


A long-exposure photograph of a city at night, featuring a multi-lane highway with light trails from cars. In the background, several skyscrapers are illuminated, including one with a prominent spire. A pedestrian bridge crosses the highway. The image is divided into four quadrants by a grid of semi-transparent colored bands: light blue, yellow, and olive green.

BSR at 20 Accelerating Progress



Our mission:
We work with business
to create a just and
sustainable world.

The bottom of the image features four horizontal bars of varying colors and widths. From top to bottom, they are: a light blue bar, a yellow bar, a green bar, and a light blue bar. The bars are positioned on the right side of the image, with the yellow and green bars being the most prominent.

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Letter From the CEO

To celebrate BSR's 20th anniversary, we have taken a different approach with this year's Report. Instead of highlighting BSR's activities over the past year, we have taken the time to assess how far the world has come in solving sustainability challenges, and what we need to do to accelerate progress.

We are extremely proud of the role BSR has played in reorienting business toward a sustainable future, and we believe this Report will help advance the ideas and vision that have motivated us for 20 years.

Our vision is bold—and achievable. We see a truly inclusive economy that enables all people to meet their needs, shape their futures, and realize their potential. We see a world that values and preserves natural resources so that future generations have the same—or better—opportunities to thrive. We see a world in which economic health for individuals, enterprises, and nations is measured not by the quantity of consumption, but by the quality of life that economic activity delivers. And we see a world in which public policy and markets create the incentives and rules that make it possible for sustainable businesses to thrive.

In this Report, we lay out the building blocks that will turn this vision into reality:

1. Integrated business models
2. Financial markets that promote long-term value
3. New frontiers of collaboration
4. Empowered individuals and connected communities

At BSR, we are just getting started. Much has been accomplished, and every day we see examples of progress—transformational change that would have astonished the visionaries who helped create this movement and this organization two decades ago. At the same time, we see many places where progress is greatly needed. We are highly motivated to keep learning, pushing, and collaborating to build the business of a better world.

We invite you to join us.



Aron Cramer
BSR President and CEO





Fast Forward

As BSR celebrates its 20th year, sustainability has entered the mainstream. Businesses and institutions around the globe are working to create an economy that thrives within planetary boundaries and enables all the world's people to lead dignified, prosperous lives. Turning this vision into reality is the central challenge of the 21st century.

WHERE WE'VE COME FROM

As we reflect on the past 20 years, it seems that everything has changed, and nothing has changed.

On one hand, signs of progress are everywhere. Hundreds of millions of people have escaped poverty. Businesses globally have embraced sustainability. Consumers, investors, and governments can now access vastly more information on companies' sustainability performance, allowing them to reward the leaders. Collaboration among businesses and NGOs, once taboo, is now considered normal. Where companies once saw "CSR" as risk mitigation, many now view sustainability as the greatest of all innovation opportunities, and new technologies offer the promise of quantum leaps forward. All of this is cause for optimism.

And yet.

Twenty years after the initial Earth Summit, progress is clearly insufficient. Our planet continues to warm, with the risk of irredeemable change due to feedback loops increasing every year. Deforestation proceeds. It's unlikely we'll achieve even half of the Millennium Development Goals by 2015. The number of water-stressed regions grows annually. We are consuming natural resources at a rate far faster than nature's ability to regenerate. Governments have largely abdicated responsibility for promoting low-carbon economic growth, wilting in the face of the global financial crisis. And despite progress, too many people lack access to basic human needs. By many objective measures, progress is far too slow.

In an interview for this Report, one business leader, Alcatel-Lucent CEO Ben Verwaayen, put these contradictory trends in perspective. "Corporate responsibility is nothing different than anything else," he told us. "If you look forward, your projections are always wrong. If you look backward, you're always amazed by how much is achieved."

In that light, while it's interesting to acknowledge what we didn't achieve in the past, it's much more important to focus on what we can do to make even more progress in the future. With new thinking and collaboration, we can transform our world.

WHERE WE NEED TO GO

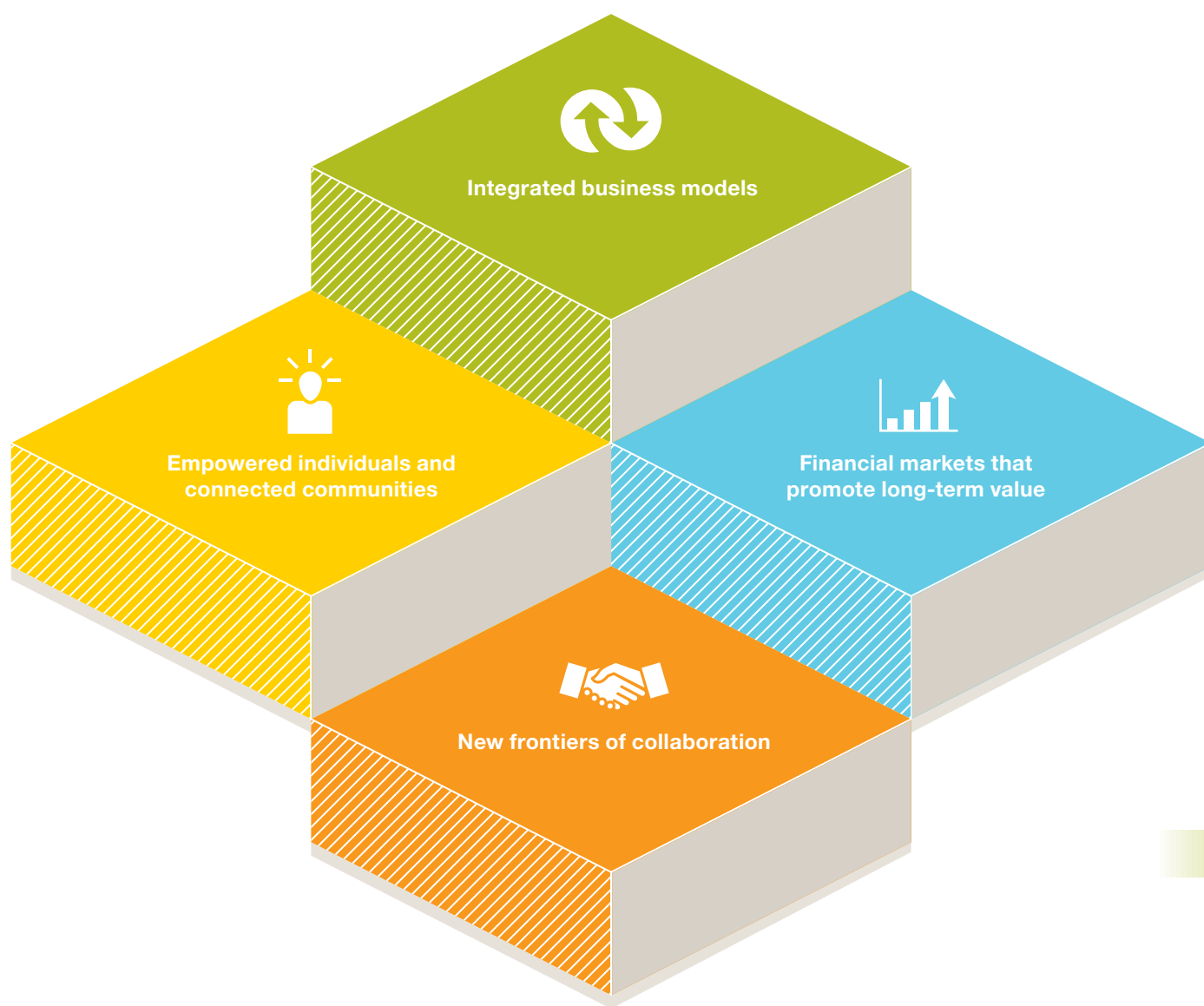
Our task is no longer about defining the challenge; it is about meeting the challenge. We don't need more road maps; we need to move faster to reach our destination. It's time to fast forward.

The path ahead is fundamentally different than the one we have traveled. During BSR's first decade, our primary challenge was to raise awareness in the business community about the importance of sustainability. Throughout our second decade, much of our time has been devoted to integration: weaving social and environmental approaches into innovative business strategy and operations.

While integration remains crucial, it has not gone far enough; we need to redouble our efforts. What will that take? More substantial progress depends on change not only inside individual companies, but also within entire systems. The era of the hermetically sealed, vertically integrated company is long gone. Every business, in every part of the world, operates within a web of systems: economic, cultural, political, and natural. Every business relies on networks of suppliers, customers, and investors.

In the decade ahead, the solutions we need to achieve our goals must be systemic. And while we have seen numerous collaborative efforts in recent years, even the most creative experiments and demonstration projects will not meet the scale of the challenge.

In the sections that follow, we outline the four building blocks of change we believe are central to accelerating our progress.






Forward Vision



Integrated Business Models

Businesses that integrate sustainability fully have a competitive advantage. Achieving that requires vision, innovation, and the right metrics and incentives.



In the 15 years since John Elkington popularized the concept of the triple bottom line, we have seen broader acceptance of the idea that environmental and social factors have an impact on business performance. For many companies, this has meant the creation of specialized sustainability functions that focus on compliance issues, the management of perceived risks related to sustainability, and measurement of efficiency. More recently, however, dramatic changes in the global operating environment for business have made it clear that we need more comprehensive and integrated approaches to sustainability.

To accelerate the shift toward truly integrated business models, three things need to happen: We need to focus on total value creation, improve our measurement and management of “intangibles,” and align incentives more effectively and explicitly.

A NEW FOCUS ON VALUE CREATION

Over the past several years, many companies have expanded their sustainability focus beyond risk avoidance and brand protection to value creation: improved customer loyalty, identification of new markets, and support for global workforce development. There is now widespread recognition of the profits to be made in addressing critical sustainability challenges, from helping customers reduce their use of energy and water to providing access to technology, finance, health care, and other needs in rapidly growing economies. More companies also see the potential to attract an emerging generation of business leaders who place

a higher value on the social purpose and environmental impact of their work.

Companies are also beginning to understand how a sustainability approach can be used to “future proof” business strategy in the face of greater volatility. The knowledge and stakeholder relationships developed in service of sustainability objectives are increasingly useful in market entry and product innovation. This has also prompted the development of new business models: In the electronics industry, issues such as resource scarcity are driving greater interest in “product to service” strategies such as leasing. These models encourage advanced practices that extend product life and support closed-loop manufacturing. All this points to a crucial change: sustainability as a platform for innovation, not a barrier to economic vitality.

MEASURING AND MANAGING INTANGIBLES

As with our financial markets, which don’t yet account for “externalities,” the business focus on value creation is hampered by an inability to measure fully—or accurately—the financial value of our most important issues and activities.

Some companies began experimenting with this by placing an internal “shadow price” on carbon to help inform investment and resource-allocation decisions. More recently, Puma has made headlines with its creation of an “environmental profit and loss” accounting model. More and more companies are exploring the application of ecosystem services and human capital valuation approaches, as well

as expanded definitions of risk. And the rise of integrated reporting promises to institutionalize new ways of measuring value. We expect—and support—rapid innovation in all of these areas over the next several years.

FROM ASPIRATION TO INTEGRATION: ALIGNING INCENTIVES

A growing number of CEOs are providing visible leadership on sustainability issues and committing their companies to bold long-term goals in areas from greenhouse-gas reduction to the improvement of labor conditions in their supply chains.

Over the next several years, these high-level commitments must be translated into hard targets and incentives for business unit leaders and others throughout the organization. This means we need to better align business and sustainability incentives, from executive compensation to specific integration points such as enterprise risk management, purchasing, and product development. The rise of integrated scorecards and sustainability indices to support the development and purchase of more sustainable products is a particularly promising area.

Doing this is not easy. The short-term pressures in the marketplace are intense. As Alcatel-Lucent CEO Ben Verwaayen told us, “It’s hard because you need to devote a lot of your time and attention to the longer term when the shorter term is in higher turmoil than ever before.”

DRIVING SUSTAINABILITY INTO CORPORATE DNA

Another notable area of experimentation and progress over the past several years relates to the governance and organizational design of sustainability-related activities within companies. By definition, sustainability is a “radically cross-functional” discipline that cuts across most or all of companies’ business units and functions. This raises the question of how best to organize and establish accountability for sustainability activities, both initially and over the long term.

What does it mean to embed sustainability into corporate DNA?

Several years ago, chief sustainability officers did not exist. Today, almost all large corporations have a small sustainability team and some kind of senior executive leader accountable to the CEO. While this is a positive step, it is equally important for companies to establish strong, cross-functional ownership and accountability. One school of thought says a key objective of sustainability teams should be to “work ourselves out of a job” as sustainability becomes business as usual. In this scenario, the CEO is the CSO, and sustainability objectives are baked into the company’s business strategies and practices.

Based on our experience, this remains a long-term goal for most companies. In the meantime, we expect more companies to develop senior cross-functional steering committees, chaired by the CSO (or

equivalent) and accountable to the CEO and board. These should be supported by a small sustainability team that provides coordination and training as well as expertise in external stakeholder engagement and any technical disciplines that don't fit in an existing function.

But more lasting progress will come when all parts of business join the sustainability effort (even if they don't call it that). Matthew Arnold, JPMorgan Chase's managing director and head of environmental affairs, recalled how he generated a new business opportunity inside the bank, with someone unfamiliar with sustainability. "This person is a non-environmentalist, but they're excited because it's an innovative new product to bring to a private bank client group—a group of high-net-worth individuals," he said. "It shows that we're being creative and innovative in our markets."

This last comment suggests what might be the most concise definition and indicator of success in integrating sustainability into business: We will have achieved real progress when we no longer talk about "sustainability," and it is simply how business is done.

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Financial Markets That Promote Long-Term Value

As important as integration is within individual companies, large-scale and durable change also requires significant market reforms to focus on long-term value. Business has an essential role in making this happen.

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Despite the lessons of the financial crisis, markets remain focused on the same short-term thinking that helped create the problem in the first place. Shares in U.S. publicly traded companies are held for an average of seven months, down from seven years two generations ago. Alcatel-Lucent CEO Ben Verwaayen described this phenomenon to us: “Winners and losers are measured sometimes in a matter of weeks and months.” Even pension fund managers, whose overall charge is to steward assets over decades rather than quarters, are subject to near-term performance pressures that cause them to “churn” increasing portions of their portfolios.

Further exacerbating the problem is the ever-shortening length of CEO tenure, which has been cut in half, from eight years to four, in the past two decades. This is, of course, related to the increasingly short-term focus of investors, who lose patience with strategies—whatever their long-term merits—that don’t meet quarterly expectations for earnings growth. The business literature is full of examples of CEOs who have been hired to drive critical structural transformations, only to have their tenure cut short before their efforts have produced the expected results.

Recently, the CEO of a Fortune 100 electronics company told us his industry will be in “serious trouble” in five or 10 years if certain sustainability challenges aren’t solved—including e-waste and business models dependent on the high-velocity throughput of scarce materials. Not surprisingly, he blames quarterly growth expectations for preventing sustainable progress. This produces a

perverse inversion of the popular story about market traders who undertake risky investments on the basis of IBG/YBG (I’ll be gone/you’ll be gone): In this scenario with CEOs and their teams, it is the *benefits* rather than downsides of investments that come to bear too late to factor into their decision-making.

As a result, even good ideas don’t receive the investments they need if they don’t promise adequate short-term returns. Research by Generation Investment Management suggests that most managers will reject a project if it will lower quarterly earnings—even if the project will build long-term shareholder value. Nike’s Hannah Jones, vice president of sustainable business and innovation, put it this way: “[We have seen] a failure of markets, and wherever there’s a failure of markets, there’s an opportunity to innovate new services, new products, new approaches to creating new businesses.”

MEASURING THE RIGHT THINGS

There are two additional market features that run counter to long-term sustainability. The first is the market’s failure to fully account for the costs of our economic activity. Much has been written about the need to develop mechanisms to measure the “true costs” of our economic activity. This extends all the way from our top-line measures of prosperity and progress such as GDP to specific items such as the cost of fossil fuel energy.

Easy credit and rampant consumption has not only destroyed value in the global economy, it has done significant harm to the environment—and yet all consumption

is still counted as a positive contribution to GDP growth (as are expenditures for things like the cleanup of environmental disasters and health care costs caused by increased levels of sickness).

Pavan Sukhdev, a pioneer in financial valuations that include social and environmental factors, cites the example of energy and resource use to describe the mismatch between markets and desired outcomes: “We use energy carelessly. We use materials as if they were unlimited. Unless you start taxing resource extraction rather than taxing value addition in a corporation’s value chain, you will get unsustainable outcomes.”

The second challenge is the market’s inability to accurately estimate risks. There is growing evidence that markets systematically underestimate risks, including those associated with catastrophic events as popularized by Nassim Nicholas Taleb’s concept of “black swans”—the “unknown unknowns” that have the potential to cause major disruptions in economic and broader societal terms. The reinsurance industry has become an increasingly loud proponent of the need to reassess the underlying models and policies that govern how we account for risks in a world that is seeing a growing number of volatile weather and social/political events.

This is also crucial because we now have a much greater understanding of the connection between ideas, issues, and valuations. Sukhdev described this emerging way of thinking by using the example of deforestation. “Deforestation is not just a forestry issue,” he told us.

“It is also a social issue because you’re reducing the income of the poor, the GDP of the poor: Fuel wood, bush meat, fodder, marketable forest products, and indirect soil and water offer benefits to subsistence farms. It’s also a gender issue because women’s status in poor communities reflects what they can gather. It is potentially a political and governance issue as well because you are pushing farmers to a point where they need to potentially get violent in order to get what they deserve in the first place. So it’s neither just an ecological problem nor just a social issue or a political issue: It’s all of them. You can’t box these goals into social, economic, and environmental anymore.”

In this context, the standard assumptions and calculations underpinning earnings expectations, as well as the internal hurdle rates for investments, look increasingly suspect. Companies can and should improve their understanding and practices in these areas, but it is also clear that we need to reform financial markets to support long-term sustainability on a meaningful scale. The question is, how?

TURNING FINANCIAL INNOVATION INTO LONG-TERM BENEFIT

Financial innovation, which was blamed for the 2008 crash, should instead be parlayed into new mechanisms that create long-term value. Markets allocate capital with great effect, and the challenge ahead is to maintain the best aspects of market flexibility while reducing the relentless pressure of short-termism.

Indeed, many innovations in financing are already playing an important role in the





scaling of alternative energy and other sustainability solutions. Similarly, micro-finance, impact investing, and related developments are increasing access to the benefits of the global economy for the world's poorest people.

New financial models and instruments need to be turned into solutions to today's market failures. For example, a more rational time horizon for investors can be encouraged through the creation of "loyalty shares" or "loyalty dividends." These solutions all provide greater incentives for investors to hold shares for a longer period, through the promise of avoided cost or additional financial gain.

There may also be lessons to learn from "private markets"—private equity, private companies, and also venture capital arms within large, publicly traded companies. While short-term pressures also apply in private markets, they tend to be less extreme and are defined more broadly in terms of "progress" versus financial earnings. Leaders in private equity are adopting more sustainability practices aimed at enhancing the long-term value of their portfolio companies.

As mentioned in our previous section on integrated business models, individual companies can and should be pushing hard to integrate sustainability into their strategies and operating practices. At the same time, these efforts will only bear fruit if matched over time by changes in the rules and practices of the markets, which in turn will require leadership by and advocacy from business.



New Frontiers of Collaboration: Upgrade Your Networks

Collaboration—between and among companies, industries, investors, NGOs, governments, consumers, and beyond—has become widespread. Now it's time to scale up our partnerships to accelerate systemic change.





When BSR was founded, collaboration between companies and NGOs was in its infancy. Distrust and suspicion defined relations between the two sectors.

Twenty years on, it is widely accepted that companies and NGOs often (though certainly not always) share common interests, and that their complementary skills can be powerful levers for progress. Indeed, at the Rio+20 Summit, companies and NGOs seemed to share a vision—and a sense of urgency—that others, notably governments but also consumers and investors, too often lack.

The concept of shared value has gained traction with many business leaders in recent years. The debate over whether this term usefully describes the sustainability agenda has obscured a more important question: How to make the most of *shared responsibility* and *shared influence*?

In this light, partnerships fill a crucial gap, providing global solutions to questions that national governments alone don't have the jurisdiction to address. The Global Reporting Initiative, for example, has developed a de facto international standard for corporate responsibility reporting with speed and quality governments never could have matched.

But like many aspects of the sustainability agenda, partnerships have become mainstream without (yet) contributing

systemic solutions. Too many partnerships remain one-off demonstration projects, and not enough multistakeholder initiatives have captured their potential for large-scale change.

The challenge ahead is to achieve the kind of scale and speed needed to accelerate progress.

We need partnerships that match the architecture of our decentralized world. Vertically integrated monocultures—big government, big business, big media—are diminishing in influence. The next 20 years belong to nimble networks that leverage diverse skills, constituencies, and perspectives. The external world is “represented,” not only by large, global NGOs, but also through disparate, informal social networks that aggregate their influence, often leveraging new media.

Every company should define a collaboration strategy that includes five crucial dimensions of collaboration—the value chain, industry, multistakeholder, government, and consumers—which together can provide a framework for action. An interlocking set of networks is, after all, the best way to tackle interlocking sustainability issues like water, energy, and human rights.

Collaboration Strategies



VALUE CHAIN

Few sustainability questions can be advanced without an emphasis on value chains. A shift in focus is in order, from preventing labor abuses and environmental damages, to promoting value chain collaboration to achieve efficiencies and strong social performance.



INDUSTRY

Multiple industry initiatives have aimed to create learning circles, performance norms and standards, and certification schemes on a wide range of issues. Industry partners can find useful ways to set standards, build expertise, and aggregate influence to achieve desired outcomes.



MULTISTAKEHOLDER

From revenue transparency to palm oil to free expression, multistakeholder coalitions have created global performance standards, enabled transparency, and improved performance. But consistent with the idea that everything has changed and nothing has changed, few of these efforts have achieved the critical mass needed to make good on their potential. The time to consolidate efforts on topics like labor standards has come; without that, none of the initiatives will be able to meet their goals. What's more, these efforts should undergo regular assessments, and participants should be ready to retire underperforming collaborations or to overhaul their approach.



GOVERNMENT

It has become easy to reject government as a partner due to the high-profile failures of global summits at Copenhagen, Rio, and others in between. But this mindset is too convenient, and self-defeating. Business has a great stake in looking for opportunities to partner with government to create the right incentives and investments to promote more sustainable development. What's more, business should use its voice to call for better government action on sustainability; this will enable more and better partnerships with the public sector. A few companies have made clear commitments to this model, and more should follow.



CONSUMERS

Collaboration for sustainability has a commercial element as well. And as consumers more actively shape products and services, there is an opportunity to turn this autonomy to the creation of collaborative consumption models. Companies that figure that out will innovate in ways that create a marketplace advantage and radically reduce resource consumption.

Companies aiming to make the most of our networked world need to build new skills and models. In a business world that thrives on competition, collaboration is not always developed or valued. Companies should consider centers of excellence to promote collaboration, and business schools need to find ways to develop these skills in the rising generation of business leaders. Some wise companies might even establish the position of chief collaboration officer to catalyze new ways of doing business; perhaps elevating the status of such efforts would have a catalytic effect.

Network-based solutions set standards, create opportunities for partners to experiment and innovate, make the best use of the diverse perspectives and skills held by multiple institutions, and fill gaps where the national jurisdictions of governments are often poorly matched to the global nature of sustainability challenges.

Companies that bring a network approach to everything they do will be more resilient, more effective, more credible, and more aware of imminent changes.



Empowered Individuals, Connected Communities

The dramatic increase in technology and access to information is upending traditional notions of commerce and community, enabling individuals to choose and connect in unforeseen ways. What will this mean for sustainability?





Sustainability depends not only on direct efforts like natural resource use, but also on a much wider set of indirectly related changes, not the least of which is the technology revolution. We are living in an era when information and autonomy are quickly shifting away from large institutions and toward empowered individuals and connected communities.

John Donahoe, CEO of eBay, gave us his own prediction. “Greener commerce is going to become more real. And it’s not going to become more real in a standards-based, top-down, labeling-you’re-good-or-bad way,” he said. “It’s going to come about through the wisdom of crowds, through community.”

Today, anyone with access to mobile technology—that is, one-third of humanity—can self-publish, receive information about products and governments, and join communities of interest on endless topics. In the future, technological developments like “augmented reality” and things we can only dream about today will give

every individual the ability to see and analyze people, places, and things all around us instantaneously. Hannah Jones, Nike’s vice president of sustainable business and innovation, described a “new kind of leaderless movement” that is happening because of this increase in information access. “They are going to fundamentally reshape the way change happens in our world,” she said.

All of this is upending traditional notions of commerce, creating astonishing opportunities for business, and new dilemmas about social norms, business ethics, and laws and regulations.

The world that is emerging enables individuals to go far beyond their traditional roles as passive receivers of information, products, and services. “Look to what happens in some parts of the world, where all of a sudden what was called ‘the masses’ are now becoming individuals,” said Alcatel-Lucent CEO Ben Verwaayen.

These individuals are now assuming roles previously reserved for institutions.

New Roles for Empowered Individuals



ENGAGED CONSUMER

Consumers with more information have more choice. Mass marketing will fade into oblivion, and the individual consumer will become paramount. It's likely we'll see consumer-directed product design—which could unleash greater consumption and less-efficient manufacturing and distribution. Consumer-driven businesses also could give greater voice to those for whom sustainability is a priority.



PUBLISHER

Today, anyone with a Twitter (or Weibo) account and a cause has an instant soap box. Indeed, the very notion of “publishing” as a formal act undertaken by professionals with privileged access to a passive public is vanishing fast. All institutions, not just businesses, have lost their ability to control information about themselves. It also means that each of us has access to the same “megaphones” that NGOs had a generation ago. This leveling of dialogue and hypertransparency will force changes to business practices as companies endeavor to stand up to intense scrutiny.



PHYSICIAN

The intersection of biotechnology and information technology—giving individuals a greater understanding of their physical selves, genetic makeup, and the personal impacts of products on their bodies—has immense implications for commerce, especially when it comes to personalized medicine. This “quantified self” will arrive at the same time that we have vastly increased access to information about the environment around us, through the widespread use of sensors. As it pertains to sustainability, this visibility into impacts on our own bodies and the environment of the world around us has the potential to catalyze quantum improvements in environmental conditions, as long as we develop an understanding of the fair use of such information and norms needed to safeguard privacy.



MANUFACTURER

The so-called “maker movement” applies the concept of the empowered individual to production. The rise of 3-D printers that support micro-manufacturing presents a truly disruptive concept that could reverse elements of the global economy—like extended supply chains—that have defined recent generations. As *Wired* magazine Editor-in-Chief Chris Anderson wrote in 2010, “If the past 10 years have been about discovering post-institutional social models on the web, then the next 10 years will be about applying them to the real world,” often through manufacturing.

If individuals or groups of entrepreneurs can not only design but also build innovative products cheaply and locally, our current economic models could change radically. In the next 20 years, it might sound absurd that we once relied on extended global supply chains to design and produce things like T-shirts. Micro-economies with a heavy local focus could radically reduce consumption of natural resources. Or it could have the opposite effect, straining natural resources as “factories” sprout up everywhere, producing even more goods.



It is hard to know whether a world of empowered individuals will help or hurt our progress toward true sustainability. There is a risk that empowered individuals will just end up magnifying our consumption-based economy. Pavan Sukhdev, the study leader for the G8+5-commissioned project on The Economics of Ecosystems and Biodiversity (TEEB), told us he is optimistic about the empowered individual. “The fact is, most people change their mobile phones as often as they can. People change cars as often as they can,” he said. “Most people can think differently; attitudes can be changed. If sustainable consumption is cool, then people will do it.”

It is undeniable that a greater understanding of the physical world around us, and more information about the consequences of our choices, can lead to improvements. At minimum, this presents great promise in sharply reducing the rampant waste of food, energy, and other resources in the developed world, and the negative health

effects (and costs) of environmental damage in the developing world.

The implications of these developments for companies are endless but hard to predict. Nonetheless, some trends are clear. It is obvious that we continue to hurtle even faster into a transparent world. It is also clear that anything that can be digitized will be. And culturally, businesses will likely come to mimic the decentralized world around them, with huge implications for how they attract the best talent, communicate, govern themselves, and measure their success.

Ultimately, we believe a more networked, global, transparent world will lead to greater sustainability and fairness, and more innovation. But the journey will not be linear. It will require companies to work even harder to earn trust. And the payoff for all of us, and for the companies who get it right, are immense.



Our Approach

BSR's Theory of Change

To accelerate progress, we continue to evolve the way we work at BSR.

BSR's theory of change begins with our mission: working with business to build a just and sustainable world.

It is our core belief that hybrid organizations are best suited to meet the global, cross-disciplinary challenges that define the 21st century. So we are single-minded in our purpose but multifaceted in our approach. Traditional organizations—content to operate within clearly defined boundaries—just won't get the job done.

In our changed world, technology enables more connections and more autonomy, and borders—geographic, philosophical, and organizational—are more malleable than ever. Leadership remains crucial, but today it depends on the individual's ability to see across boundaries, listen to ideas from others, and build coalitions.

For the past 20 years, BSR has sought to create an organization that models these traits and helps others embody them.

Business is central to a sustainable future, but cannot—and should not—try to replace the role of government or civil society. Collaboration between and within sectors is the only way to achieve the vision of a just and sustainable world. With this in mind, we strongly believe that the future will be shaped by organizations that understand and embrace this way of thinking.

We also believe that all sectors of society should undergo a shift in thinking and purpose to meet 21st century challenges:

For **government**, this means breaking out of the traditional role of setting and enforcing laws and instead thinking long term—creating incentives for innovation and contributing to global solutions for global challenges.

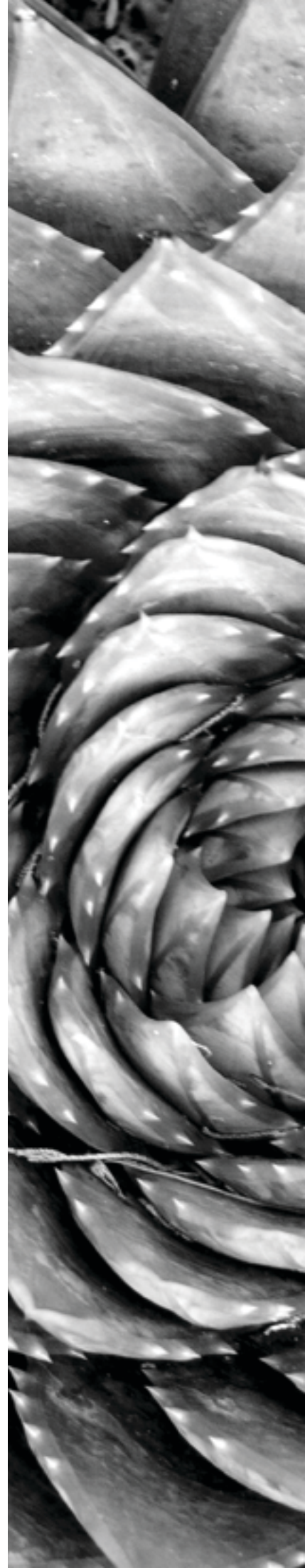
For **business**, this means shedding the shareholder-value model and investing for the long run. Companies need to embrace collaboration, stop externalizing social and environmental costs, and advocate for a sustainable future with consumers and government.

For **civil society**, this means playing both the traditional advocacy role, while also collaborating with business and shaping “soft law” expectations via multistakeholder coalitions, including with government.

At BSR, we have shaped both our own operational model and our approach to our daily work based on this worldview. This is underscored by the philosophy that guides our work, our core activities as an organization, the companies we work with, our funding model, the people we hire, and our organizational structure.

OUR PHILOSOPHY

BSR's approach is based on practical idealism. We have a clear sense of mission, and we work toward it by helping businesses, often in collaboration with others, make real change happen. We strive every day to provide our best independent thinking on how companies can build better businesses and be more sustainable. We consider it our responsibility to challenge companies to achieve the greatest possible outcomes, and to help them tackle the barriers (internal and external) to that vision. We know change does not come overnight, and that we have to keep pushing toward our vision of a just and sustainable world.





OUR ACTIVITIES

We serve our member companies through consulting, research, collaboration, and convening to accomplish three things:

Raise awareness of emerging trends and solutions: We focus significant attention on identifying new perspectives and solutions. Our objective is clear: Help companies understand emerging trends and solutions, and advocate for public support for sustainability.

Catalyze change within companies: When BSR was founded 20 years ago, basic awareness-raising was crucial. Today, our focus has shifted to translating ideas into action. Our emphasis on one-to-one support has grown in volume and importance. We are proud to support our member companies as they create innovative solutions on a wide range of sustainability questions.

Build systemic solutions: We are dedicated to creating and supporting collective groups for maximum impact. This has been BSR's hallmark from our earliest days. Systemic answers are required to build a just and sustainable world. No single company or sector has either the monopoly on wisdom or the leverage to achieve the breadth of change needed. As a result, BSR supports and operates several collaborative initiatives involving business, civil society, and government to make progress on challenges across the sustainability spectrum.

OUR MEMBER COMPANIES

We aim to deliver value to our member companies, both through our team and through the experience and perspectives we share with each other. We also find that our ability to create collaborative solutions is greatly enhanced by working with our nearly 300 member companies. We anticipate that this ability to convene and build coalitions will grow even more important in the years ahead.

OUR FUNDING

Consistent with our view that hybrid organizations are best suited to meet 21st century challenges, we attract funding from multiple sources. We aim to generate business support for many of our efforts, as a means of testing and demonstrating our value in the marketplace. At the same time, we seek funding from noncommercial sources (primarily foundations and governments) as a form of “venture capital” to ensure that we are able to pursue projects and issues that business may not be ready to support in the short term. Projects funded by multiple sources are also a crucial means of building collaboration among business, the public sector, and civil society.

OUR PEOPLE

We are immensely proud of BSR's expert staff working from our offices around the world. In building our team, we hire and develop people with diverse—and truly global—skills, perspectives, and experiences. To realize our vision, we need people who understand business and the wider context in which business operates. Internally, we promote the idea of collaborative leadership, and we have built a culture based on our core values of respect, leadership, and integrity.

Twenty years from now, we envision a world in which businesses fully integrate the broader social context into all that they do, and a world in which collaboration is the norm, not the exception. We believe this is the only way to achieve our mission of a just and sustainable world, and BSR remains committed to making this kind of change happen.

About This Report

For BSR's 20th annual Report this year, we have diverged from our approach in years past. Rather than providing an overview of our activities, accomplishments, and the challenges we faced in 2011, this year's Report focuses on the achievements made in the world of sustainability to date, and what we need to do now to accelerate progress. We also have devoted a section to BSR's theory of change, which explains why BSR operates the way it does, and how we think this approach accelerates progress.

Unlike past years, we have not included case studies in this year's Report. Those are available online at www.bsr.org/casestudies. BSR's financial results are posted online at www.bsr.org/report. Other Report content has not undergone third-party assurance.

For questions and comments about this Report, email us at report@bsr.org.

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BSR works with its global network of nearly 300 member companies to build a just and sustainable world. From its offices in Asia, Europe, and North and South America, BSR develops sustainable business strategies and solutions through consulting, research, and cross-sector collaboration. Visit www.bsr.org for more information about BSR's more than 20 years of leadership in sustainability.

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