A unified framework to view Economic, Environmental, Social, and Governance value

Milton Friedman's hypothesis that "the social responsibility of business is to increase profit" has been under attack almost since the day it was written, over 50 years ago, and yet it remains common cause among most businesses and investors that almost all measures of value are at their core profit related.

Our current times are particularly pertinent as we reconsider Friedman's statement and look to understand the array of expectations that both shareholders and stakeholders in general have of business.

These expectations coalesce into pressures to increase economic value and contributions made to society, to limit and reverse the environmental impacts of their footprint and unlock the potential of nature-based assets and solutions, to improve social development and inclusion, and finally to focus on good governance, improve capability across stakeholder boundaries and to rebuild trust.

The task facing business leaders today is how to integrate their commercial and operational objectives with the fluidity of the ESG expectations placed upon their business.

This invariably opens up the question of what the purpose of the organisation is and how then the intent to be responsible matches of the needs of both the business and stakeholders.

As expectations mount and shift, it has never been more necessary for companies to both act responsibly and to share a clear narrative - with the ability to support their claims with data. Naturally this requires a framework for reporting and analysis.

The complication is that being a newish space, there is a multiplicity of frameworks to measure ESG, in most cases decoupled from profits. This retains the narrative of "we're here to produce or make money, and ESG is something we do on the side to please stakeholders".

To focus this, most frameworks are sectoral or industry specific, and so over the next 5-10 years we will see multiple iterations come and go.

There is further challenge for investors and individuals in being able to compare apples to apples - different frameworks present subtle nuance which are difficult to separate/compare.

It is not uncommon to hear company executives, investors and regulators highlight the lack of quality in published ESG data. While many companies are working to improve their data and related analytics, and a whole new industry of advisers, auditors and analytic experts have emerged to assist in these efforts, progress and true visibility will be limited until we agree on common meaningful standards and build trust in how data is reported. Without common standards, even high-quality data will result in comparing apples with oranges.

> "The 'financial decision' has gained increasing weight in companies as the calculation and data-gathering techniques have improved. As long as everything can be counted and trends can be projected, any decision can be treated in this way. Again, this has come to be accepted as the rational way to make decisions. It solves one major problem lurking in many firms: that of communication. Functional managers do not speak the same language. The everyday operating realities of sales, manufacturing, HR, and R&D environments are very different. Each area will have its own dialect and customs, judgements and values. As a consequence, a common language is needed to communicate across functions, and since everybody has to deal with budgets and is accountable for results, mostly in 'profit' terms, money is often chosen." (Balle, 1994)

This statement, from more than a quarter century ago, remains as valid and problematic today as it was then. Large organisations and industries continue to struggle with different languages, different frameworks, and different value systems. The proliferation of new standards and methods does not make this any easier.

What is needed is a meta-language, a framework which can be structurally linked to all other frameworks, a Rosetta stone of value. Having an interlocutor unifying framework provides systems and organisations alignment and comparison opportunities without needing to redo underlying reporting mechanisms.

It is in this space that the Sustainable Development Goals have a powerful role to play for business.

About the SDGs

The Sustainable Development Goals (SDGs), also known as the Global Goals, were adopted by all United Nations Member States in 2015 as a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030. (UNDP, n.d.)

There are 17 Goals, which between them have 169 targets and 230 indicators of progress. While the Goals are aspirational for all countries, organisations, and even individuals, the targets and indicators are specifically focussed at national level.

The SDGs are highly integrated, recognising that any actions impact multiple Goals, whether positively or negatively, and that development needs to achieve balance between social, environmental, and economic sustainability. This integration is imperative in developing a whole value mindset and understanding – That only with stability and equity in all areas does a sustainable future become possible.

While the Targets and Indicators are focussed at a national level, it is common cause that everybody is needed in order to achieve the Goals, not only governments, and it is here that business has such a vital role to play in establishing a sustainable socio-economic model for the future.

Using the Goals in a business context

The Goals are focussed on a sustainable world, one in which all humans can live with dignity and hope and without destroying the means for continued existence. At a target level though, the specifics are not always directly relevant or pertinent to business, and so the growing movement of “putting stickers on” in financial or integrated reports, in which organisations reference the SDGs and attach case studies, is an ultimately facile or at best partial effort.

Where the Goals and Targets do have a very powerful role to play is as a unifying framework for value. The SDGs cover exceptionally well the multiple aspects which are asked of modern business – their impact on society, their impact on the environment, and their ongoing financial wellbeing.

The Goals also include the imperative aspects of focusing on peace, justice, governance, institutional capability and partnerships to support all the Goals.

The low barrier to using the SDGs

All businesses interact with the SDGs in their normal scope of work, and so extant reporting methods need not necessarily be changed. Rather, the Goals act as a "meta-framework" to unify data and aspects of value from across the organisational chain.

A proper, data-supported, integrated view of an organisation's impacts, both internal and external, provides a 360 degree view of progress, of threats and opportunities, and of whether focussed spend is seeing the results required.

The SDGs give us a lens to be used for strategic planning, operational visibility, and risk awareness, and then draw from it a full and cogent narrative for external stakeholder engagement.

They provide a framework which sits on top of industry, vertical, or sectoral specific standards, and bring together the Economic, the Environmental, Social, and Governance visibility needs of a modern organisation.

About DBK Advisory

DBK Advisory specialises in helping our clients see and share their full range of impact through the lens of the SDGs. Our well tested SDG mapping framework has helped mining houses, industrials, financial services, and industry bodies to better understand their full range of value, and to share these with their stakeholders. Our Materiality Assessment process helps to define the most material issues, and connect these to performance to support executive monitoring and decision making. Our Fulcrum suite of products helps companies to gain insights right across their value and supply chains, as industry leaders look to reduce risk, stabilise results, and create a more responsible economy for all.

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