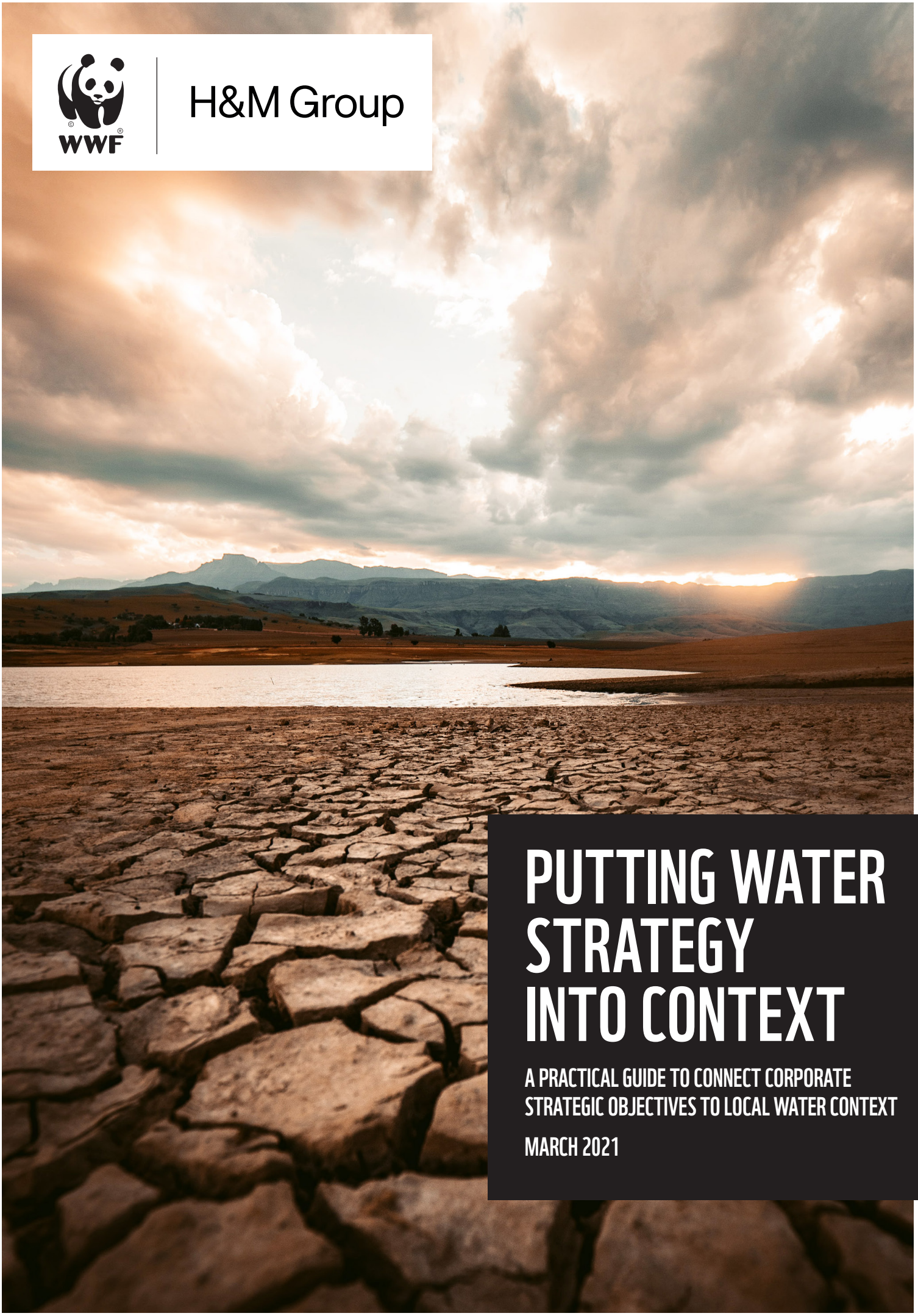

WWF

H&M Group

PUTTING WATER STRATEGY INTO CONTEXT

A PRACTICAL GUIDE TO CONNECT CORPORATE STRATEGIC OBJECTIVES TO LOCAL WATER CONTEXT

MARCH 2021

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CONTENTS

PREFACE

Our industry and business needs water, but globally, water-related challenges are intensifying and being amplified by climate change.

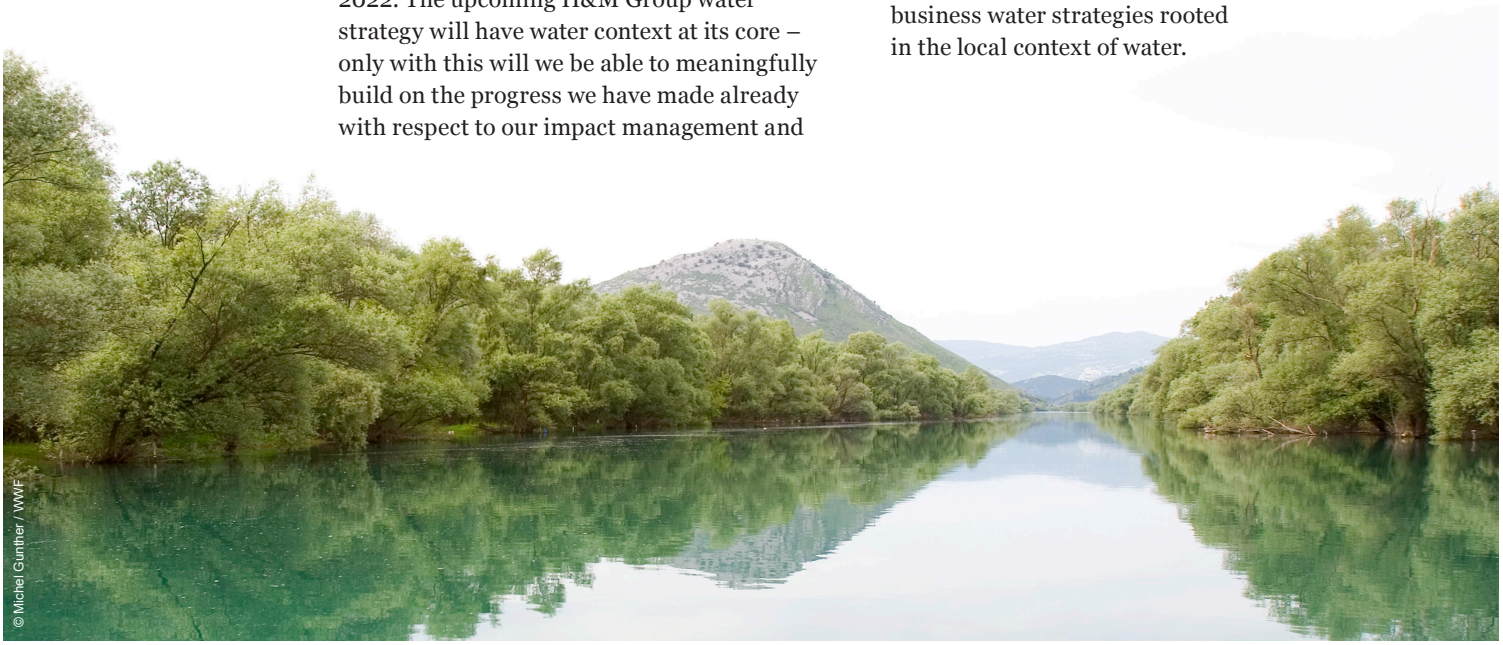
Water is a highly localised resource and each factory in our value chain faces unique challenges and opportunities, making it a complicated topic for a global business to tackle. Establishing a strategic and meaningful response to these water-related challenges requires a fundamental shift in how businesses approach developing water strategies.

H&M GROUP HAS BEGUN TO WORK WITH WWF TO DEFINE THE NEXT ITERATION OF OUR WATER STRATEGY THAT WILL GUIDE OUR EFFORTS ON WATER BEYOND 2022.

H&M Group has been working in partnership with WWF on water issues since 2011. Our current focus on water is guided by our Water Roadmap (2018-2022) and is specifical ly focused on water awareness and efficiency throughout our value chain, impact measurement, and stakeholder engagement – including working with policy makers to advocate for sustainable management of water at a basin level. Together with WWF, we regularly update our water risk assessments across our production offices and river basins impacted by our value chain and in recent years, we have given a lot of thought to how we can adopt approaches that consider local water challenges throughout our value chain.

H&M Group has begun to work with WWF to define the next iteration of our water strategy that will guide our efforts on water beyond 2022. The upcoming H&M Group water strategy will have water context at its core – only with this will we be able to meaningfully build on the progress we have made already with respect to our impact management and advocating for sustainable management of water at a basin level. The water strategy will help us embrace the value of water – allowing us to establish a more compelling business case for water stewardship. By identifying the most strategically relevant water-related challenges that our business faces within our value chain, we are better able to strategically focus our internal resources to create value for our customers, business partners, shareholders, communities, and the freshwater ecosystems upon which we rely.

H&M Group is working to adopt contextual and "science" driven performance targets that will enable us to accelerate our ability to reduce impacts across our business and value chain. To ensure that we have the foundations to include these updated performance targets, we first need to have a strategic foundation on which these can be operationalised. This guide (along with its complementary guide – *"Contextual Water Targets"*), is built upon our joint learning and journey with WWF and offers practical information for companies that share a vision similar to H&M Group's – to establish more meaningful and strategic business water strategies rooted in the local context of water.



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EXECUTIVE SUMMARY

Corporate strategy is increasingly embracing and embedding the notion of purpose into the heart of strategy.

WATER IS FUNDAMENTALLY A LOCAL RESOURCE AND AS SUCH HAS A UNIQUE CONTEXT – THEREFORE TRANSFORMATIONAL WATER STRATEGIES MUST ACCOUNT FOR THIS CONTEXT AT THEIR CORE

At the same time, water strategies are increasingly moving beyond being narrowly defined by water risk and are beginning to be framed through both risk and a value lens. Acting on water presents a pathway to creating both purpose and value but only if it is addressed strategically within a corporation's overall strategy. In addition, if a more meaningful strategic connection is made between a corporation's response to water and the creation of value (internal and external), it will be easier to mobilise funds to implement more ambitious strategic actions.

Water is fundamentally a local resource and as such has a unique context – therefore transformational water strategies must account for this context at their core. This guide primarily focuses on embedding water context into a corporation's strategy. It proposes a set of steps that establishes a pattern of decision-making, which will enable a corporation to build water context into key decisions, including the allocation of scarce internal resources, to create value for the corporation, nature and people. In contrast, corporate strategy primarily focuses on defining a corporation's competitive advantage within its market. While not the focus of this guidance, it is important to consider how a water strategy will contribute towards the broader corporate strategy of a corporation to maximise the value of corporate water programs.

Since 2009, with the release of the Planetary Boundaries framework, there have been growing efforts to embed "science" and situational context into corporate sustainability performance. These efforts have been driven by the recognition that there needs to be a more direct link between operational performance and the state of "sustainability" of planetary systems. However, many of these "science-based" efforts have narrowly focused on the use of corporate-level performance targets as the mechanism to drive transformational change.

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Figure 1:
The different levels of strategy within a corporation and the "big" questions that each level asks.

Little guidance has been put forward with respect to how a corporation can begin to prepare the strategic foundations on which to embed these "science-based" performance targets into its operations or how these can be linked more directly to its strategy. This guidance seeks to fill this gap by detailing 6 shifts that corporations need to make in how water strategies are developed. To enable a corporation to make these shifts, WWF has developed a 4-step iterative framework that, if followed, can embed water context at the core of the strategy and create a more compelling and strategic link to corporate strategic objectives.

Meanwhile, discussions around the need to strengthen how corporations develop water stewardship strategies have gathered momentum in recent months with some arguing that the water stewardship community needs to move into a post-stewardship phase that is centrally focused on strategy. WWF agrees that aspects of water stewardship need to be reframed and that more guidance and resources are needed to enable practitioners to communicate the complexities of water in more strategic language to the C-Suite. However, WWF disagrees with the notion that the community needs to move beyond water stewardship. The water stewardship community has grown and made incredible progress since 2013 in motivating the need for corporations to move beyond water management and towards stewardship. So, rather than shifting the focus and momentum to "post-stewardship" and introduce new terminology, what is most needed is for the community to build on the momentum and understanding stewardship has already generated and strengthen stewardship principles and activities with more strategic corporate language. This will help to enable broader corporate uptake and investment in water stewardship.

This guidance has been written primarily for those who are responsible for shaping the direction of water stewardship within a company (e.g., VP Sustainability). As such, it is not framed for those who are often responsible for implementing water stewardship strategies (i.e., at a site-level). However, this guide may still be useful to site-level water stewardship implementors as it can provide greater insights into what is driving the corporation's water strategy and what is being asked of them as a result.

THIS GUIDANCE HAS BEEN WRITTEN PRIMARILY FOR THOSE WHO ARE RESPONSIBLE FOR SHAPING THE DIRECTION OF WATER STEWARDSHIP WITHIN A COMPANY.

INTRODUCTION

There are many levels of strategy within a corporation. This guidance primarily focuses on integrating the external water context in which a corporation and its value chain operates into its water strategy, and in turn, ensure that its water strategy supports its corporate strategy.

Put differently, it informs how a corporation's water efforts are not only well considered, but also support the corporation to outcompete others (*Figure 1*).

This guidance proposes a set of steps that enables a corporation to build water context into the key decisions that allocate scarce internal resources to create value for the corporation (and nature and people). Prior to embarking on developing any water strategy, it is important to first consider:

THIS GUIDANCE PROPOSES A SET OF STEPS THAT ENABLES A CORPORATION TO BUILD WATER CONTEXT INTO THE KEY DECISIONS THAT ALLOCATE SCARCE INTERNAL RESOURCES TO CREATE VALUE FOR THE CORPORATION (AND NATURE AND PEOPLE).

1. **Corporate strategy**: It is critical to consider the nature of the corporate strategy at the very outset of the exercise. Is your company competing on cost? On differentiation? Is it about brand experience? Is the company vertically integrated or not? These aspects are critical to link back to when it comes to ensuring that a water strategy is fit-for-purpose.

2. **Perceived corporate strategic value of water**: Understanding how the corporation currently perceives water is important as one seeks to link corporate strategy to a water strategy. Is water seen as simply a resource input? Is it seen as a risk? Is it seen as a part of the brand? Is it seen as a potential growth driver? Understanding how water is perceived and valued within the organization will help to adapt the framing of a water strategy into language that various corporate audiences understand.

3. **Nexus considerations:** Water does not operate in isolation but rather is part of the interconnected issues of energy (carbon) and biodiversity (land – including fiber and food). As one builds a water strategy, it is critical to consider at an early stage other related strategies for energy & biodiversity and how these may mutually support or be potentially traded off, and inform corporate strategy.

Understanding the corporate materiality of each of these aspects of the biodiversity-energy-water nexus is critical as one undertakes the development of a specific water strategy.

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"SCIENCE", SITUATIONAL CONTEXT, AND STRATEGY

Corporations now operate within a global context in which human-related activities are the primary drivers of planetary change and are collectively pushing our planet beyond its regenerative capacities (Rockström et. al., 2009 & Raworth, 2012).

With respect to water, there are dramatic declines in freshwater species, growing scarcity and increasing occurrences of water-related disasters. Many, if not all, of these water-related trends are confirmation that the regenerative capacities of water systems are being exceeded. For corporations, sustainable water systems are critical to maintain stable operations - bluntly, without water there is no business.

CORPORATE SUSTAINABILITY, AS WE KNOW IT, WAS BORN OUT OF A NEED TO PROTECT AND ENHANCE THE REPUTATION OF CORPORATIONS AND WAS SEEN AS A "NICE-TO-HAVE" CSR ACTIVITY

Corporate sustainability, as we know it, was born out of a need to protect and enhance the reputation of corporations and was (and still is by some senior decision-makers) seen as a "nice-to-have" CSR activity. However, when water cycles and freshwater ecosystems are pushed beyond their regenerative capacities, corporations face real strategic threats that can undermine shareholder and stakeholder value. This new reality is catalysing a new era in corporate sustainability history - one in which sustainability is drawn in from the fringes and is increasingly seen as needing to be accounted for in the heart of corporate strategies, value creation and competitive advantage.

This growing recognition of planetary boundaries is well illustrated in the growing recognition of Rockström's Planetary Boundaries framework (Rockström *et. al.*, 2009), Kate Raworth's Doughnut Economics (Raworth, 2012), the Paris Agreement, the Science-Based Targets initiative (SBTi) and the establishment of the Science-Based Targets Network. These efforts have popularised discussions around how "science" and situational context could be more broadly used to set corporate sustainability performance. At the core of all the above is a recognition that there needs to be a more direct link between operational performance and a state of "sustainability" within planetary systems. We can no longer just reduce use or improve performance by incremental levels, but rather we need to ensure the collective efforts add up to a total that is within planetary boundaries. We are seeing the front edge of a new approach to corporate sustainability, which ceases to be informed by "what can we do" and rather, is driven by "what do we need to do" (Bertels and Dobson, 2020). The concept is deceptively simple, but we must not underestimate the magnitude of the "shift" that is being asked of corporations. These global discussions are setting an expectation that water stewardship performance (i.e., what is needed from a company) will be dictated to a greater degree by the status of the external water context in which a business operates rather than its own internal ambitions.

Until now, these "science-based" discussions have narrowly focused on the use of corporate-level performance targets as the mechanism to drive transformational business model change. However, research from Bain & Company found that unless sustainability programmes and/or targets have a robust connection to a

corporation's strategy (i.e., there is a tangible link between desired external sustainable outcomes and the long-term success and resiliency of the corporation) these programmes and/or targets are unlikely to achieve their aims (Bain & Company, 2016).

At the same time, water stewardship has gathered momentum within the corporate community primarily by using a risk-based framing, which is then narrowly addressed using mitigation and/or adaptation strategies (with mitigation focused on addressing the causes, while adaptation is focused on addressing the impacts). However, as it is becoming clearer that exceeding the regenerative capacity of natural water cycles and systems is now unavoidable, engaging the next wave of corporations will require a tangible demonstration of how water stewardship presents a viable strategic pathway for corporations to contribute towards restoring the ability of natural water cycles and systems to absorb and recover from climate-related shocks and maintain functionality (or resiliency) and thus long-term corporate resiliency. To achieve this, the next generation of water strategies will need to facilitate the enhancement of water stewardship capacity building, mobilise financing at scale, establish more strategic and aligned collective action efforts and prioritise contextual performance (WWF, 2018).

REDEFINE WATER STRATEGY AND PERFORMANCE WILL FLOW

WWF, and its partners, have spent the past five years thinking more about how value and opportunity, rather than just risk, can be used to leverage water stewardship (WWF & IFC, 2015).

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This message has been echoed by numerous others in the water and strategy community (e.g., Sarni and Grant, 2018) At the same time, WWF continues to be involved in developing guidance and methodologies for developing contextual and water science-based targets (water SBTs), such as *Setting Site Water Targets Informed by Catchment Context* (CEO Water Mandate et al., 2019). However, the more WWF has engaged with this content, the more WWF has been convinced that planetary water challenges will not be resolved by maintaining a narrow focus on target setting alone. Restoring natural water cycles and achieving system resiliency will only be possible if "science-based" principles of water context are driven further into the operational practices of corporations – and this can only be achieved by placing context at the core of a water strategy.

More broadly, WWF believes that there are some water stewardship practices, commonly deployed by corporations, which are restricting them from developing water strategies that unlock wider system value. This view is echoed by Sarni and Grant (2018) in the book *Water Stewardship and Business Value,* which concludes that there is a need to expand the collective view of the value of water into the strategic planning process. More specifically, the four most common practices that prevent a corporation from starting down the path towards developing essential "what do we need to do" strategies are:

A. **Water *is* local:** While often acknowledged in corporate literature, the gravity of this phrase is rarely placed at the core of water strategy and continues to remain water stewardship jargon.

B. **Narrow focus on inherent risk:** The framing of, and response to, corporate water-related risks remain mostly focused on inherent water risks. Creating value, harnessing revenue opportunities and building long-term resiliency rely on a greater understanding of, and action aimed at, residual water-related risks.

C. **Water stewardship capacity and sophistication**: The corporate capacity and resources needed to mitigate inherent and residual risks do not always align with where the actual risks manifest within the corporate organisational structure.

D. **Targets as the solution to all challenges:** In strategy, goals are often defined before targets (goals define the outcome, while targets define the performance needed to meet the outcome). Having targets that embrace "science" or situational context without a strategy that shares similar foundations sets a corporation up for failure.

THE NEEDED STRATEGIC SHIFTS

Addressing these four common practices and creating the strategic connections between external water context and corporate operations, requires a corporation to make shifts in how water strategies are developed. Six shifts can enable a corporation, through its water strategy, to be better positioned to navigate shifting local water contexts, deliver more meaningful and positive impacts within basins, and build greater resilience into its value chain. The six shifts are:

MAKING THESE SHIFTS WILL EQUIP CORPORATIONS TO SUCCESSFULLY EVOLVE THEIR CURRENT WATER STRATEGIES TO ALIGN MORE WITH THE STRATEGIC EXPECTATIONS OF THIS NEW ERA OF CORPORATE SUSTAINABILITY.

SHIFT 1: CONTEXT AS THE STRATEGIC CORE

Water is inherently local in both its physical attributes (spatial and temporal variability) but also with respect to the water stewardship capacity and experiences within a corporation's value chain. Transformative water strategies are flexible, dynamic, and directly account for operational water context (both the physical attributes and internal water stewardship sophistication) to which the company operates rather than simply following sectoral trends.

SHIFT 2: BALANCING TOP-DOWN AND BOTTOM-UP CONTEXT

Inherent and residual systemic water-related risks and opportunities manifest differently for individual operational units (local) and for the overall corporate structure (global). Transformative water strategies are built by explicitly aggregating bottom-up (site-level) water needs, while also accounting for, and balancing, top-down (commonly referred to as corporate or enterprise-level) strategic objectives.

SHIFT 3: BROADENING THE FRAMING OF VALUE

Water is a complex resource and its value is perceived differently by all stakeholders. Transformative water strategies describe how water-related challenges have the potential to impact the unique business model of a corporation or its ability to create value, while also being framed through socially negotiated water stewardship objectives and language (e.g., SDG 6 or the Alliance for Water Stewardship outcomes)

SHIFT 4: EFFICIENT ALLOCATION OF SCARCE INTERNAL RESOURCES

Internal corporate resources (i.e., physical, human, intellectual, and financial) are scarce and need to be stewarded responsibly. Transformative water strategies seek to prioritise how these corporate resources are used to generate maximum value (for both the corporate and planetary systems).

SHIFT 5: CONNECTING WATER STRATEGY TO CORPORATE STRATEGY

Water is often one of many issues covered within broader corporate sustainability programmes, which in turn are part of broader corporate strategies. Transformative water strategies explicitly connect how water impacts risk or creates value to broader corporate strategic objectives.

SHIFT 6: SCALE UP SYSTEMIC CHANGE COLLABORATIONS

Incremental internal changes to individual operational units are ultimately an inefficient way to scale broader change – not just internally but also at a local and global scale. Transformative water strategies prioritise identifying opportunities to collaborate with others to encourage systemic change (i.e., cross-sectoral standard adoption).

Making the above *shifts* will equip corporations to successfully evolve their current water strategies to align more with the strategic expectations of this new era of corporate sustainability. Accordingly, WWF has developed a framework that will enable corporations to embed context into water strategy.

PUTTING WATER STRATEGY INTO CONTEXT: A FRAMEWORK

The present operating reality for corporations globally is turbulent and frameworks can help make sense of this dynamic environment.

"WHAT MUST WE DO TO CREATE A RESILIENT CORPORATION WITHIN THE WATER CONTEXT IN WHICH WE OPERATE?"

Navigating challenges like natural resource scarcity, heightened social uncertainties and continued instability in the financial markets will not be achieved by relying on strategies that are focused only on incremental internal improvements, which are devoid of a connection to water context. A water strategy that is devoid of context at its core will likely impair a corporation's ability to create a robust business case to invest in localised context-driven actions, responses, or targets (such as Contextual or water SBTs). This is because there will not be a strategic connection between water context and value creation and risk mitigation. Corporations will successfully navigate these challenges if their strategies can answer the question *"What must we do to create a resilient corporation within the water context in which we operate?"*

To enable a corporation to make the six *shifts* in their water strategy development approach, WWF has developed a 4-step iterative framework that, if followed, can embed water context at the core of the strategy and create a more compelling and strategic link to corporate strategic objectives (*Figure 2).*

A brief overview of each of the four steps of the framework is provided below. A more detailed explanation of each step and a description of how it can be operationalised by a corporation using a series of sub-steps is provided in the next section of this guidance.

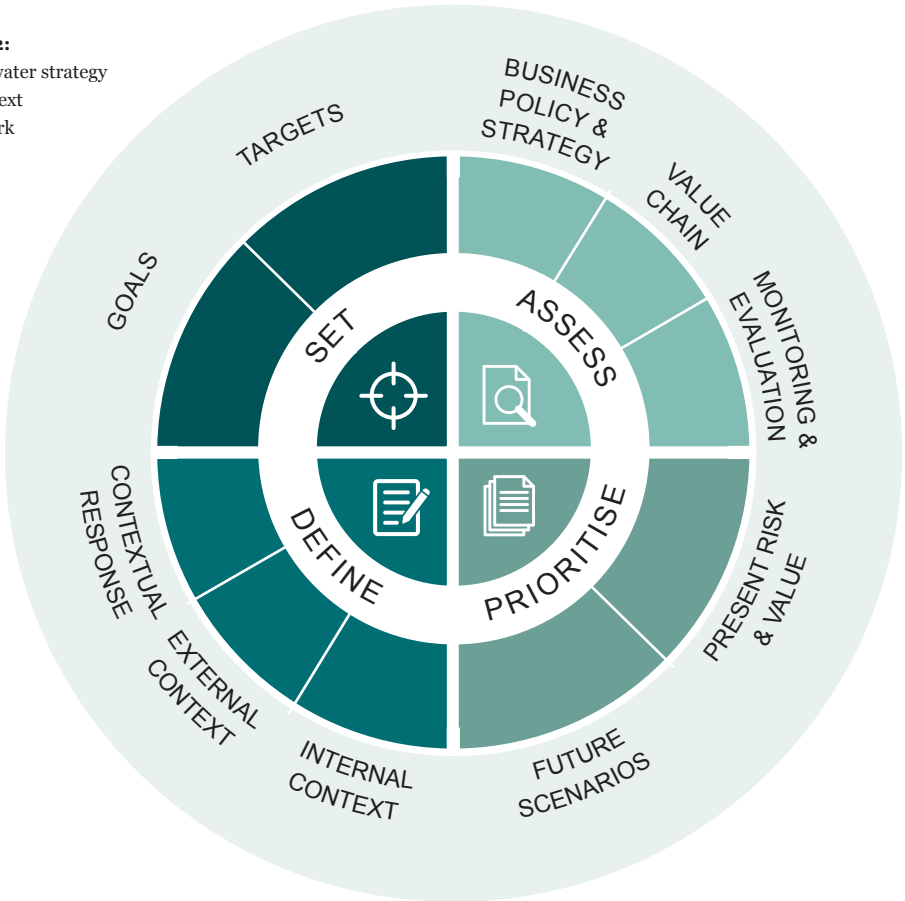

Figure 2:
Putting water strategy into context framework

STEP 1: ASSESS

Systematically *assess* the internal corporate strategy, inherent and residual water-related risks, value creation opportunities within the value chain, and corporate monitoring and evaluation criterion to identify the foundational components that a water strategy needs to account for. The purpose of this step is to identify strategically relevant water-related hot spots within the value chain and establish a more strategic narrative for how monitoring, evaluation and reporting will add value to the water strategy.

STEP 2: PRIORITISE

Prioritise the areas of strategic relevance relating to inherent and residual water-related risks or value creation opportunities, while considering present operational value and conditions, and future operational scenarios. The purpose of this step is to form a strategic narrative for the allocation of scarce internal resources towards water-related challenges, while accounting for both present and future value.

STEP 3: DEFINE

Draw on insights from Steps 1 & 2 to *define* the internal organisational context, the corporation's unique water-related operational context and the context-driven actions that it will be focused on. The purpose of this step is to explicitly connect the internal water context (i.e., reporting structures, capacity and awareness) with the external water context to establish a stronger business case for the deployment of scarce resources towards contextual driven response plans.

STEP 4: SET

Set goals (outcomes) and targets (performance) that are aligned with, and informed by, the water-related operational context as well as how the corporation will report on progress against these goals and targets. The purpose of this step is to ensure that corporate performance is directionally appropriate and is more linked to water-related challenges faced by the external water system.

Lastly, the organisational structure and operating context of every corporation is unique (even within sectors) – meaning that even if a collection of corporations are located within the same basin, the risk profiles and strategic relevance of water for each corporation will vary. While this means that each corporation may have a different response to the external water context, the local water-related issues act as a set of common, shared challenges. The framework (Figure 2) within this guidance aims to ensure that corporations clearly define the strategic connection their own operations and the external water context in each basin (i.e., what are the shared water challenges *in that location*, and how do *you* need to respond to serve your broader corporate strategy). This enables the corporation to create a more tangible business case for participation in collective action when opportunities arise.

The above may mean that there is no business case for operational (internal) water improvements (e.g., efficiency), while at the same time, there is a corporate strategy case to address a shared water challenge (e.g., scarcity may threaten growth of a cluster of suppliers). Through understanding the context facing strategically relevant portions of the value chain, we believe companies can ensure that their water strategies not only remain focused on the most relevant issues, but also begin to better understand how solving water-related challenges can serve corporate strategy as well.

THE REMAINDER OF THIS GUIDE OUTLINES A FRAMEWORK THAT WALKS CORPORATIONS STEP-BY-STEP THROUGH A STRUCTURED PROCESS THAT HELPS TO ENSURE THAT A WATER STRATEGY IS ROBUST, ACCOUNTS FOR CONTEXT, AND ULTIMATELY SERVES CORPORATE STRATEGY.

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*The **assess** step establishes the strategic foundations and focus on which the water strategy is ultimately built.*

This can be achieved through three interconnected activities. The first is an assessment of the internal strategic landscape, which helps to establish the mandate and principles on which the water strategy is developed. The second is a systematic assessment of the corporation's value chain as it relates to water impacts, dependencies, operational resilience, and influence/control. And the third is an assessment of the needs of a monitoring and evaluation (M&E) system, which will be required to support the implementation of the business water strategy.

1.1 Business Policy & Strategy

Assess the internal corporate policies and strategy in which the water strategy will be developed to ensure that corporate governance documents establish the appropriate mandate for the development and implementation of the water strategy but also that both levels of governance mutually reinforce each other.

WHEN DEPLOYED WITHIN A STRATEGY DEVELOPMENT PROCESS, THE STRUCTURE OF A MATERIALITY MATRIX WEAKENS THE ABILITY TO ESTABLISH MEANINGFUL CONNECTIONS BETWEEN EXTERNAL ENVIRONMENTAL, SOCIAL AND ECONOMIC ISSUES AND CORPORATE OBJECTIVES AND RESILIENCY

It is likely that a corporation embarking on the development of a water strategy already has a corporate policy/ position statement relating to water. If a review of existing policies or position statements is not already included within the scope of the development of a water strategy, it is recommended that it is included. The reason is that the *shifts* that underpin the framework set out in this guidance are likely to be captured within existing corporate policies/ position statements. As these documents provide the mandate for action, it is important that both corporate policies/position statements on water share similar foundational principles. In addition, research has shown that corporate policies/position statements covering environmental issues often fail to make a strong tangible strategic connection between the specific issue they cover, the risks faced by the corporation and how this influences the decision-making patterns of the corporation.

1.2 Value Chain

Systematically assess the water-related dependencies, impacts, operational resiliency, influence/ownership and water stewardship maturity of each constituent part of a corporation's value chain to identify strategically relevant areas that need to be explicitly covered within the water strategy.

When defining what issues are most material to a corporation during a strategy development process, many corporations default to using *materiality* and present the output in a materiality matrix. The modern concept of materiality (present in almost all corporate reporting) has its roots within the integrated reporting movement and was introduced to provide corporations with a structured process in which to determine what it should include within its reporting (Eccles and Krzus, 2014). The critical point to note is that it was never designed to be applied within a strategy development process. However, its relative simplicity meant that it was quickly co-opted into boardroom decision-making.

As such, when deployed within a strategy development process, the structure of a materiality matrix weakens the ability to establish meaningful connections between external environmental, social and economic issues and corporate objectives and resiliency. While the

materiality matrix is more commonly used in the development of corporate strategy, the implications of its outputs tend to filter down into strategy. Another common approach to identify material issues that could be covered within a strategy is benchmarking, specifically sectoral benchmarking (e.g., using the SASB materiality matrix). The principle benefits of benchmarking make sense, and it can be a useful tool to standardise good practices across sectors. However, benchmarking usually results in corporations "following" peers, who may often be focused on the wrong things themselves that are devoid of context.

The first activity that is needed is to define the value chain of the corporation. The concept of the value chain has been chosen as the foundation for this guidance (over the supply chain) as it provides a more systematic and expansive framing of value creation activities and in doing so amplifies value creation over simply better management and internal efficiencies. Once the value chain is defined, it is also prudent to further categorise the value chain into upstream (typically associated with suppliers), downstream (typically associated with product/service use and disposal), and direct operations (typically associated with areas under direct control of the corporation). This latter step will enable the corporation to start to align with guidance coming out of the Science-Based Targets Network.

Once the value chain has been defined and categorised, it is important to undertake a systematic (ideally quantitative) assessment of the strategic implications that water has in relation to each area of the value chain. To establish a more meaningful strategic connection, this assessment should consider water-related implications for each area of the value chain through four lenses, namely:

1. **Dependencies/Impacts:** The degree to which a specific area of the value chain is dependent (the extent to which operational processes are affected by or rely on) or have an impact (the extent to which operational activities have the potential to exert a negative or positive impact) on water (i.e., WASH, quality, quantity, governance etc.).
2. **Water stewardship capacity:** The degree of sophistication (i.e., understanding, capacity/resources and implementation) related to water stewardship within a specific area of the value chain.
3. **Relevance & resiliency:** The degree to which a specific area of the value chain is *strategically relevant* (i.e., important to achieving broader corporate objectives), *operationally diverse* (i.e., made up of multiple suppliers rather than a reliance on a few), *geographically clustered* (i.e., how closely located are suppliers geographically) and *operationally resilient* (i.e., preparedness for responding to extreme water-related events).
4. **Influence/ownership:** The degree to which the corporation firstly has direct control/ownership of a specific area of the value chain and can direct change more readily. Secondly, the degree to which the corporation can leverage its resources to influence change in specific areas of the value chain.

BOX 1 WATER FOOTPRINTING VS. LIFE-CYCLE ASSESSMENTS

Water footprinting has emerged as a popular approach for assessing water use and its impacts from the consumption of goods and services. There are two dominant approaches to water footprinting that have been developed by two groups, namely: (1) the Water Footprinting Network (WFN); and (2) the Life Cycle Assessment (LCA) community.

Fundamentally, both are water accounting approaches that are based on similar technical principles. However, the approaches differ in how they are applied and communicated, and how they were originally developed. Both the LCA and WFN approaches aim to account for environmental damages that could result from the use of water. However, the WFN approach does this through the lens of water productivity and includes an optional assessment of the "sustainability" of water use. The LCA approach to footprinting is linked to ISO 14046, meaning it is a fixed standard while still offering degrees of freedom in how it is conducted. Another difference between the two is that the WFN approach communicates the output of its assessment using only a single indicator, while the LCA approach communicates the output of its assessment through a series of indicators.

It is also important to note that all four lenses above may vary even within each area of a value chain because of geographic context and individuals who make up that area of the value chain. The above assessment should ideally be quantitative in nature and if done well can help to systematically identify strategically relevant "hot spots" within the value chain but also provide a more expansive business-centric rationale for its inclusion within the water strategy. An illustrative example of a potential output of this assessment is shown in *Figure 3* below and an example of an assessment matrix that could be used to populate *Figure 3* can be found in *Appendix 1*.

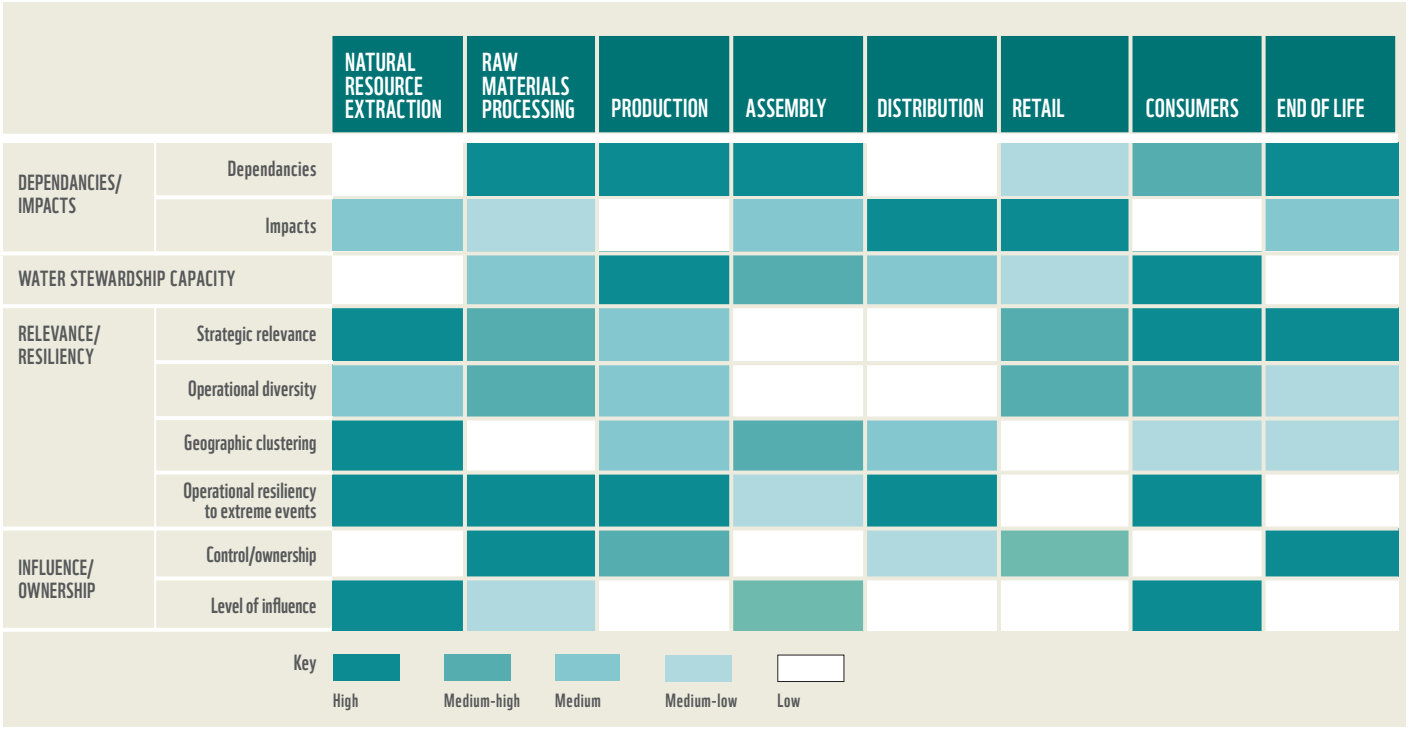

Figure 3:
Example illustrative heat map of a value chain assessment through the four lenses that can be used as an alternative to the materiality matrix (adapted – Embedding Project, 2021).

BOX 2 CASE STUDY: ASSESSING WATER IN THE VALUE CHAIN – GSK (GSK, 2020)

GSK has worked to map water impacts across its value chain by seeking to understand water availability, quality, regulation of water and social issues associated with water. GSK also worked to understand the dependencies and use of water across its value chain. In addition, GSK has gone further by identifying the dependencies and impacts it has on water for different regions in which each part of the value chain operates. These insights give GSK the ability to not only prioritise "hot spots" within its value chain but also regional "hot spots" that could be prioritised within its strategy development cycle.

www.gsk.com/media/3633/value-chain-water-footprint.pdf

1.3 Monitoring and Evaluation

Assess and establish the foundations of a monitoring and evaluation system that is responsive to the operational and water context of the corporation, efficient, and adds value to the water strategy by enabling more meaningful context-driven decision-making.

Monitoring and Evaluation (M&E) is an important part of any strategy as it creates a mandate to collect operational data that can be used to assess the effectiveness of a strategy, drives continual improvements and enables timely decision making. It is also a critical input into external corporate reporting and disclosure. However, M&E is often only considered towards the end of the strategy development cycle. Building the foundations of a M&E system at the start of a strategy development process allows a corporation to better account for M&E system requirements as the strategy is developed and also helps establish a baseline for monitoring. When designing an M&E framework within a water strategy, the following criteria should be considered:

- **Consistency:** The structure, approach and indicators/metrics should be consistent with and support the corporate M&E framework.
- **Collaboration:** The outputs should contribute towards enabling collaboration, both internally and externally.
- **Adaptive management:** The outputs should allow for evidence-based decision-making that is based on the best available information.
- **Integrated management:** The outputs should consider linkages with other issues that are linked to water to ensure that collected data can add value to other operational units (if and where applicable).

MONITORING AND EVALUATION (M&E) IS AN IMPORTANT PART OF ANY STRATEGY AS IT CREATES A MANDATE TO COLLECT OPERATIONAL DATA THAT CAN BE USED TO ASSESS THE EFFECTIVENESS OF A STRATEGY, DRIVES CONTINUAL IMPROVEMENTS AND ENABLES TIMELY DECISION MAKING.

During the design of an M&E system, it is also advisable to consult those who will ultimately be responsible for collecting the data that will go into the M&E system. This helps to create early buy-in and ensures that the indicators/metrics chosen are both feasible to collect and add value to decision-making. It is also important to ensure that any indicator/metric selected as part of the M&E system should be related to an outcome(s) of the water strategy, accurately measurable and, if possible, standardised. Lastly, it is important to identify who will be responsible for measuring/gathering the data required as an input for the M&E system as well as when, where and how the data will be captured. The "when" is particularly relevant to water due to its spatial and temporal variability, and so it may be beneficial to build these considerations into the M&E system at an early stage.

Water-related disclosure is the act of reporting water management data, and the implications of, and responses to, water for a corporation to external stakeholders. To keep reporting concise and strategically aligned, the scope and coverage of what is reported should be aligned with the strategically relevant water-related issues being faced by a corporation rather than being informed only by the interests of a select group of stakeholders or reporting frameworks. With this last point in mind, when considering which reporting framework to use, a corporation should consider (1) alignment of framework metrics with metrics require by the corporation under its strategy, (2) relevance of the content of the framework to the key stakeholders of the corporation, (3) the contribution the framework adds to overall corporate transparency, and (4) the perception of verification. Reflecting on these considerations will help to ensure that the effort to disclose corporate water-related data through a framework adds value to, and complements, the water strategy rather than drawing scarce corporate resources away from strategically relevant activities.

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*The **prioritise** step builds off the strategic foundations established in Step 1 and starts to create the core of the business case for water stewardship.*

This can be achieved by systematically working to understand and prioritise the strategic connections between water and corporate risk, value, and resiliency within the corporation's value chain. Firstly, it is important to prioritise those parts of the value chain which represent the most strategic risk and value "hot spots" currently facing the corporation. Secondly, transformative water strategies go beyond using current assessments of water-related risk and value within the prioritisation of strategic focus areas and include the consideration of future water-related scenarios to establish a more credible, longer-term narrative for how the corporation will work to build resilience into its operations.

2.1 Present risk and value

THIS CAN BE ACHIEVED BY SYSTEMATICALLY WORKING TO UNDERSTAND AND PRIORITISE THE STRATEGIC CONNECTIONS BETWEEN WATER AND CORPORATE RISK, VALUE, AND RESILIENCY WITHIN THE CORPORATION'S VALUE CHAIN.

Prioritise the facilities from within strategically relevant areas of the value chain (or "hot spots") from which more detailed operational data will be collected to further inform the water strategy using a more expansive present value framing of water.

To inform a deeper level of strategic insight on which to build contextual response and performance targets, more operational data is needed. However, collecting any form of data requires resources (e.g., time, human and capital). The assessment and identification of "hot spots" within the value chain serves as the first step in this prioritisation process, which can be taken further by using a risk- and value-based prioritisation. Adding this second layer into the strategy development process creates more of a strategic narrative for why certain activities or performance are being pursued as part of the water strategy and how this links back to corporate strategy objectives.

Risk-based prioritisation

For the risk-based prioritisation, it is recommended that a traditional water risk assessment (e.g., WWF's Water Risk Filter) is undertaken for operational units that sit within the "hot spot" area of the value chain. The concept of water risk has been well developed over the years and is becoming part of C-suite conversations – making it a familiar starting point for prioritisation. Within this, it is recommended that operational units are first assessed against basin risk indicators. These basin indicators can then be placed alongside some basic operational metrics that represent proxies for strategic operational relevance. This allows for another layer of prioritisation, which can help to further focus the scope of the operational water risk assessment. For example, a corporation could use production volume (annual unit production) alongside basin water risk indicators to identify operational units responsible for large productions volumes that are facing high levels of water risk. As mentioned above, collecting detailed operational data has a cost and so by undertaking this first basin-level prioritisation, a corporation starts to establish a pattern of decision-making that can be used to justify the further costs and benefits of additional data collection.

Value-based prioritisation

Once the risk-based prioritisation has been completed (a basin and operational risk assessment for a select number of strategically relevant sites within a value chain "hot spot"), the corporation should then consider a value-based prioritisation. The purpose of this prioritisation is not to further narrow the list of operational units but rather to deepen the understanding of the value creation opportunities for each of the prioritised operational units – strengthening the future business case for water stewardship response and action.

Water is undervalued as its "value" is often reduced to a narrow set of cost variables (e.g., price). This simplistic approach makes it

harder to create a compelling business case for the implementation of water stewardship, but it also overlooks other aspects of corporate value. A detailed explanation of the representation of value within a corporation is beyond the scope of this guidance but readers can refer to Morgan & Orr (2015) for more information. However, the representation of the value of water is linked to uncertainty and, as such, risk-based assessments are important inputs for value and reinforce the assertion that meaningful water strategies need to cover shorter timescales compared to what is currently typically observed (i.e., 5 years or more).

As such, it is important to find ways to link water-related uncertainty (risk) to the financial statements of the corporation as well as the operational units being prioritised, as this creates a more tangible and direct link to strategic decision-making and establishes a more value driven narrative for the water strategy.

TO ENSURE THAT A CORPORATION IS STARTING TO BUILD WATER-RELATED RESILIENCY INTO ITS OPERATIONS, IT IS CRITICAL THAT FUTURE LOOKING METRICS ARE INCORPORATED INTO THE EARLY STRATEGY DEVELOPMENT PHASES.

2.2 Future scenarios

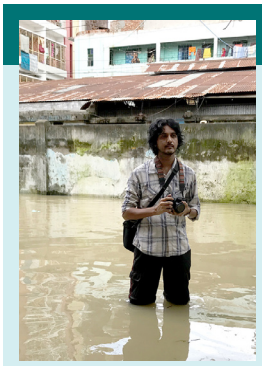
Account for future water-related scenarios within the prioritisation of facilities from within strategically relevant areas of the value chain as well as value-at-risk implications of these to strengthen the business case for further operational data collection.

The outputs of the previous step within *prioritise* will have identified a shorter list of more strategic operational units (drawing on a more traditional risk-based assessment) within the "hot spots" of the value chain. Additionally, this risk-based prioritisation has ideally been supplemented with value-driven insights for each of the operational units to establish a more comprehensive case for where a water strategy needs to be focused. However, this first prioritisation step was primarily focused on the *present* value and risk of water and largely ignored future water-related uncertainties.

To ensure that a corporation is starting to build water-related resiliency into its operations, it is critical that future looking metrics are incorporated into the early strategy development phases. Strategies are designed to enable decision-making and allocate scarce internal resources to respond to the operating environment in which a corporation finds itself. Transformative water strategies establish a clear narrative with respect to the water-related challenges that face operations and create the framework to address these. So, excluding future-related water considerations from the strategy development process misses a key aspect of the corporation's water context.

Water is undeniably connected to climate change and other socio-economic trends (e.g., population growth, urbanisation, economic development etc.), which creates a series of different water-related risks compared to those currently being faced by a corporation. This is increasingly attracting the attention of investors, who are asking corporations more targeted questions about how they are working to identify and respond to these future water-related risks. Scenario assessments are designed to present a set of future states that are informed by current trends rather than being definite predictions of the future. Despite this, they remain a powerful and increasingly accepted approach for corporations to better understand these future water-related risks. It is also important that while scenarios are traditionally used to identify risk, they can also be used to identify opportunities.

Establishing transformative water strategies that maximise a corporation's opportunity to both respond to current water-related risk and build future water-related resiliency requires that some form of scenario assessment is accounted for within the strategy development process. There are many tools available to help companies understand future water-related scenarios but selecting a tool that includes a diverse set of socio-economic considerations within its scenario models and can illustrate the changes in the corporation's water-risk profile for the current state into the future is important. While the outputs of a scenario assessment can be built into an existing water strategy, incorporating these considerations into the core of the strategy during its development creates a far more compelling business case for water stewardship for both internal and external stakeholders.



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BOX 3 WWF WATER RISK FILTER: SCENARIOS

Already a leading online tool for companies and investors to assess and respond to water risks, the WWF Water Risk Filter now offers users the ability to access forward-looking scenarios of water risks, based on climate and socio-economic changes, and aligned with TCFD and EU NFRD recommendations (WWF, 2020b). Scenarios are not a forecast or a prediction but rather are a plausible representation of possible future states. At a time of high uncertainty, scenario analysis of water risks enables a corporation to incorporate a forward-looking lens to water risk assessments under a range of scenarios – creating a more meaningful strategic pathway towards designing effective contextual responses.

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*The **define** step draws on the internal and external water context of a corporation to establish the implementation pathway (or the contextual response) for the water strategy.*

This is achieved by using the external water context of water-related challenges to define localised contextual responses within prioritised value chain "hot spots" and then aligning these with the internal corporate operational context (i.e., M&E, organisational structure and corporate resources and capacity etc.).

This creates an implementation pathway, which ensures that responses are implemented at the right level within the corporation and that the complexity of the responses are appropriate (i.e., risk exposure, water stewardship capabilities etc.) for each level within the corporation. This enables the corporation to more efficiently allocate its scarce internal resources contextually to manage its responses to water-related challenges.

THIS ENABLES THE CORPORATION TO MORE EFFICIENTLY ALLOCATE ITS SCARCE INTERNAL RESOURCES CONTEXTUALLY TO MANAGE ITS RESPONSES TO WATER-RELATED CHALLENGES.

3.1 Internal context

Define the specific corporate operational structure and organisation to begin designing how the outputs of the water strategy, which are focused on prioritised "hot spots" within the value chain, will be aligned with and captured within the M&E framework and used to inform decision-making.

Transformative water strategies are informed by the contextual nature of water (i.e., how water varies in time and space), but this still needs to "fit" into how a corporation is structured and interacts with its value chain to ensure that the objectives of the strategy can be operationalised. The first dimension that should be considered is the corporate structure (i.e., Functional, Divisional or Matrixed structures). The temporal (time) and spatial (geographic distribution) variability of water rarely aligns with how a corporation is structured – i.e., business units are rarely aligned with basins/catchments but rather using geopolitical boundaries. Mapping the corporate structure against basins/catchments provides insights into how response actions and performance monitoring needs to be structured to ensure a degree of alignment between internal resources and the external context of water.

The second dimension is the contractual frameworks, ownership and/or relationship that are in place between the corporation and the prioritised "hot spots". Simplistically, a more direct contractual relationship (or ownership) between the corporate and the prioritised "hot spots" typically makes influencing or implementing responses easier. This dimension becomes even more important when an indirect contractual relationship exists between the corporate and the prioritised "hot spots" in the value chain – meaning how responses are implemented will need to be considered more deeply.

By accounting for the above dimensions during the development of a water strategy, a corporation is more tangibly able to reconcile how it communicates (internally and externally) the connections between water-related context (external) and how the corporation operates. This can enhance internal buy-in to the strategy as internal stakeholders, who are not familiar with water, can better "see" the connections between their roles and the objectives of the strategy.

3.2 External context

Define and quantify the magnitude of the water-related challenges surrounding operational units within the prioritised "hot spots" within the value chain as a mechanism to begin defining strategic contextual responses.

The first step in defining the external water-related context is to categorise these challenges to ensure that an accurate definition and quantification of these challenges can be established. Where possible, it is beneficial to begin to align these categorisations with other mainstream frameworks as this further strengthens the ability to communicate the water strategy clearly and easily to external stakeholders. With the emerging trend towards taking a more "science-based" approach towards water-related performance, there are a few frameworks that a corporation can look towards as an anchor for this categorisation exercise, including:

- Planetary Boundaries (Rockström et. al., 2009) & (Gleeson et. al., 2019)
- The Doughnut (Raworth, 2012)
- UN Sustainable Development Goals (United Nations, 2019)
- Alliance for Water Stewardship (AWS, 2019)

While these are useful starting points for defining categories for water-related challenges, the next step in the process requires a level of quantification of these challenges. Using the above frameworks, seven distinct categories (*Table 1)* of water-related challenges can be defined, which then enable a corporation to undertake some form of quantification with respect to the status of these challenges surrounding each of the prioritised operational units in the value chain "hot spots".

Once a corporation has established a categorisation for water-related challenges, it is then able to quantify the status of these challenges. Theoretically, the depth of detail to which this quantification can be done is endless. Answering this question of depth is very dependent on the individual corporations and the costs involved with each level of depth. However, at this point in the water strategy development process, the corporation should have already identified a small number of "hot spots" within its value chain in which it is working to quantify this external context – meaning a more detailed quantification may be justifiable and feasible. Additionally, as this guidance is focused primarily on embedding contextual information into the water strategy (i.e., taking a contextual approach rather than a "science-based" approach), a corporation may want to consider using the many existing tools

Table 1:
Seven categories of water-related challenges that can be used to define and quantify the status of water-related challenges (i.e., external water context).

WATER RELATED CHALLENGES	PLANETARY BOUNDARIES	THE DOUGHNUT	RELEVANT SDG TARGET	AWS WATER STEWARDSHIP OUTCOMES
EXTERNAL GOVERNANCE*			6.5	Good water governance
ACCESS TO WATER, SANITATION & HYGIENE (WASH)		WASH	6.1 & 6.2	Good water sanitation & health
WATER QUALITY			6.3	Good water quality
FRESHWATER BIODIVERSITY*	• Precipitation		6.6	Important water related areas
WATER SCARCITY	• Precipitation • Streamflow • Groundwater	Water Consumption	6.4	Sustainable water balance
FLOODING (ANNUAL)	• Precipitation • Streamflow		11.5	Sustainable water balance
EXTREME WEATHER EVENTS (CLIMATE RESILIENCY)	• Precipitation • Streamflow • Frozen water		13.1	Good water governance/ Sustainable/water balance/ Good water quality status

** When considering these water-related challenges it is important to also consider the socio-cultural aspects of these challenges – not just the ecological aspects.*

and datasets available (that often draw on global datasets). However, before selecting a tool or a data set, a corporation should reflect on the following questions in relation the tool or dataset being considered (CEO Water Mandate, PI, CDP, TNC, WRI, WWF, UNEPDHI, 2019):

- How recent is the assessment? (Note: Older assessments could still be used with updated information)
- Are the author(s) accredited or well-respected experts?
- Do stakeholders accept the resource?
- What level of data is used by the resource (i.e., global or local)?

3.3 Contextual Response

THE INTERNAL CONTEXT CAN HELP ESTABLISH THE STRUCTURAL COMPONENTS OF HOW THE CORPORATION WILL EMBED A BROADER STRATEGIC CONTEXTUAL RESPONSE INTO ITS EXISTING ORGANISATIONAL STRUCTURES.

Define the implementation pathway for the water strategy where the operationalisation of the responses (both within and outside the fence line) is informed by both the internal context of the corporation and the external context in which it operates – meaning the corporation can respond effectively to the magnitude of local water-related challenges in a way that fits the existing organisational context.

As discussed earlier, the internal context can help to establish the structural components of *how* the corporation will embed a broader strategic contextual response into its existing organisational structures in a way that better accounts for how water physically manifests in nature. Similarly, the external context starts to help a corporation understand what responses may be needed by defining and quantifying the magnitude of local water-related challenges faced by operational units within prioritised "hot spots" within the value chain.

However, simply because a water-related challenge has been prioritised as being more relevant to a local region (i.e., elevated instances of local water scarcity), this does not automatically mean that all local operational units need to have a response to these water-related challenges or that this challenge needs to be a central strategic response for the broader corporation. Why? Like a traditional water risk assessment, understanding the reliance/impact local operational units have with respect to the prioritised water-related challenge can inform *what* form of response is needed. Similarly, at a corporate level, if a water-related challenge does need responses from some operational units then it may be beneficial to have corporate-level responses in place that support these more local responses.

Once it is understood *what* responses are needed, a corporation can begin drawing on the many already available resources that give practical examples of actions that can be taken in response to different water-related challenges. However, these resources are often general in nature and lack a degree of contextualisation. A simple set of questions that a corporate could ask itself when deciding on the appropriateness of implementing certain contextual responses within different areas of a value chain could be:

- Does the water-related challenge that the response is intended to respond to present potential strategic operational challenges?
- What is the most appropriate level within the organisational structure or value chain to take responsibility for implementing this response?
- Which is the most appropriate corporate function to take responsibility for implementing this response?
- Do those intended to implement the response have local capabilities (i.e., knowledge, skills etc.) that match the complexity of the response?
- Do those intended to implement the response have the required resources (i.e., time, money, staff etc.) to implement the response?
- Lastly, and importantly, do the proposed responses also serve the broader corporate strategy?

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BOX 4 WWF WATER RISK FILTER: RESPOND

The Respond section within WWF's Water Risk Filter now dynamically links the outputs of a water risk assessment for any given operational unit (or a portfolio of sites) to a customized set of mitigation responses actions. These response actions have been sourced from water stewardship best practice resources. The Respond section was developed using WWF's extensive experience working with corporations, which were either unclear on how to act on the results of their water risk assessments, or were selecting responses to water risks that did not align/match with their water risk exposure. Accordingly, a system was developed to dynamically recommend responses for the assessed water risk by factoring in both external context and internal operational context. While the tool does draw on global data, it has been designed specifically to support corporations to more efficiently identify contextual responses across multiple operational units at different levels within the corporation.

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*The **set** step is the final one in the development of a transformational water strategy and draws on the insights from previous steps to set the desired outcomes the corporation seeks to deliver through its goals and targets.*

These goals and targets are designed to ensure that the corporation's performance is directionally appropriate and enables the corporation to monitor its progress against its strategic objectives. The goals and targets also represent a communication tool, which the corporation can leverage to signal to key stakeholders what its most relevant water-related challenges are and what action it is taking to mitigate risks as well as capitalise on opportunities for creating value.

The terms Goal, Target and Metric are often used interchangeably. However, within this guidance, these are used as distinct and different terms and are related to the corporation (i.e., not external goals such as basin goals) and are defined as (adapted from Fisher (2020) and Bernard Marr & Co (2021)):

- **Goal:** A statement that captures a larger, more strategic vision that a corporation aims to accomplish within a specified timeframe.
- **Metrics:** A measure that helps a corporation assess if it is achieving the objectives within a goal. Often also referred to as a Key Performance Indicator.
- **Target:** A statement that includes a specific, timebound and quantifiable level of performance in the form of a metric that represents a point of assessment that can inform ongoing progress towards achieving a goal.

A CORPORATION WANTING TO DEVELOP A TRANSFORMATIVE WATER STRATEGY SHOULD CONSIDER SETTING FEWER, MORE STRATEGIC, AND IMPACTFUL GOALS.

4.1 Goals

Set the strategic vision of the water strategy that is directly informed by the water-related context in which the corporation operates as well as the metrics by which progress against the goals will be evaluated.

Within a water strategy development cycle, it is often beneficial to start any performance setting stage by drafting an initial set of goals. The reason behind this is that without a clear vision (goal), a corporation may find it hard to identify the most appropriate metrics or targets that are needed to monitor progress against its goal. This is an important first step in setting performance as research shows that overall effectiveness of corporate sustainability programmes in achieving the goals that are set is typically low (Bain and Company, 2016). One possible contributory factor to this low effectiveness is something referred to as "goal competition" – where the competition for scarce internal resources by multiple competing goals results in less effective performance (Clear, 2021). So, the issue is not one of setting goals but rather prioritising between goals.

There are two solutions that can help to tackle goal competition: (1) set fewer not bigger goals, and (2) be clear about how the corporation intends to focus on one goal at a time if it has multiple goals. A corporation wanting to develop a transformative water strategy should consider setting fewer, more strategic, and impactful goals. However, external stakeholders and platforms often (incorrectly) positively reward corporations based on the breadth and volume of action rather than depth of action. Adopting a contextual approach in a water strategy does "ask" a corporation to expand its response (and possibly performance monitoring) to a wider array of water-related challenges. However, at the same time, it also "asks" that these responses (and possible performance monitoring) are scaled to the external and internal context. This may sound contrary to the research about goal competition, but what is being encouraged is that through the process of embedding context into a water strategy, a corporation begins to prioritise a

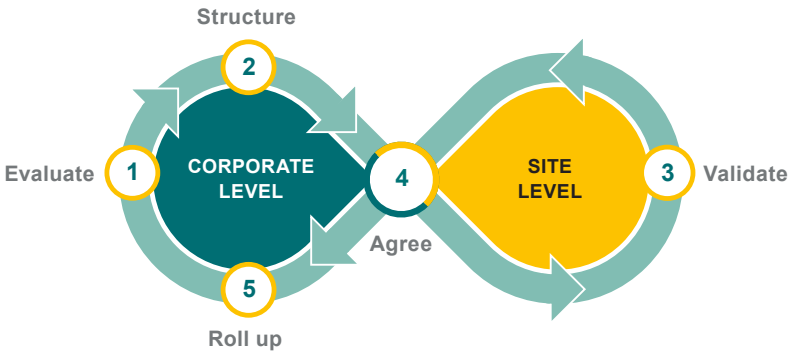

Figure 4: The flow between corporate and site-levels of the 5 Steps set out in the *"Contextual Water Targets"* guide

smaller selection of responses to water-related challenges and a smaller set of high-risk, high-value operational units that it will focus on in more depth and communicate progress against these.

Taking a contextual approach to water strategy requires accounting for the status of the surrounding water-related context in which the corporation operates. Setting a contextual goal, therefore, requires that the goal acknowledges this water-related context (and the fact that this context is not static) and commits the corporation to accounting for this context within its performance. The primary purpose of these goals is to establish the strategic narrative that provides a mandate for the water-related performance and contextual responses to be implemented at a local scale.

Once a set of draft contextual goals have been set, a corporation should then work to identify the Metrics that it will use to monitor and evaluate performance against the goals that have been set. This is an important set as it starts to set the stage for the setting of corporate- & site-level performance targets (see next step). A final step in goal setting should be to revisit the draft contextual goals after the performance targets have been set. This is important because the process of developing the performance targets may mean that the contextual goals need to be adjusted before being externally communicated.

4.2 Targets

Set, and roll up to a corporate-level, targets for operational units in prioritised "hot spots" within the value chain that are where the level of ambition of the targets is directly informed by the surrounding context of water-related challenges and where progress can be monitored through interim milestones.

As discussed in the introduction to this guidance, there has been a lot of attention focus on target setting recently as a mechanism to drive transformational changes to business models in response to water-related challenges. However, as discussed, unless targets have a robust connection to strategy (i.e., there is a tangible link between desired external sustainable outcomes and the long-term success and resiliency of the corporation) these targets are unlikely to be achieved.

The subject of water target setting is complex, especially when a corporation is seeking to reconcile the connection between highly localised site-level water targets and corporate-level targets. There is already separate guidance available to corporations that can support them in setting contextual targets at both the site- and corporate-levels, but little guidance is available that explicitly integrates the two levels and helps to set it within the context of a water strategy development cycle. As such, WWF has developed a supplementary guide titled *"Contextual Water Targets"* that helps corporations to make these connections.

"Contextual Water Targets" is designed to be implemented at a corporate-level, but there are three steps that would benefit from being implemented at the site-level. The steps covered within the guide are illustrated in *Figure 4* and described in *Table 2*. These steps are designed to strengthen the alignment between top-down strategic corporate objectives and bottom-up site-level water context. Readers are directed to this supplementary guidance for more detailed information on this specific target setting framework.

Table 2: Brief description of the objects of each of the 5 Steps set out in the *"Contextual Water Targets"* guide

STEP	OBJECTIVE OF STEP
1. EVALUATE	Evaluate the strategic relevance of performance monitoring for specific water-related challenges at sites within the prioritised "hot spots" of the value chain within the water strategy
2. STRUCTURE	Structure the contextual targets for each water-related challenge using levels, components, and the interim milestones to establish a suite of targets that can then be contextually assigned to individual sites within the priority value chain "hot spots"
3. VALIDATE	Validate the assigned contextual targets at a site-level using local insights and data and set site-specific performance trajectories for interim milestones – empowering sites to contribute bottom-up feedback into corporate-level target setting.
4. AGREE	Agree any changes to the assigned contextual target based on the site-level validation of the water-related challenge evaluation and/or the site performance trajectories that will contribute to the corporate interim milestones
5. ROLL UP	Roll up site-level performance trajectories into a single, simple, and clear performance metric for each interim milestone for each contextual target for each water-related challenge

CREATING INTERNAL BUY-IN FOR STRATEGIC REDIRECTION

The water-related context of a corporation is unique and as such to establish corporate resilience requires a flexible and tailored water strategy that effectively mitigates contextual water-related risks and takes advantage of contextual value creation opportunities.

THE QUESTIONS AND DECISIONS THAT THESE NEXT GENERATION OF WATER STRATEGIES WILL PRESENT TO CORPORATIONS WILL INEVITABLY BE MET WITH RESISTANCE FROM THOSE INDIRECTLY INVOLVED IN THE PROCESS.

Developing the next generation of water strategies will likely take corporations out of their traditional water-related comfort zones, which may result in difficult internal conversations as others seek to understand the rationale for taking a contextual approach towards business water strategy.

This means that those deploying the steps within this guidance would benefit from also treating the strategy development process as a mini-organisational change exercise. This guidance is not a deep dive into behaviour change theory or techniques. However, a brief overview of some key concepts will enable the outputs of this guidance to be more seamlessly framed into the broader corporate strategy and conversations.

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ORGANISATIONAL BEHAVIOUR CHANGE

Every day we make thousands of decisions and so it is unrealistic to expect those outside of the day-to-day development of the water strategy to dedicate equal amounts of time and energy to making decisions about the strategy along the way. Rather, we can reasonably anticipate that these people will likely rely on learned decision-making techniques that are driven by the unconscious parts of their brains (where it is estimated that up to 95 per cent of our decisions are made). These techniques include habits, cultural norms, heuristics, emotional reactions, personal prejudice, and biases and help to short cut decision-making.

So, before engaging others within the corporation in decisions relating to the emerging water strategy, it may be prudent to reflect on the possible internal behavioural dynamics that may exist. These reflections should focus on the scope or internal context in which the water strategy will be implemented – specifically (1) the policy context of the corporation (i.e., what drives the corporation to act), (2) the communications context (i.e., how does the corporation currently talk about water), (3) the audience (i.e., who is being engaged and what drives them), and (4) the sectoral context (i.e., what sectoral water biases exist).

THE QUESTIONS AND DECISIONS THAT THESE NEXT GENERATION OF WATER STRATEGIES WILL PRESENT TO CORPORATIONS WILL INEVITABLY BE MET WITH RESISTANCE FROM THOSE INDIRECTLY INVOLVED IN THE PROCESS.

The questions and decisions that these next generation of water strategies will present to corporations will inevitably be met with resistance from those indirectly involved in the process. If those responsible for leading the development of the strategy do not anticipate and prepare for this resistance, it can be highly demotivating. In these moments of resistance, it is important to be reminded that the likely root of the resistance is often a symptom of embedded personal and/or organisational behaviours and decision-making rather than a fundamental disagreement with the approach being taken.

CONFIRMATION BIAS

Humans naturally focus on and gather facts and information that support our existing beliefs or world view – or more simply, we are quick to find ways to reject a new idea or concept. Confirmation bias is a natural human behaviour, but it can have negative impacts on decision-making within a corporation – especially during periods when new approaches are needed. Recognising and accounting for possible confirmation bias facilitates more meaningful and considered decision-making.

CULTURAL MAPPING

The cultures in which we grow up in directly shape and influence how humans individually communicate and take in information. Differences occur across national, ethnic and regional cultures, so it stands to reason that cultural influences will shape different operational units of a corporation - depending on where they are located. Simplistically, while the national culture of the country in which the head office of a corporation is located may have a profound influence over the dominate organisational culture of the corporation, this does not always mean it is directly translatable within regional offices. In practice, this means that an approach or style of communication that resonates for one individual may not be effective in influencing decisions or getting buy-in from others who have a different cultural reference point. Effectively navigating cultural influences requires starting with the goal of trying to understand the other person's cultural perspective and using that to engage in a conversation on how this frames what is being discussed rather than merely trying to convince others of a specific point.

CONCLUSION

The water-related context of a corporation is unique and as such to establish corporate resilience requires a flexible and tailored water strategy that effectively mitigates contextual water-related risks and takes advantage of contextual value creation opportunities.

WATER SUSTAINABILITY AND THE ACHIEVEMENT OF THE SDG 6 TARGETS WILL ONLY BE POSSIBLE IF "SCIENCE-BASE" AND CONTEXTUAL PRINCIPLES ARE DRIVEN FURTHER INTO THE CORPORATION'S STRATEGY AND OPERATIONAL PRACTICES.

Initiatives such as SBTN are beginning to focus attention more sharply on how individual corporations are directly quantifying either their contributions or impacts on what is deemed to be a "sustainable" state of a system on which they depend (e.g., water). Managing corporate contributions towards "sustainable" water systems will not be resolved by maintaining a narrow focus on embedding water-related context into water performance targets alone. Water sustainability and the achievement of the SDG 6 targets will only be possible if "science-base" and contextual principles are driven further into the corporation's strategy and operational practices.

Over the years, corporate-level engagement and framing of water stewardship has been dominated by a risk-based narrative. While this has been a useful catalyst for those commencing water stewardship journeys, it does create some limitations with respect to how far water stewardship can go. In embracing context and linking water strategy to corporate strategy, it can help to provide resources to corporate staff implementing water efforts. If efforts to address shared water challenges can be tied back to differentiation or low-cost strategies, corporate budgets can further support solving water issues, which will benefit profit, people and planet.

This guide has provided a framework, and a process, that seeks to better embed context into water strategy. WWF believes that through such a framework, companies will be better positioned to strengthen their water work, while also strengthening their corporate strategies. The iterative process outlined through the four steps, and respective sub-steps, can serve both contextual and SBTs, and therefore has applicability regardless of where a corporation is in its journey. On the back of this framework, WWF will seek to build out relevant guidance in the respective sub-steps.

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Appendix 1: Value chain assessment matrix

LENS		QUESTION TO CONSIDER	ASSESSMENT MATRIX				
			HIGH	MED-HIGH	MEDIUM	MED-LOW	LOW
DEPENDENCIES/ IMPACTS	DEPENDENCIES	To what extent does this part of the value chain's operational processes rely on or are affected by different aspects of water?	Water is critical	Water is important	Water is somewhat important	Water is needed but not very important	Water is unnecessary /not important
	IMPACTS	To what extent does this part of the value chain's operational activities have the potential to exert a negative or positive impact on water?	Very high potential	Strong potential	Moderate potential	Limited potential	Negligible or very limited potential
WATER STEWARDSHIP CAPACITY		What is the degree of experience, familiarity, practices or understanding related to water stewardship within this part of the value chain?	Little to no experience or practices in place related to water	Basic water management practice in place	Intermediary water management practices in place and some basic water stewardship practices	Advanced water management practices and intermediary water stewardship practices	Advanced water stewardship practices in place and taking action within the surrounding basin
RELEVANCE & RESILIENCY	STRATEGIC RELEVANCE	To what extent is this part of the value chain important in achieving broader corporate strategic objectives?	Critical to corporate objectives	Important but not critical	Somewhat important	Limited	Negligible or very limited
	OPERATIONAL DIVERSITY	To what extent is there diversity among the suppliers that are used for this part of the value chain?	Only a few suppliers (e.g., less than 5% of suppliers)	Limited diversity (e.g., between 5-10% of suppliers)	Somewhat diverse (e.g., between 10-20% of suppliers)	Diverse (e.g., between 20-50% of suppliers)	Highly diverse – many suppliers (e.g., more than 50% of suppliers)
	GEOGRAPHIC CLUSTERING	To what extent are suppliers in this part of the value chain geographically clustered or dispersed?	All suppliers are in the same basin	Most suppliers are in the same basin	Only a small number of suppliers are in the same basin	Suppliers are spread over a number of basins	Already influencing
	OPERATIONAL RESILIENCY	To what extent is this part of the value chain prepared to respond to extreme water-related events?	No insights into the preparedness of suppliers	Some suppliers report having plans but not insights beyond this	Most suppliers report having plans but not insights beyond this	All suppliers have prepared responses and update every 2-3 years	All suppliers have prepared responses and update these annually
INFLUENCE/ OWNERSHIP	CONTROL OWNERSHIP	What degree of control does the corporate have with respect to initiating or implementing water stewardship actions in this part of the value chain?	High degree of control	Some control but could be strengthened	Some control but difficult to strengthen	Limited formal control	No formal control
	LEVEL OF INFLUENCE	To what extent could the corporate positively influencing water stewardship in this part of the value chain?	Already influencing	Significant potential to influence	Some ability in influence	Limited ability to influence	Little or no role for influencing