Sustainability as Business Strategy

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Tensie Whelan joined New York University Stern School of Business in November 2015 as Clinical Professor of Business and Society. She will lead the School's efforts around issues of business and sustainability, driving research and coursework on natural resource-based challenges including climate change, water scarcity, biodiversity loss, poverty and unsustainable development. Professor Whelan was formerly the President of the Rainforest Alliance, where she worked since 2000. In 2014, she was appointed as the School's 2014-2015 Citi Leadership and Ethics Distinguished Fellow. She has been working in the environmental field for more than 25 years. Her published works include one of the first books on ecofriendly tourism, Nature Tourism: Managing for the Environment. She has been recognized as one of the "100 Most Influential People in Business Ethics" by Ethisphere.

環境問題解決に 25 年以上携わる、ニューヨーク大学ウェーラン教授に、企業での事業戦略としてのサステイナビリティの重要性、事業活動への取り込みについてお話を伺いました。

Q1. We have seen the adoption of the SDGs by UN and an increase in ESG investment. The importance of sustainability in corporate management has been increasing. From a global viewpoint, societies and corporations seemed to have changed their attitude towards sustainability. How have corporations been changing themselves in terms of their efforts for sustainability and what is the driver for that change?

We have seen an evolution in corporations. Before they were addressing environmental and social and governance issues strictly from a compliance base, in other words, aligning with the law. Then they moved towards thinking that perhaps there would be some opportunity in a niche market and sought to provide special services or products.

Over time, they began to see that there were risks associated with changing social and environmental issues. If there are environmental issues in the supply chain, such as climate change affecting coffee production or civil war affecting cocoa production, a company needs to manage those risks. The environmental and social risks are much bigger for a global corporation than they ever were before. Corporations have begun to pay attention to managing such risks and they have begun to mainstream sustainability, that is, environmental, social and governance issues, into their companies and into their supply chains.

We have begun to see that sustainability can be a driver of innovation, new products, services and competitive advantage. I think many companies have recognized that embedding sustainability into their core business strategy, as opposed to just playing defense, helps them become a better managed, more nimble company that can compete better.

Q2. CSR (Corporate Social Responsibility) is a very familiar concept of sustainability. What is the difference between CSR and today's sustainability management?

From my perspective, traditional CSR was mainly about corporate philanthropy, employee relations and community relations. It was not core to the company's business but was rather something on the side. It was not "How do I conduct my business in a way that is sustainable?" but rather "How do I help to offset some of my impacts or how do I get the community or the employees on my side with philanthropic dollars or by engagement programs?" It was not about changing their business.

Today, CSR for some companies has evolved into the broader embedded sustainability concept, which is more positive and embedded in corporate strategy.

ESG investing is another relatively new phenomenon in the field of sustainable business. There has been an evolution here as well because we started with socially responsible investing, which was mainly a negative screen, wherein an investor would state, for example, “I am not going to invest in companies that are involved with tobacco or weapons.”

That sort of socially responsible investing evolved into ESG investing, which may include negative screens but is more focused on positive performance. ESG investing can include all industries (generally in public markets), but focuses on those companies in a given industry that have the strongest environmental, social and governance performance. Many studies are funding a correlation between strong ESG performance on material factors and strong financial performance. Then there is impact investing, which is primarily focused on societal and environmental impacts, often invests directly in social enterprises, and is often willing to take lower financial returns in the ESG returns are high. An example would be investing in a company that is developing low cost, high conservation irrigation equipment for small farmers in Africa.

Q3. External requirements such as SDGs and ESG investment are key elements in efforts for sustainability. When top executives understand that sustainability management brings positive effects to their business performance, their corporate behavior changes significantly. You have done extensive research on this issue so could you please explain how corporate activities on sustainability could be profitable?

We have found that when you really embed sustainability core to your business strategy, you drive innovation, employee engagement, risk reduction, operational efficiency, supplier and customer loyalty, better media coverage, reputational benefits and so on. All of those things can then be monetized and translated to positive financial impact. An example would be Nike embedding sustainability into their design and innovation process. When they did that, they created the Flyknit sneaker which reduces waste by 80%. It is a 15% lighter shoe for athletes that offers higher performance and is now a $1 plus billion business.

Many companies benefit from operational efficiencies when they, for example, make commitments to climate change reduction. As they change their services and their products, they reduce their energy cost. When companies make commitments to reduce water use, they reduce the cost of water, the processing of the waste water and the energy used to move the water around and heat or cool it. One change results in a whole series of positive financial benefits, so sustainability does drive better performance.

Q4. How many executives do you think understand that the mechanism of sustainability management brings a positive effect to performance as you explained?

Most Fortune 500 companies, perhaps around two-thirds of them, now have sustainability and CSR reports, which means that they are putting in place at least some sustainability programs. If you look at the fact that more and more investors are requiring disclosure around ESG performance, I would say that most companies are beginning to recognize this is something they have to do and they are becoming more serious about tracking the impact of ESG performance. They are beginning to see the positive financial correlation. They may not think it exists until they start implementing the programs, but once they implement them, they generally become more proactive because they see that it does have a positive impact on performance.

Concern about reputational risk is also driving the uptake of sustainability. Social media drives transparency into a company’s operations and supply chain, making it possible for people all over the world to observe and share negative environmental or social problems.

Still, company executives need to see that successful sustainability programs engage different stakeholders and help the company with cost management, innovation, and employee management. As they start to view the positive benefits, they begin to take broader action.

Q5. Even if top executives understand the importance of sustainability, I suppose it is not unusual that many business units are very slow to act for sustainability.

That is true and I believe there are a number of things that companies can do to accelerate adoption. First would be setting overall targets for the company. If the CEO makes a commitment to greenhouse gas emission reduction target, for example, he or she sets that target for the company and then every business unit should be required to demonstrate how it is helping to meet those targets. The goals should be tied to employee performance evaluations and there also should be incentives and bonuses tied to meeting ESG targets.

So, companies should set public targets, incentives to employees tied to targets, reporting and assessment on those targets and training for employees in sustainability. They can also bring in partners, such as NGOs, other corporations, corporate associations, and government agencies that are working on the issues that are important to them so that their employees can get exposure to different ideas and assistance with implementation.

Another idea is to approach the investments needed as a portfolio. There will need to be some upfront investments but there will be savings as well, depending on the unit. A cost in Unit A might not be completely covered by the savings in Unit A but a cost in Unit B might have savings that are double what Unit B invests. The CEO could say, “We’re going to look at this across the company and invest a certain amount of money, but we also are going to look at the benefits and costs across the entire company, so that we can make investments that are needed when they do not always result in immediate savings.”

For example, the manufacturing unit might want to invest money in energy-saving technology. Suppose the investment is $1 million and the return is $1.5 million. Meanwhile, the operations unit wants to spend money on retrofitting all of the buildings and real estate, yet the cost will be $1 million while the return will only be $500K. Thus, the operations unit may not be allowed to spend that money, but if the management has said, “We are going to look at this across the entire company,” then the savings from manufacturing can be applied to helping the improvements needed in buildings and real estate.

Q6. Deeper dialogue with a wider range of stakeholders seems to be important for pursuing sustainability management. In order to incorporate sustainability to corporate strategies, what is needed and important for corporate dialogue with stakeholders such as shareholders, customers and employees?

Stakeholder engagement is critical. The place to start is by mapping the different stakeholders–how the company impacts the stakeholder and how the stakeholder impacts the company–and assess the importance of each group and their interests.

For example, who are the NGOs, the community organizations, the international NGOs and the social NGOs that are interested in what the company is doing? Which are the ones with the biggest impact on the company and which are the ones upon whom the company has a big impact and what are they going to care about?

Then you would look at employees. You would say “What are the different types of employees?” The company might have factory workers, office workers, women, and young people coming into the workforce for the first time. What are the different issues and concerns for them?

Next, look at the different types of governments and suppliers and their key issues. There may be suppliers in the middle of the chain that very different interests than the producers at origin.

Also, you will want to map what the company itself believes are the key ESG issues from its perspective. With this information, you can develop a materiality matrix. A materiality matrix includes the key ESG issues for a company mapped by their importance to stakeholders and to the company itself. Some things that are very important to the stakeholders may not be very important to the business. The business needs to determine how to manage those issues because if they do not, it might blow up on them.

One example could be figuring out that a community might care very much about a factory using water because they do not have very much water in their region and the company's factory is using a large amount of water. Initially, the company might think that is not an issue they have to care about. Actually, however, they do have to care because if there is a problem they could lose their license to operate in the community. They need to figure out how to proactively manage water availability for the community.

Stakeholder engagement is a great deal of work but the smart companies are doing it. You have to allocate employees to spend time on it, to understand it, and to learn how to be trustworthy partners. This is important to building trust with the stakeholders. Again, in today's transparent world where everybody knows what you are doing and every stakeholder has an opinion, if you do not do it, you are going to get into trouble sooner or later. It is probably better to invest upfront than having to invest later in a crisis. Unilever does this very well as they engage with stakeholders in their food business to conduct procurement through sustainable agriculture programs.

CSR or corporate communications might be involved in building trust with stakeholders but it depends on what the CSR department is. Is it the PR department or actually a programmatic department? In some cases, the sustainability department will work with the different business units to help them do that mapping, make those connections and understand what the different stakeholders are doing. But sustainability departments are generally small while the business units are large. Therefore stakeholder engagement should be part of broader corporate strategy and spread across different business units.

Q7. What do you think are the most important issues for sustainability management in the future like GHG emissions? Or are they very different from company to company?

It depends on the company. There are two places at which to look, the GRI, Global Reporting Initiative, and SASB, the Sustainability Accounting Standards Board. Both of them have assessed the material ESG issues by sector. A company can start there and look at what they have to say and map with its stakeholders which include its employees and leadership, shareholders as well as all the other stakeholders and which of those issues that SASB or GRI has identified are the most relevant for them. I think the most important thing for a company to understand, however, is that they should focus on the ones that are material to their business and not try to do a hundred things.

As we talked about earlier, they should focus on those areas where they really have a big impact. If they do that, I think that they will be able to make improvements.

Q8. Do you have any advice for Japanese companies that would like to strengthen their sustainability management?

Japanese companies have long been held responsible for societal impact especially for employees and to the community. I think the environmental side of societal impact is newer for them.

I worked with a number of Japanese companies when I ran Rainforest Alliance. I am familiar with some of the issues and I would say the environmental side is newer to most Japanese companies. I believe that is an area where they really will want to invest in understanding their impacts and managing them.

Another challenge for Japanese companies is the transparency that is required today by social media. They need to learn how to be more open in their performance and open in how they are managing important issues and making public their commitment targets. This is very important to help move the company forward.

Providing the right incentives internally to the company as well as finding the right stakeholder partners will help. Partnering with NGOs is something that Japanese companies have begun to do and I think that would be an area that will also be useful.

Japanese companies that embrace sustainability as core to business strategy are likely to see it become a source of competitive advantage, innovation and employee engagement.