

WHY TO COMMENCE THE SUSTAINABILITY JOURNEY?

Research Paper

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Abstract

In the last twenty years, sustainability journey has faced various challenges and went through multiple changes. In the beginning, the companies' focal point of sustainability was on not doing any harm to the environment and communities they were working in. However, nowadays companies are more aware of the importance of making significant, sometimes even radical changes in order to achieve more than just a few of the benefits that sustainability journey has to offer. The purpose of this paper is to demystify most of the concepts behind the current sustainability state, as well as putting together some of the major levers of increasing enterprise value. In addition, this paper elucidates how companies benefit their stakeholders by implementing sustainable business strategies.

Keywords: Sustainability journey, value creation, sustainability leaders, strategy

1 Introduction

The imminence of climate change and its affects are visible more than ever. The change, manifesting in historically high temperatures, drought, melting ice, floods, and other natural disasters, is here and it has probably come faster than we ever imagined. In addition, other unprecedented crises are reshaping our world. We are grappling with COVID-19 pandemic aftermath as we are confronting climate change amidst escalating geopolitical tensions and a humanitarian crisis stemming from the war in Ukraine and even beyond. Political, economic, social, legal and environmental considerations are thus forcing business to redesign their business models considering trends related to changing landscapes and climates, new economic models as a result of digitalization, rise of crypto, green economy and the likes, investor focus on sustainability credentials and new financial instruments, such as green bonds, the challenges brought to us by globalized value chains, competition for talent, the emerging importance of diversity and inclusion, consumer expectations and pressures, governmental support to net zero transition and increasingly complex regulatory requirements, just to name a few.

There are more than 2,860 climate-related laws and policies in force around the world and 193 Paris Agreement signatories (LSE, 2022). It is not only the regulators and policy makers who are affecting the business environment. There are consumers who increasingly choose sustainable products and brands, more than 43% of consumers are choosing brands due to their environmental values (Deloitte, 2021). Investors on the other hand are deploying capital for positive impact, 71% of executives are feeling pressure to take action on climate change by shareholders and investors (Deloitte, 2021). Civil society and youth are demanding climate action as well as employees who, in an increasingly competitive market, want to work for more environmentally responsible company. More than 50% of workers and more than 75% of millennial workers would take a pay cut to work at an environmentally responsible company (Peters, 2019). All of these market factors translate into very specific impacts that will require every business to comply with the regulation but more importantly to go beyond compliance.

2 Sustainability journey

At the beginning, 10 to 20 years ago companies who started their sustainability journey were just the companies who slowly started considering sustainability in their business but their soon understood the importance of sustainability and now they are companies who fully integrate and exploit sustainability into their business strategies. So, most of the companies who today understand the importance of sustainability will accelerate their business transformation in order to be competitive on the market tomorrow and be among the sustainability leaders.

Even though some companies are still struggling to see the benefit of embedding sustainability into business strategies and operations, the market leaders who started some years ago are already seeing their first results. There are six different levers how sustainability drives enterprise value (Deloitte):

- Brand and reputation: 78% of consumers are more likely to remember companies that exhibit a strong purpose (Porter Novelli, 2021) and brands with strong purpose were six times more likely to be protected in the face of negative publicity (Zeno Group, 2020).
- Sales and innovation: 53% of surveyed CxOs reported new revenue streams from socially conscious offerings (Deloitte, 2019) while sustainability-marketed products saw 39.5% price premium compared with conventionally marketed products (NYU Stern, 2020).
- Capital access and market valuation: High-purpose brands could double their market value 4 times faster (Milano, Tomlinson, Whately and Yiğit, 2020) and companies that met stakeholder expectations achieve a 6.4% higher return on equity (Cortina, 2019).
- Operational efficiency: 64% of companies with product sustainability programs achieved lower logistics and supply chain costs (Pure Strategies, 2014) and a 10% improvement in employees' connection with the organization's mission or purpose was associated with 12.7% decrease in safety incidents, 8.1% decrease in turnover and 4.4% profitability increase (Dvorak, 2017).
- Talent: 78% of people indicated that they would prefer to work for a purpose-driven company (Peters, 2019). 44% of the leading organisations believe that their current environmental sustainability efforts have or will have a positive impact on employee recruitment and retention (Deloitte, 2022).
- Risk mitigation: 15% of companies would be unprofitable if accounting for the environmental damage they caused and 32% would have their EBITDA reduced by 25% or more (Cohen and Serafeim, 2020). A negative trust-related event eroded three companies' market cap by 20-56%, a combined loss in value of \$70 billion (Cherny and Sadagopan, 2020).

Now more than ever, companies are beginning to embrace purpose in a way that delivers long-term value for the company, its stakeholders, and society. There is already enough evidence on the market on the value a purpose strategy can bring and what it can mean to the business. There is no question about the cost and investment needed in the beginning of the sustainability journey, but as presented there will also be savings and growth opportunities which will arise from mitigating climate change, and they will override the costs in the long run.

The crucial step for companies' sustainability success and gaining competitive advantage on the market is creating value for all their stakeholder. They create value through:

- delivering value to their customers by meeting or exceeding customer expectations,
- investing in their employees by compensating them fairly and providing benefits, supporting them through training and education and by fostering diversity and inclusion, dignity and respect,
- dealing fairly and ethically with their suppliers,
- supporting the communities, they are working in by respecting people in their communities and protecting the environment by embracing practices across their business and
- generating long-term value for shareholders (who provide the capital that allows them to invest, grow and innovate) through transparency and effective engagement with shareholders (University of Virginia Darden School of Business, 2019).

Collaboration among stakeholders is important because no one organization can do it alone. The journey to becoming sustainability leader takes time and a lot of investment upfront, which can be tough if the company necessarily see the benefit right away. It can also be a struggle to get started on this work, especially if companies start comparing to what other companies and countries are or aren't doing. Additionally, there is also the fear of failure that holds companies back when they just need to dive in and get the journey started.

Most of the companies nowadays are starting their sustainability journey with minimum compliance and reporting, but the first major step is integrating sustainability into the core business strategy. Those companies usually have business strategy and sustainability initiatives who are mainly focused on not doing any harm. If there is existing sustainability strategy it usually complements the business strategy, but they are separate. The next step, in term of strategy, is merging sustainability and business strategy and establish recognition of sustainability as a possible growth driver. This means strategies are aligned and sustainability strategy reinforces and supports the business strategy. The future for those companies is only one strategy – sustainable business strategy, meaning sustainability strategy and business strategy are going to be integrated. This means that embedding sustainability into a business strategy affects the entire the entire C-suite. Transforming the company to become (more) sustainable involves all key functions in a company. It becomes a complex and strategic transformation with many tough decisions. This argues that the decision makers must have a long view, see market opportunities, handle risks, and transform with confidence.

Sustainability leaders already use their sustainable business strategy as a licence to operate and win the market. Their business model (products and services) is geared toward generating economic, social, and environmental value. Their trade-offs are minimised, and core business functions and resources are focused on the same strategic priorities. Even though those companies are making progress in term of sustainability; 53% already have sustainability officers, 67% plan to be net-zero by 2030 or before and 55% are reducing air travel, it's not going to be sufficient because they haven't taken more than one out of five identified 'needle-moving' actions (Deloitte, 2022):

- Developing new climate-friendly products or services,
- Requiring suppliers and business partners to meet specific sustainability criteria,
- Updating/relocating facilities to make them more resistant to climate impacts,
- Incorporating climate considerations into lobbying/political donations or
- Tying senior leaders' compensation to sustainability performance.

3 Conclusion

More and more executives are aware of climate change and its effect on the business. According to the latest Deloitte CxOs (2022) Sustainability Report, with more than 2,000 C-level executives, 89% of them agreed there is a climate crisis and 79% see the world at a tipping point for responding to climate change, compared to 59% in the beginning of 2022. Most of the companies already felt the impact of climate change, including operational and supply chain disruption (especially during the pandemic), regulatory uncertainty, and increased employee anxiety. Companies are waking up and starting they sustainability journey towards better future for all of us. It is time for all companies to join responding to climate change because unchecked climate change could create US\$ 178 trillion in global economic losses (in present terms) between now and 2070 (Philip, Ibrahim and Hodges, 2022).

Climate change is here, we are seeing and feeling its aftereffects everyday and it is about time for companies to start acting and embedding sustainability into their strategies and day-to-day operations in order to survive on the market as well as to gain the competitive advantage in early stages. It is time for companies to move from 'why?' not to 'how?' but to 'how fast?' when it comes to sustainability actions.

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