new Corporate Sustainability Reporting Directive (CSRD).

Thus, companies will report extensive detailed information about their business model and strategy, including Sustainability objectives and targets, corporate policies, management structure, and the composition and functioning of administrative, management, and supervisory bodies. Companies will also report on risk identification and management systems they have established, including measures adopted to prevent, mitigate, correct, or eliminate potential or actual adverse impacts, as well as any financial incentive systems tied to Sustainability performance.

These are aspects that companies will have a vested interest (and, in some cases, even an obligation) in considering and reporting. The CSRD aims precisely to establish common standards and requirements for information disclosure, promoting greater consistency, uniformity, and comparability of companies' Sustainability information. This unified report integrates financial and non-financial information. Such standardization facilitates analysis and evaluation by investors, financiers, analysts, clients, auditors, and other internal and external stakeholders, allowing for a better understanding (and comparison) of companies' performance (including competitors) in Sustainability topics.

Without adequate and sustainable governance, all other Sustainability topics — especially environmental and social issues, or in other words, aspects related to the planet and people, but also partnerships — are, at best, compromised. These topics will lack the structure and organization necessary to consider, balance, integrate, and implement these factors. Governance is the "glue" without which the "S" and the "E" would be "lost in no man's land."

3.1.3. Corporate Governance and the Implementation of Sustainability and SDG Policies

Data Under Analysis

The Year 2 study of The Observatory of the SDGs in Portuguese companies provides a snapshot of the 61 Large Companies monitored by the project. This study included only corporations, resulting in a sample of 53 companies. Based on the questionnaire applied to these companies, the following aggregated Corporate Governance variables were selected:

Corporate Governance Variables
V1 — Is your company family-owned or non-family-owned?
V2 — Is your company publicly traded/on the capital market?
V3 — Proportion of women in Executive Management.
V4 — Average age of Executive Management members.
V5 — How does your company engage internal stakeholders in selecting and implementing the SDGs?
V6 — How does your company engage external stakeholders in selecting and implementing the SDGs?
V7 — Does your company publish a Sustainability report (non-financial information)?
V8 — To what extent does your company feel prepared for reporting under the CSRD — *Corporate Sustainability Reporting Directive?*
V9 — What is your perception about the main motivation of the executive management for the SDG Agenda?
V10 — Can you assess the Board of Directors' motivation for the SDGs?
V11 — Is there a link between internal compensation incentives and Sustainability and/or SDG objectives?
V12 — Does your company develop partnerships related to the SDGs?

Based on the questionnaire applied to these companies, the following aggregated Sustainability/SDG variables were selected:

Sustainability Issues/SDGs	Variables
Does the company view the SDGs as a business opportunity? (Question 29)	SDGs as a business opportunity
To what extent would you say the SDGs are integrated into the company's strategy? (Question 12)	SDGs integrated into the company's strategy
Do the SDGs the company considers most strategic support decision-making processes? (Question 33)	SDGs supporting decision-making processes
What is your perception of the existence of a business case (cost-benefit relationship) in implementing the SDGs? (Question 42)	Existence of a business case in SDG implementation
Understanding Sustainability as the incorporation of social and environmental criteria/concerns into business, rate the following statement: "Sustainability can substantially improve my company's competitiveness." (Question 6.2)	Sustainability to enhance competitiveness
Understanding Sustainability as the incorporation of social and environmental criteria/concerns into business, rate the following statement: "Sustainability has already changed how my company conducts its business." (Question 6.6)	Sustainability as a driver of change in business practices

Detailed results of the relationship between Governance variables and Sustainability/SDG variables can be found in the full version of the research note, along with the Methodology presented in Annex I. It is important to note that the analyses show associations, not causal relationships.

3.1.4. Study Conclusions

Considering the importance and necessity of integrating Sustainability and the SDGs into Corporate Governance processes and, consequently, into the planning and operations executed by Management, the results found in this study — derived from companies operating in Portugal and monitored within the scope of the Observatory project — are pertinent for understanding this reality. These results were compared with other studies, as noted in each analysis explored in the full research note. Some support the conclusions obtained, while others reveal different patterns.

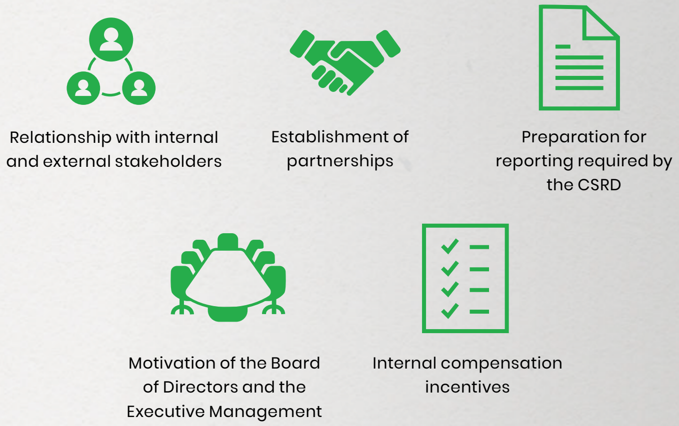
Starting with the Corporate Governance variables that did not show correlations with the companies' performance and positioning regarding Sustainability/SDG issues, it was found that aspects such as: 1) whether the company is family-owned or not, 2) whether the company is publicly traded or not, 3) the proportion of women in Executive Management, and 4) the average age of Executive Management members, do not correlate with whether the company performs better or worse in Sustainability/SDGs. These results differ, in most cases, from the literature, and the lack of correlation may be due to the study's small sample size or its specific characteristics. It is also important to note that this study only identifies relationships between variables and does not infer causality.

The positive correlations identified are associated with various factors. The relationship with stakeholders, both internal and external, as well as the establishment of partnerships, are associated with better company positioning concerning Sustainability/SDGs. This conclusion supports the importance of consulting and involving all stakeholders to promote better Sustainability/SDG performance and, consequently, better company performance, as evidenced throughout the study.

Additionally, the motivation and leadership of the Board of Directors and Executive Management in Sustainability/SDG topics proved to be crucial. The use of internal compensation incentives may also play a role in the company's positioning regarding Sustainability/SDGs. These results reiterate that Corporate Governance and Management processes should be aligned to safeguard Sustainability/SDGs.

Finally, preparation for reporting, as required by the *Corporate Sustainability Reporting Directive* (CSRD), is positively related to Sustainability/SDG performance.

Governance variables correlated with strategic alignment with sustainability and the SDGs



Non-correlated variables

This study reinforces the importance of aligning Corporate Governance agents to make Sustainability **THE** corporate strategy. It highlights key points, such as the relevance of engaging all stakeholders and establishing partnerships to build this path. This path must be pursued (and maintained) through the motivation of the Board of Directors and Executive Management, who will implement it by executing the company's defined strategy.

Thus, the study suggests that several Corporate Governance factors are positively related to Corporate Sustainability and that these two components reinforce

each other. Even though some relationships were less explicit in the Portuguese data (based on the study's sample), this positive relationship shows that companies can and should work on Corporate Governance, knowing that it will drive their Sustainability.

In conclusion, relationships were found between some of the studied Corporate Governance variables and the implementation of Sustainability and SDG policies. The direction of these relationships supports the presented hypothesis: companies with better Corporate Governance (concerning the studied variables) have a higher perception of Sustainability and the SDGs.

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3.2. The Strategic Integration of the SDGs for Corporate Success: Some Practical Cases

3.2.
The Strategic Integration of the SDGs for Corporate Success: Some Practical Cases

Download the full research note here

Balancing Profit and Purpose: The Strategic Integration of the Sustainable Development Goals for Corporate Success

The *2030 Agenda* is a testament to the global commitment to addressing urgent environmental, social, and economic challenges. As companies navigate this complex landscape of *Sustainable Development*, there is a growing recognition that integrating sustainable practices into corporate strategies not only contributes to social and environmental well-being but can also bring significant advantages to businesses (Montiel et al., 2021).

Balancing Profit and Purpose: The Strategic Integration of the Sustainable Development Goals for Corporate Success is a research note prepared by the Observatory team aimed at exploring the business cases for adopting the SDGs. It also highlights the business advantages that companies can achieve by aligning their operations with the SDGs and investigates the operationalization of the SDGs through real-world examples (Van Tulder et al., 2021). To this end, it focuses on four business cases for Sustainability: cost reduction, price increase, market share growth, and the creation of a new business model (Henderson, 2020).

In the following section, a brief explanation of each business case is provided, followed by a representative example selected from the various cases explored in the research note, as shown in the table.

Anyone interested in learning more about the business case for Sustainability and discovering the other examples chosen for each of the 17 SDGs can explore the research note: Balancing Profit and Purpose: The Strategic Integration of the Sustainable Development Goals for Corporate Success.

SDG	Company	Title	*Business Case*
2 ERRADICAR A FOME	DIAGEO	Fostering Supplier Development for Mutual Gains	**Cost Reduction**
8 TRABALHO DIGNO E CRESCIMENTO ECONÓMICO	TONY'S CHOCOLONELY	A Journey to 100% Slave-Free Chocolate	**Price Increase**
10 REDUZIR AS DESIGUALDADES	LEGO	Building Inclusion with Braille Education	**Market Share Growth**
14 PROTEGER A VIDA MARINHA	INTERFACE	*Networks, A Sustainable Solution to Marine Waste*	**Creation of a New Business Model**

The Four Business Cases for Sustainability

On the path to *Sustainable Development*, companies play a fundamental role as drivers of innovation, economic growth, and social progress. The adoption of sustainable practices presents significant opportunities for business viability and competitiveness. These advantages can be achieved through four business cases, which companies can leverage by aligning their strategies with the SDGs, thus advancing the targets and indicators associated with them.

But what is a Sustainability Business Case? It is an identifiable sustainable environmental and/or social practice that provides companies with a scenario or circumstance that translates into economic and financial business success.

There are different types of business cases for Sustainability. The research note identifies four: Cost Reduction, Price Increase, Market Share Growth and Creation of a New Business Model.

(a) Cost Reduction

This occurs when companies reduce economic costs in the production of their goods and services by incorporating sustainable practices into their operations and supply chains.

Companies can achieve cost reduction as a business case for Sustainability by adopting renewable alternatives and implementing efficient mechanisms, particularly in the use of energy and water. Additionally, companies can reduce current and future operational costs by identifying and addressing — thus mitigating — risks related to resource scarcity and hazards, such as climate-related risks. Furthermore, companies can retain talent and avoid substantial expenses in recruitment, hiring, and training by investing in employees' mental and physical health or providing academic and/or professional training opportunities.

Consider the example of **Diageo**, which, through the strategic implementation of **SDG 2 — Zero Hunger** within its value chain, achieved cost reduction.

DIAGEO
Fostering Supplier Development for Mutual Gains (Nelson et al., 2015, p. 46)

Diageo is a multinational alcoholic beverage company headquartered in London, England, created in 1997 through the merger of Guinness plc and Grand Metropolitan.

In 2012, Diageo acquired Meta Abo Brewery Company, known for producing national lager brands Meta and Meta Premium. Diageo aimed to source 80% of its agricultural inputs in Africa locally by 2020, focusing on barley and malt in Ethiopia. In Ethiopia, the second most populous country in Sub-Saharan Africa, agriculture is central to the economy, supporting a significant portion of the vulnerable population, particularly smallholder farmers. To drive transformative efforts in agriculture, the government established the Agricultural Transformation Agency (ATA).

Diageo collaboratively formalized a partnership with the ATA to explore opportunities for improving the barley value chain. **For Diageo, increasing local sourcing of barley made business sense, as purchasing in the local currency helped to keep prices stable, with the business also benefiting from greater security of supply and a stronger local economy.** The Meta Brewery smallholder farmer project had three main objectives: increase productivity and incomes of smallholder farmers, create predictable market demand for smallholder farmers, and enable 100% of agricultural raw materials in the Meta Brewery supply chain to be locally sourced, sustainably and at competitive prices (**Target 2.3 Double the Agricultural Productivity and Incomes of Small-scale food Producers, Target 2.4 Sustainable Food Production and Resilient Agricultural Practices, and target 2.b Prevent Agricultural Trade Restrictions, Market Distortions and Export Subsidies**). The approach of Meta was to tackle constraints at all stages of the barley value chain. At the core of this strategic approach was establishing direct contractual agreements between Meta and smallholder farmers, facilitated electronically (**Target 2.a Invest in Rural Technology**). This addressed multifaceted challenges faced by fragmented farmers, including issues of input access, knowledge, and infrastructure. Meta actively enhanced the agricultural proficiency and collective purchasing capabilities of farmers, offering pre-financing for all supplied inputs and contributing to sustainable cash flow management throughout the farming season. (**Target 2.c Ensure Stable Food Commodity and Timely Access to Information**).

The main impact for smallholder farmers was an increase in both yields — up to 50% on average on the same piece of land — and the amount and stability of their income. Furthermore, Meta extended the ambit of direct contracting, to **encompass agreements with input and service providers. This comprehensive approach mitigated the challenges faced by these providers in efficiently and cost-effectively meeting the diverse needs of geographically dispersed smallholder farmers.**

The acquisition of Meta Abo Brewery Company by Diageo and its subsequent project with the ATA in Ethiopia exemplifies a business strategy aligned with SDG 2, fulfilling targets 2.1, 2.2, 2.3, 2.a, and 2.c. This initiative led to an **increase in market share** for Diageo and resulted in the **reduction of costs** through stable pricing, greater security of supply, and a stronger local economy, showcasing the potential of sustainable business practices to drive economic growth while addressing hunger and agricultural challenges.

(b) Price Increase

This occurs when a company can increase the price of a product or service because it is (more) sustainable compared to a previous product/service or a competitor's product/service.

Companies can raise prices by leveraging their commitment to Sustainability and offering premium products. For example, in the healthcare sector, companies can develop concierge healthcare services that provide convenience, accessibility, and personalized offerings. In terms of marine and terrestrial Sustainability, companies can offer products certified by organizations like the *Marine Stewardship Council®* or the *Forest Stewardship Council®*. Additionally, companies can create value-added service options that assign Sustainability labels to their products and services. For instance, in the water sector, companies can provide value-added services such as water quality testing, water treatment consulting, and water management solutions that offer quality, reliability, and water efficiency.

Consider the example of **Tony's Chocolonely**, which, through the strategic implementation of **SDG 8 — Decent Work and Economic Growth** in its chocolate production — by placing social Sustainability at the core of its operations — successfully increased the price of its products.

TONY'S CHOCOLONELY
A Journey to 100% Slave-Free Chocolate (Tony's Annual FAIR Reports, 2023)

Tony's Chocolonely is a chocolate company in the Netherlands, created in 2006 with the mission to eradicate slavery in the chocolate supply chain under the slogan "100% slave free in chocolate". The cocoa industry is plagued by numerous instances of human rights violations and environmental challenges. More than 60% of the cocoa is produced by smallholder farmers, who endure inadequate compensation. This precarious circumstance compels them to resort to illicit labor practices, notably child labor, and contribute to deforestation activities. In 2022/2023, Tony's Chocolonely saved 1.752 children out of child labor in Ghana and Côte D'Ivoire, contributing to **Target 8.7 — End modern slavery, trafficking, and child labor and Target 8.8 Protect Labor Rights.**

The commitment of Tony's to rectify these systemic issues led to the development of a model aimed at addressing their root causes. The manifestation of this commitment materializes through Tony's Open Chain, a collaborative initiative designed to engage other corporate entities in mitigating exploitation within the cocoa supply chain. Central to this model are Five Sourcing Principles: ensuring cocoa bean traceability, empowering farmers, offering equitable remuneration, fostering long-term relationships, and emphasizing quality and productivity standards (**Target 8.5 Full Employment and Decent Work**). The company is proving that this model is replicable and scalable, with its 14 Mission Allies growing yearly.

Despite the requisite investment in procuring their primary raw material at elevated prices, Tony's has demonstrated commendable financial performance, as evidenced in the company's Annual Fair Report 2022/2023: "net revenue showed a steep increase of 23.2%, meaning we generated €150.2 million in revenue compared to last year's €121.9 million. This represents the largest absolute annual revenue growth for Tony's to date." (**Target 8.2 Innovate for Economic Productivity**)

The strategic integration of SDG 8 into Tony's Chocolonely's corporate strategy has catalyzed the development of a **new business model**, where the production of chocolate, is highly demanding on the working conditions, and specially the risk of child and hard-labor which is a unfortunate characteristic of the chocolate manufacturing process, which allows the company to implement **higher prices**.

(c) Market Share Growth

This occurs when a company reaches a new segment of consumers because of its sustainable practices. This can happen when, within the same product category, consumers prefer a sustainable product over a non-sustainable one at the same price.

Both small and large companies that leverage Sustainability often experience market share growth, indicating that Sustainability can serve as a universal driver of expansion, regardless of company size. However, companies can go beyond the green market by exploring new geographies and consumer groups, understanding, and addressing the unique sociocultural, economic, and environmental needs of different population segments. For example, companies can create value-added products or services that meet the needs of low-income consumers, such as affordable housing solutions, basic healthcare services, or nutritious food options, using strategies that offer flexible pricing for people with lower economic power.

Consider the example of **LEGO**, which, through the strategic implementation of **SDG 10 — Reduced Inequalities**, overcame a social challenge posed by its products for children with visual impairments and created an inclusive kit, reaching this segment of the population.

LEGO
Building Inclusion with Braille Education

The LEGO Group is a Danish toy manufacturing company that was founded in 1932. Since 2020, the LEGO Foundation made LEGO Braille Brick educational kits accessible to organizations specializing in the education of children with visual impairments. This innovative project emerged through a collaborative partnership with associations dedicated to individuals with visual impairments. **Selected institutions, schools, and organizations specializing in the pre-literacy and literacy processes for children and young people aged four to eighteen were actively involved in the development, testing, and launch of the LEGO® Braille Bricks concept (Target 10.2 Promote Social Inclusion)**. And, in 2023, the new LEGO Play with Braille set became available for purchase through LEGO.com, enabling families to experience the benefits and enhance tactile skills in the comfort of their homes.

The set, designed for children aged 6 and above, features bricks in five vibrant colors, fully compatible with other LEGO products. **Each brick incorporates studs arranged to correspond to numbers and letters in the Braille system, with the printed version of the symbol or letter situated below the studs (Target 10.3 End Discrimination)**. The set, packaged with Braille embossing, includes two baseplates for building, fostering a playful and inclusive way for visually impaired children to develop essential literacy skills.

In a continued commitment to accessibility, LEGO announced the forthcoming release of LEGO Audio & Braille Building Instructions at the beginning of 2024. This initiative offers builders the option to access more LEGO building instructions as audio or text for Braille readers, further enhancing the inclusivity and impact of the innovative approach to education and play.

The introduction of the LEGO Braille Brick educational kits and subsequent developments in accessible learning materials directly address SDG 10, specifically, targets 10.2, 10.3, and 10.4. These actions not only contribute to societal well-being but also lead to an **increase in market share** for LEGO, as the company expands its reach and attracts new customers seeking inclusive and innovative educational products. In addition, the Braille Bricks also serve as a prime example of how businesses can successfully integrate social dilemmas into their operations while driving commercial success and creating a **new business model focused** on inclusivity and accessibility.

(d) Creation of a New Business Model

This occurs when a company adopts a new sustainable approach or strategy to create value for the customer, resulting in how the company generates revenue, interacts with customers, leverages resources, and builds competitive advantages in the market. This often involves new products, new methods for development, production, distribution, marketing, pricing, and customer relationship management.

Companies can build new business models by directing their operations toward emerging and promising markets, using the expertise they have acquired in the sector, or by shifting their original offering of products and services, aligning it with innovation and Sustainability. For example, the transition many fossil fuel companies have made (or are making) toward producing and developing renewable and green energy. Another possibility is creating a product through alternative sustainable production mechanisms. For instance, a company that typically uses wood to manufacture furniture could form a partnership with a local cork producer to use leftover cork materials to create unique furniture pieces.

Consider the example of **Interface**, which, through its **Net-Works** program, integrated **SDG 14 – Life Below Water** and developed a new business model capable of collecting discarded fishing nets and converting them into carpet tiles.

INTERFACE
Networks, A Sustainable Solution to Marine Waste (Khoo & Turner, 2017)

Interface is an Atlanta-based company and the leader in modular carpet design, production, and sales. The company has effectively integrated SDG 14 into its operations to address the issue of lost and discarded fishing gear, a significant contributor to marine waste. The initiative of Interface, known as Net-Works, established in 2012 through a partnership with the Zoological Society of London (ZSL), exemplifies how businesses can mitigate ocean pollution while achieving economic success.

Lost and discarded fishing gear, particularly nets, makes up 10% of the marine waste of the world. The Net-Works program collects discarded fishing nets from impoverished fishing communities, recycling them into nylon yarn used in carpet manufacturing (**Target 14.1 Reduce Marine Pollution, 14.2 Protect Marine Ecosystems and Target 14.b Support Small Scale Fishers). By repurposing waste materials, Interface reduces dependency on virgin resources, cuts energy consumption, and meets the growing demand for sustainable materials in the building and interior design industry.** Interface enhances its environmental footprint through this initiative and strengthens its market position by offering eco-friendly products. Net-Works operates with a sustainable business model that benefits both Interface and participating communities. The program's proceeds from net sales cover financial benefits to communities and operational costs, demonstrating a "triple bottom line approach focusing on people, planet, and profit" (Interface Inc. Net-Works Programme - Economics of Mutuality Alliance, 2017).

In the Philippines and Cameroon, Net-Works has reached 35 communities, collected over 142 metric tons of waste nets, and facilitated access to finance for 1,500 families through community banks. Additionally, approximately 62,000 people have benefited from a healthier environment through the initiatives, including engaging with communities to implement sustainable fishing practices, protecting marine habitats, and establishing protected areas (**Target 14.5 Conserve Coastal and Marine Areas and 14.7 Promote Sustainable Fisheries Management**). Furthermore, Net-Works fosters social empowerment by establishing local community banks, facilitating community engagement in marine resource management, and enabling livelihood diversification among fishermen, such as seaweed farming, thereby contributing to a more secure financial future for these communities.

From a financial perspective, Net-Works contributes to Interface by reducing energy use in its supply chain through the recycling of waste nets, generating substantial financial savings for the company and its nylon supplier, Aquafil. By purchasing the ECONYL yarn of Aquafil, Interface leverages its market power to encourage the production of more sustainable materials and manufacturing processes (Target 14.7 Increasing Economic Benefits from Sustainable Use of Marine Resources). Moreover, the program helps Interface capitalize on the growing demand for green and sustainable interior design products, strengthens relationships with business customers, and enhances brand reputation, as evidenced by praise from the United States Department of State and featured in prominent publications and conferences. Additionally, Net-Works has directly connected Interface to over USD 23.5 million in sales, demonstrating its popularity among customers and its effectiveness in aligning with its sustainability goals and vision.

Interface has innovatively created a **new business model** that fosters environmental stewardship while meeting market demands for eco-friendly products by repurposing discarded fishing nets into nylon yarn for carpet manufacturing. This new approach not only **reduces costs** through the use of recycled materials but also opens up new market opportunities for sustainable goods, positioning Interface as a leader in sustainable business practices.

Final Considerations

Aligning corporate strategies with the SDGs represents a genuine business case for companies. **By integrating SDG targets into their operations, companies can not only contribute to global Sustainability efforts but also achieve significant advantages, such as cost reduction, price increase, market share growth, and the creation of a new business model.** Adopting the SDGs enhances corporate reputation and brand value while promoting long-term resilience and competitiveness.

A relevant observation derived from the research on practical business cases that contribute to the SDGs is that a significant majority of companies exhibit Sustainability practices. However, a prevailing trend among these companies is the failure to communicate these practices beyond mandatory reports or to frame them within the context of the SDGs. One of the most evident challenges encountered during this work was the scarcity of practical business cases that effectively demonstrate the benefits of Sustainability initiatives. **Many companies appear hesitant to showcase the advantages these initiatives could bring to their businesses. There is a widespread fear that consumers might misinterpret their efforts to balance profit and purpose as mere socialwashing or greenwashing tactics. Overcoming this hesitation requires transparent communication to build trust with consumers.** By dispelling misconceptions and demonstrating tangible benefits, companies can move toward a more sustainable future while fostering deeper connections with their stakeholders.

As companies increasingly recognize the interconnectedness between Sustainable Development and economic prosperity, strategically adopting the SDGs becomes not only a moral imperative but also a business strategic imperative for future success.

The full research note ***Balancing Profit and Purpose: The Strategic Integration of the Sustainable Development Goals for Corporate Success*** can be read at this link.

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3.3. Sustainability Reports: Strategic Integration and Communication of the SDGs

3.3. Sustainability Reports: Strategic Integration and Communication of the SDGs

Download the full research note here

3.3.1. The Importance of Sustainability Reports

Sustainability Reports are one of the main communication tools companies use to disclose their strategies, initiatives, and progress in the context of Sustainability.

This topic has gained new importance with the *Corporate Sustainability Reporting Directive* (CSRD), which makes Sustainability reporting mandatory for many companies operating in the European Union (EU), including foreign companies with commercial relations in the EU.

Lozano, Nummert, and Ceulemans (2016) highlight the main objectives of preparing Sustainability Reports as the evaluation and transparency of Sustainability performance, fostering dialogue with stakeholders, promoting Sustainability efforts, and improving Sustainability reputation. Together, these elements facilitate and encourage the implementation of necessary changes to achieve more effective and integrated sustainable performance within the organization.

Reporting tools are important because they allow companies to inform stakeholders about their progress in achieving Sustainability goals. They also enable the demonstration of results by monitoring progress, showing the connection between business activities, outcomes, impacts, and the objectives achieved.

Therefore, *Sustainability Reports* play a crucial role in supporting transparency and building strong relationships with stakeholders by demonstrating how the company is honoring its commitments and achieving shared goals. Continuous dialogue with stakeholders also helps identify areas for improvement and adjust Sustainability strategies more effectively, ensuring that business practices align with the values and interests of the involved groups.

Thus, preparing *Sustainability Reports* should not be viewed merely as a regulatory obligation, but rather as a tool to help companies articulate their strategy, measure progress, make informed decisions, and decide how they want to conduct their activities. This process strengthens relationships with stakeholders and drives economic and social development responsibly.

3.3.2. New Reporting Context: CSRD

The *Corporate Sustainability Reporting Directive* (CSRD) represents a significant milestone in the context of Sustainability reporting for companies in the EU. By expanding and enhancing the requirements for disclosing Sustainability information, the CSRD aims to address critical gaps in corporate transparency and accountability regarding environmental, social, and governance (ESG) issues.

The importance of the CSRD for companies lies in several aspects. First, the directive defines a broader and more inclusive scope compared to the previous *Non-Financial Reporting Directive* (NFRD), encompassing a larger number of companies. This means that more organizations will be encouraged (and some required) to integrate ESG considerations into their strategies and operations, promoting a more holistic approach to Sustainability. The directive will also impact SMEs, which was not previously the case, applying to listed SMEs and SMEs that are part of the value chain of Large Companies that need to report on their activities.

Furthermore, through the use of the *European Sustainability Reporting Standards* (ESRS), the

CSRD seeks to establish common standards and requirements for disclosing non-financial information, promoting greater consistency, uniformity, and comparability among companies' Sustainability Reports. The ESRS are standards designed to standardize and specify the information reported by companies to facilitate comprehension.

This standardization is essential for enabling investors, analysts, regulators, and other stakeholders to analyze and assess companies, providing a better understanding and greater comparability of their Sustainability performance.

Another important aspect is the emphasis the CSRD places on auditing and verifying non-financial information disclosed by companies. These requirements aim to ensure the accuracy and reliability of the data presented, strengthening stakeholders' confidence in the information provided by companies. By encouraging the digitization of reports and making information more accessible and understandable (machine-readable), the CSRD aims to promote transparency and stakeholder engagement, allowing for more effective communication about companies' environmental and social impacts.

This directive also brings a mindset shift in the preparation of *Sustainability Reports*, particularly in the scope and structure of the information to be reported. Until now, companies have reported what they have done regarding Sustainability with an informational perspective — that is, detailing actions taken. The new reporting framework requires a different approach, demanding that companies report not only on what they do — and their positive and negative impacts — but also on what they plan to do, i.e., their future ambitions.

The CSRD will also implicitly promote the incorporation of the SDGs into *Sustainability Reports* by using the ESRS, which draws inspiration from various international agreements, including, globally, the SDG Agenda and the *Paris Agreement*, and, at the European level, the *European Green Deal*. This alignment is evident in the topics covered by the ESRS, which parallel the challenges identified by the SDGs. This alignment is positive, as it allows companies to articulate their contributions to SDG progress while reporting on the various ESRS topics. However, since this incorporation is implicit, it may fail to clearly demonstrate companies' alignment with the SDGs unless they explicitly show how their actions and strategic priorities align with the *2030 Agenda*.
In summary, the CSRD defines the requirements of the new EU Sustainability reporting framework and plays a crucial role in promoting corporate Sustainability by encouraging companies to adopt a more comprehensive and transparent approach to ESG issues.

By establishing stricter disclosure standards and ensuring the accuracy and reliability of information by using the ESRS within a standardized reporting framework, the directive contributes to building a more sustainable and resilient economy aligned with the goals of the *2030 Agenda and Sustainable Development.*

You can read more about the reporting elements and the ESRS in the research note that inspired this subchapter: Sustainability Reports: [Strategic Integration and Communication of the SDGs.]

3.3.3. Why Report on the SDGs

Incorporating the SDGs into *Sustainability Reports* is one way for organizations to demonstrate their alignment and contributions to the *2030 Agenda* and a strategy to show how their value-creation processes contribute to *Sustainable Development*.

By examining their activities and impacts in relation to the *2030 Agenda*, companies can also identify opportunities to contribute to the SDGs, with the SDGs serving as a catalyst for innovation and continuous progress. In this way, by identifying opportunities and challenges related to the SDGs, companies can seek innovative solutions to address environmental and social challenges in a way that aligns with their business. They can also direct their business strategy to meet society's most pressing social and environmental needs. This proactive approach not only strengthens the companies' competitive position but also contributes to the development of a more sustainable and resilient economy in the long term.

According to Monteiro *et al.* (2020), integrating the SDGs into corporate reporting is one of the most important steps for tracking the implementation and progress of the *2030 Agenda* by the private sector, as well as one of its greatest challenges.

Reporting on the SDGs increases corporate transparency regarding their practices and impacts on social, environmental, and governance issues. This allows various stakeholders to evaluate companies' performance across different ESG dimensions, as well as their ambitions and future plans. It can also increase access to capital by attracting responsible and impact investors.

In summary, reporting on the SDGs helps companies reflect on their activities and strategies in alignment with a global agenda, while also demonstrating their commitment to Sustainability across various dimensions. It can also drive innovation, strengthen its reputation, and enhance the company's competitiveness and market positioning. Moreover, by contributing to the achievement of the SDGs, companies play a fundamental role in building a fairer, more prosperous, and more sustainable future for all.

3.3.4. How to Incorporate the SDGs into Sustainability Reports

The team at The Observatory of the SDGs in Portuguese companies has developed a list of criteria to evaluate the degree of incorporation and alignment of the SDGs with corporate strategies and the integration of the SDGs into company communication.

The list is presented below. You can refer to the research note to see practical examples of how each of these criteria is applied by companies in the Observatory.

A. Explicit reference to the SDGs
B. Explicit reference to the SDG targets
C. Reference to the SDGs in the CEO's message
D. Presentation of the SDGs strategic to the company or the SDGs incorporated into the corporate strategy
E. Explanation of the process for selecting the strategic SDGs
F. Presentation of concrete evidence of the company's contribution to the SDGs through initiatives, actions, and/or projects
G. Linking the SDGs and/or their targets to the company's concrete and measurable objectives
H. Linking the SDGs to the company's (non-measurable) commitments
I. Presentation of progress/monitoring of contributions to the SDGs
J. Mention of the SDGs in the company's (double) materiality analysis or selected material topics
K. Linking the SDGs to a reporting standard (e.g., GRI, SASB)
L. Incorporation of SMART indicators for Sustainability
M. Consideration of the interconnections between the SDGs
N. Communication of positive and negative impacts associated with business activities
O. Incorporation of the SDGs throughout the report

3.3.4.1. Analysis of the Sustainability Reports of Large Companies in the Observatory

In both Year 2 and Year 3, all reports available online on the company's website during the data analysis period (reports published by the end of August 2024) were analyzed. Companies that did not publish a new report between Year 2 and Year 3 were excluded from the Year 3 analysis. Therefore, 56 reports were analyzed in Year 2 and 53 in Year 3.

This subsection presents the comparative results found.

Reference to the SDGs

Year 2 86% → Year 3 94%

Reference to the SDG Targets

Year 2 28% → Year 3 32%

Reference to the SDGs in the CEO's Message

Year 2 33% → Year 3 28%

Integration of the SDGs into Corporate Strategy

Year 2 67% → Year 3 75%

Presentation of the Process for Selecting the SDGs

Year 2 38% → Year 3 47%

Presentation of Concrete Evidence of Contribution to the 2030 Agenda

Year 2 59% → Year 3 68%

Linking the SDGs to Company Commitments and Policies

Year 2 52% → Year 3 68%

Monitoring Progress in Achieving the SDGs

Year 2 26% → Year 3 43%

Linking the SDGs to Company Objectives and/or Targets

Year 2 41% → Year 3 36%

Consideration of Interconnections Between the SDGs

Year 2 12% → Year 3 9%

Incorporation of the SDGs into Materiality Analysis or Association with Identified Material Topics

Year 2 28% → Year 3 28%

Use of SMART Indicators

Year 2 84% → Year 3 98%

Reporting Positive and Negative Impacts of Business Activities

Year 2 59% → Year 3 91%

This growth is noteworthy and can possibly be explained by companies' adaptation to the CSRD and by greater transparency in disclosing the various risks associated with business activities.

Incorporation of the SDGs Through Sustainability Reports

Year 2 38% → Year 3 49%

These data indicate a potential positive trend in companies' commitment to the *2030 Agenda*, with progress in integrating the SDGs. However, challenges remain, such as the need to expand the consideration of SDG interconnections and improve the alignment of SDGs with targets and reporting standards.

3.3.5. Corporate Behavior Toward Sustainability Reporting

Based on the data obtained from the questionnaires completed by Large Companies and SMEs studied in the Observatory, an analysis was conducted to understand potential correlations between different variables that may influence SDG reporting.

It was identified that both Large Companies and SMEs that report a higher level of knowledge about the 17 SDGs also have a higher level of SDG incorporation. The same applies to the 169 targets. This result suggests that understanding and awareness of the SDGs are important for driving their implementation by companies, regardless of their size. This correlation also reveals that education and communication about the SDGs can effectively promote the adoption and integration of these goals into business operations. Therefore, policies and initiatives aimed at increasing awareness and understanding of the SDGs among companies can be effective strategies for promoting Sustainability and socioeconomic development.

Both Large Companies and SMEs that believe Sustainability has changed their way of doing business show a higher level of SDG incorporation. This may indicate that companies more aware of Sustainability issues are also more inclined to integrate the SDGs into their business practices. In the case of Large Companies, those more motivated to solve social problems and mitigate risks are more likely to incorporate the SDGs into their strategy. For SMEs, greater motivation for business growth results in a higher likelihood of integrating the SDGs into their corporate strategy. These results reflect the positioning of companies and the different factors influencing the adoption of the SDG Agenda. When companies do not see a business case for the SDGs, the likelihood of incorporating them into corporate strategies is lower. This suggests that greater knowledge about the various opportunities for businesses to benefit from the SDGs could lead to higher adoption and implementation.

For SMEs, the language of the SDGs is distant from business terminology and presents a barrier to implementation. Therefore, better aligning the SDGs with business language could lead to greater incorporation by organizations.

These results suggest that the greater the knowledge and awareness of the SDG Agenda, the higher the probability of companies adopting this Agenda, reinforcing the main objective of this study. Additionally, when companies recognize the value of incorporating the SDGs into their strategy, they are more likely to integrate this Agenda, further contributing to its progress.

3.3.6. Conclusions

Sustainability reporting has gained new dimensions in the European context. The regulations established by the *Corporate Sustainability Reporting Directive* (CSRD) have created a scenario that requires companies to be more rigorous in assessing and reporting their environmental and social impacts. This strengthens transparency in communication and encourages companies to integrate ESG considerations into their strategies and operations. Therefore, *Sustainability Reports* become essential tools for reflecting on and continuously improving business practices. They promote more effective management of risks and opportunities associated with environmental, social, and governance (ESG) issues, strengthen relationships with stakeholders by building trust and transparency, and enable the identification of opportunities to develop solutions for social and environmental problems.

Viewed from this perspective, *Sustainability Reports* go beyond being a regulatory requirement or communication tool; they become a way for organizations to contribute positively by developing solutions to social and environmental challenges, advancing progress toward the SDGs and the *2030 Agenda*.

Adopting a proactive approach to Sustainability reporting also allows companies to improve their access to capital, enhance their competitiveness, and contribute to a more sustainable and resilient economy. Ultimately, by committing to Sustainability, companies can not only improve their competitive position but also contribute to a more sustainable and resilient economy, playing a crucial role in building a fairer and more prosperous future for all.

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