

People, planet and profits

How sustainability boosts performance and attracts talent



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Not just greenwashing

Today, businesses with a sustainable footprint enjoy a competitive advantage, but this advantage comes from a level commitment that goes way beyond a marketing campaign. Discerning consumers and employees see right through corporate greenwashing, and companies attempting to tackle the issue entirely through marketing reap little long-term return on their efforts.

There are many examples where real sustainability efforts – planned, implemented and monitored – lower capital costs, reduce waste, engage and unite employees and raise investor confidence.

In a recent survey, Odgers Berndtson interviewed 40 APAC leaders of MNCs to understand their sustainability practices, insights and attitudes. We wanted to find out if there is clear impact on business results.

Four themes emerged:

- 1 The business case for sustainability is a good one**
The data shows that the financial bottom line is better in companies with sustainable practices.
- 2 It's not just a Western thing**
There is huge relevance in Asia.
- 3 Returns are directly linked to employee engagement**
Today, employees look for meaning in their career. Sustainable practices have a real impact on engagement.
- 4 It attracts talent**
Directly linked to engaging employees is engaging with potential employees.

The bottom line is that for many businesses, a commitment to sustainable practices has a direct link to long term financial performance. Beyond this though, there is a much greater awareness of environmental issues amongst the general population, which translates to customers and employees. Can any business afford to ignore this?

‘Corporate social responsibility is a hard-edged business decision. Not because it is a nice thing to do or because people are forcing us to do it ... because it is good for our business.’

– Former CEO of Unilever

Sustainability: the business case

‘In the next decade, the most successful companies will be those that integrate sustainability into their core business.’

- Caterpillar CEO

In June 2017, the CEOs of twenty Fortune 500 companies, including Shell, Apple, Google and Intel, demonstrated how seriously they take sustainability when they urged the US government not to leave the Paris Climate Accord.

The Paris Accord, they said, is ‘a blueprint for job creation, stability and global prosperity ... to create jobs, spur innovation, promote trade and ensure American competitiveness.’¹ These companies practise what they preach, publishing their corporate social responsibility targets and progress annually.

HARD EVIDENCE

According to research, companies that actively manage and plan for climate change secure an 18% higher return on investment than companies that don’t – and 67% higher than companies which refuse to disclose their emissions.²

In addition, research shows companies that invest in carbon reductions achieve a 50% lower volatility of earnings and 21% stronger dividends than those which do not.³

The research that backs up these figures was published three years ago; since then, results have been corroborated and evidence strengthened that ‘high-sustainability’ companies exhibit better financial performance than their peers.⁴

INVESTORS CONCUR

Investors are increasingly alive to issues of sustainability and responsibility, and view firms that are committed to sustainability as less risky investments, due to lowered capital costs.⁵ Sixty per cent of investment firm board members say they are willing to divest from companies with a poor sustainability footprint;⁶ 93 per cent of millennials regard environmental and social impact as central to their investment decisions.⁷ Sustainability is resource efficiency – and this makes business sense.

The APAC CEO of a packaging company notes that he has documented a clear business case for tackling waste: ‘For engineering plastics, we can prove that the margins we make from sustainable development-related products and services are several percentage points higher than [margins from] average sales.’

‘The environment is your stakeholder: taking care of it is the right thing to do, but it’s also a great way to earn more profits.’

- Regional Marketing Director, industrial conglomerate

Relevance for APAC

The business case for pursuing sustainability strategies is as strong in Asia Pacific as anywhere else. Research shows that Asian companies could unlock new market opportunities worth US\$5 trillion and create 230 million jobs by 2030, simply by pursuing strategies in line with the United Nations' Sustainable Development Goals (SDGs).¹²

Population density alone is cause for action; governments cannot tackle massive cities, expanding landfills, rising pollution, depleted oceans and water supply challenges on their own, and businesses have, in many cases, rallied.

IT COMES FROM WITHIN

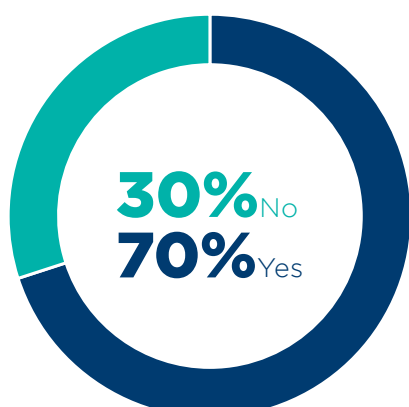
Sustainability needs to be willingly undertaken to work well. In Indonesia, where certain CSR practices were made mandatory in 2007, businesses tended to see only an added cost burden, and cooperation with legislation was minimal.¹³ Prevailing opinions have shifted since then; companies that voluntarily push a sustainability agenda are popular with consumers, shareholders and employees and enjoy a far more positive press than those who don't, attracting top talent. Keppel Land and StarHub, both Singapore based, were recently voted amongst the top 25 companies globally for sustainability.¹⁴

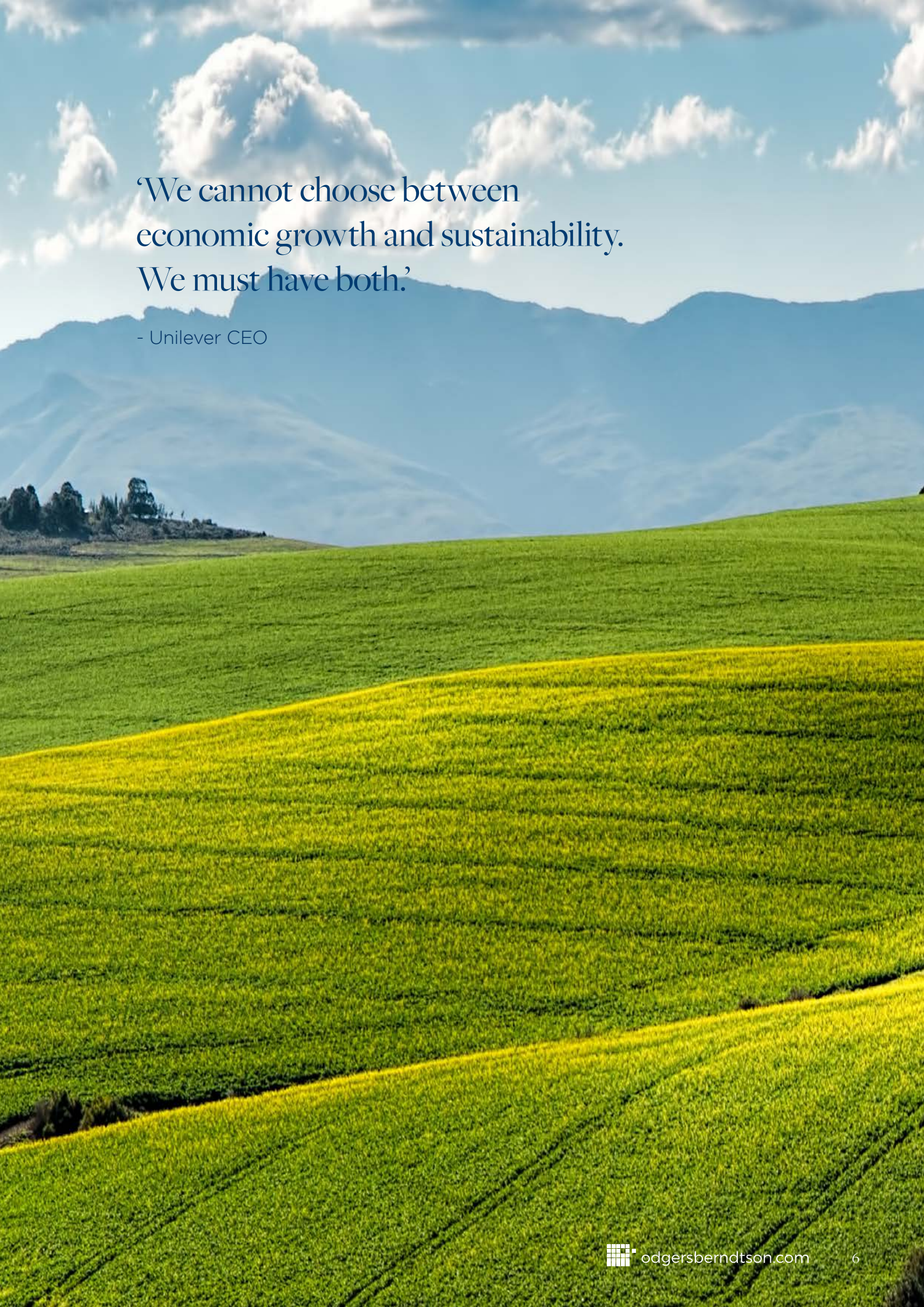
Tackling sustainability can be challenging in growing markets, especially in the face of a patchwork of different regulatory and market standards. At the same time, the region's changing demographics and markets present a great opportunity for sustainably-minded businesses. APAC residents increasingly want to live in 'green cities',¹⁵ and this is driving companies in the infrastructure, construction, recycling and energy sectors, among others, to develop greener solutions.

'Saving water and electricity should be a no-brainer, but many corporate leaders have yet to capture the full potential for their companies.'

- APAC sustainability leader, industrial conglomerate

GRAPH: Can companies compete internationally while focusing on sustainability?





‘We cannot choose between
economic growth and sustainability.
We must have both.’

- Unilever CEO

Level of engagement

Level of engagement determines the benefits a company will reap. When commitment is fleeting or inconsistent, the potential longer-term benefits of efforts will not be realised, and sentiments like these will ring true:

‘CSR is 90% nonsense.’

- APAC CEO, chemical company

That is the case when sustainability efforts are marketing driven and not deeply rooted in company values and actions.

MAKING IT COUNT

To get beyond surface-level, greenwash CSR initiatives and to embed sustainability in the DNA, companies need to institutionalise their efforts. They cannot be the work of the lone crusader or of a single department, and if they start out this way, they need eventually to seep into every aspect of business culture until sustainability becomes the standard.

Where do companies start? About sixty per cent of respondents in our survey hire a sustainability expert or assign the responsibility to a CSR team, whose sole focus is to oversee the implementation of sustainability practices at every level. Forty per cent leave it to top management – which invariably means it drops off the radar – or have no sustainability initiatives in place.

GRAPH: Who is responsible for sustainability initiatives in your company?



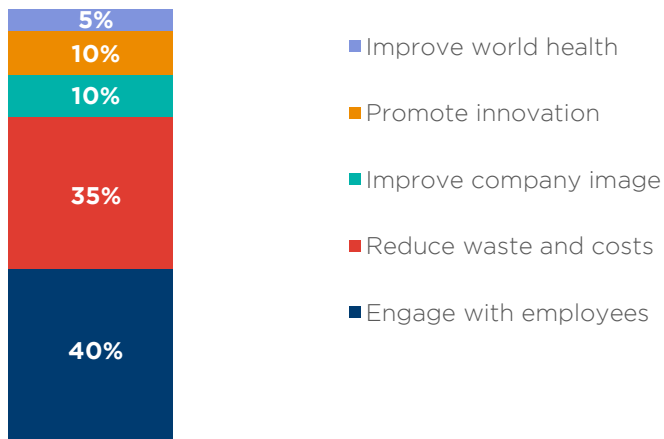
HERE FOR THE LONG HAUL

‘We cannot choose between economic growth and sustainability. We must have both.’

- Unilever CEO

Some companies have gone far further than others in implementing environmental best practice. Unilever has long promoted initiatives for environmental sustainability and has been willing to sacrifice short-term profits for longer-term gains.⁸ This recently reaped rewards when Unilever and its CEO Paul Polman received positive press coverage for fighting off 3G's takeover bid and remaining committed to efforts for a more sustainable future. The positive feedback should be a clear signal to other global companies that a commitment to sustainability is in their self-interest.

GRAPH: What is the biggest reason to focus on sustainability?



MAKING IT PERSONAL

Some companies – notably AkzoNobel,⁹ Siemens and Nestle – link managers' remuneration to the achievement of sustainability KPIs. Back in 2008, Intel went a step further and linked every employee's pay to the company's environmental performance. The strategy paid off: 'By 2012, Intel's greenhouse gas emissions were down 35% on an absolute basis ... its energy reductions were up and its operations were growing.'¹⁰

So far only two per cent of companies in the S&P 500 have tied executive compensation to environmental metrics; a quarter of these were in the energy industry.¹¹ It is not easy to commit to the level where it may hurt, but when combined with a broad, deep, company-wide commitment, it can be tremendously motivating.

Sustainability's pulling power

'I do not want to move my current job to a new company that has no sustainability agenda.'

- APAC Sales Director, industrial components company.

Companies that have well-publicised and benchmarked sustainability goals are more attractive to everyone; business partners, suppliers, customers and, of course, top talent.

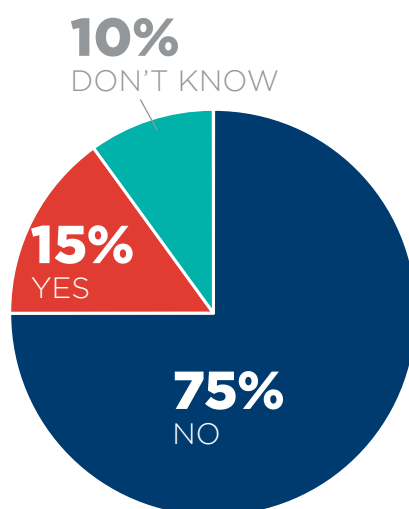
Attitudes are rapidly changing and people of all ages – not only the young – increasingly see themselves as citizens of a highly connected world, where consumer decisions are linked to business ethics. Company practices are easily made public, and top candidates naturally prefer to work for companies that enjoy popularity and respect.

IT'S ABOUT CONNECTION

Employees are not ready to abandon well-paying jobs for a higher sustainability focus. Sustainability's pull is more subtle; companies whose social responsibility efforts are sincere and well communicated inspire loyalty, which improves staff retention.

That goes for all employees. A CEO said, 'We thought it would be our younger generation that would be interested in sustainability, but we were wrong. The best example was an older factory worker who supported our efforts to have zero impact on the environment. He was concerned about his children and grandchildren, and the effect pollution might have on his next of kin.'

GRAPH: Would you accept a lower salary to move to a new company pursuing a more robust sustainability agenda?



BETTER ENGAGEMENT

Poor sustainability might not drive employees out, but good sustainability will attract and retain talent. Companies that are actively making an effort in this area increased from 30 per cent in 2012 to 40 per cent in 2014.¹⁶ The effect on employees can be dramatic; a CEO observed that once employees start participating in company sustainability and CSR initiatives, their overall engagement rises notably.¹⁷

Unilever achieves an employee engagement score of around 80 per cent, which it attributes in part to its sustainable business model.¹⁸ Compare this to a recent worldwide Gallup poll showing employee engagement levels of a mere 13 per cent.¹⁹ It comes down to a whole-company approach, well-communicated and incentivised for all staff.

‘Changing times require changing your talent recruitment model.’

- APAC CEO, top-ranked company on sustainability

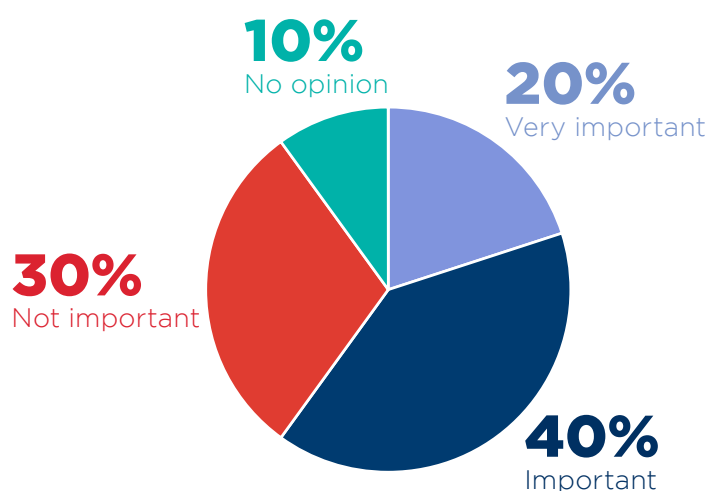
A DIFFERENTIATOR FOR RECRUITMENT

When other elements of an offer package are competitive, potential employees will consider a company’s record of doing good.

An APAC HR Director from a multi-national chemicals firm with a high sustainability record said, ‘We are not a household name like Unilever or P&G. We have to work hard to sell our company in the market, and we compete for the same talent, whether straight from university or mid to senior-level. Having a strong ranking on sustainability gives us an edge in recruitment that we would not otherwise have.’

Companies that pursue and communicate a clear sustainability agenda reap benefits. As many as sixty per cent of employees in our survey considered environmental practices as influential in their current or future employment decision-making.

GRAPH: How important is it that your current (or next) company is focused on sustainability initiatives?





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Sustainability – it's what forward-thinking companies do

It's a buzz word, but it is arguably one of the most pressing issues facing governments and businesses today; how to turn business into a genuine force for good, where every business is challenged to become, in effect, an environmental business. Doing more with less, designing out waste, and de-carbonising the energy supply are not aspects that can be tacked on as afterthoughts to a company's core business. It is part of who a company is.

IT'S BUSINESS SENSE

The interest is there, but switching from awareness to action, particularly for a complex system like a large multinational, is not easy. Companies struggle with it, some still stuck in the mindset that 'environment is cost'. The opposite has, in fact, been the case for the early adopters; reducing environmental waste has yielded huge financial gains. Toyota has saved an average \$42 million a year since it began benchmarking energy and waste management.²⁰ All those who lead the charge in sustainability have come to the powerful realisation that economic and environmental issues are inextricably linked.

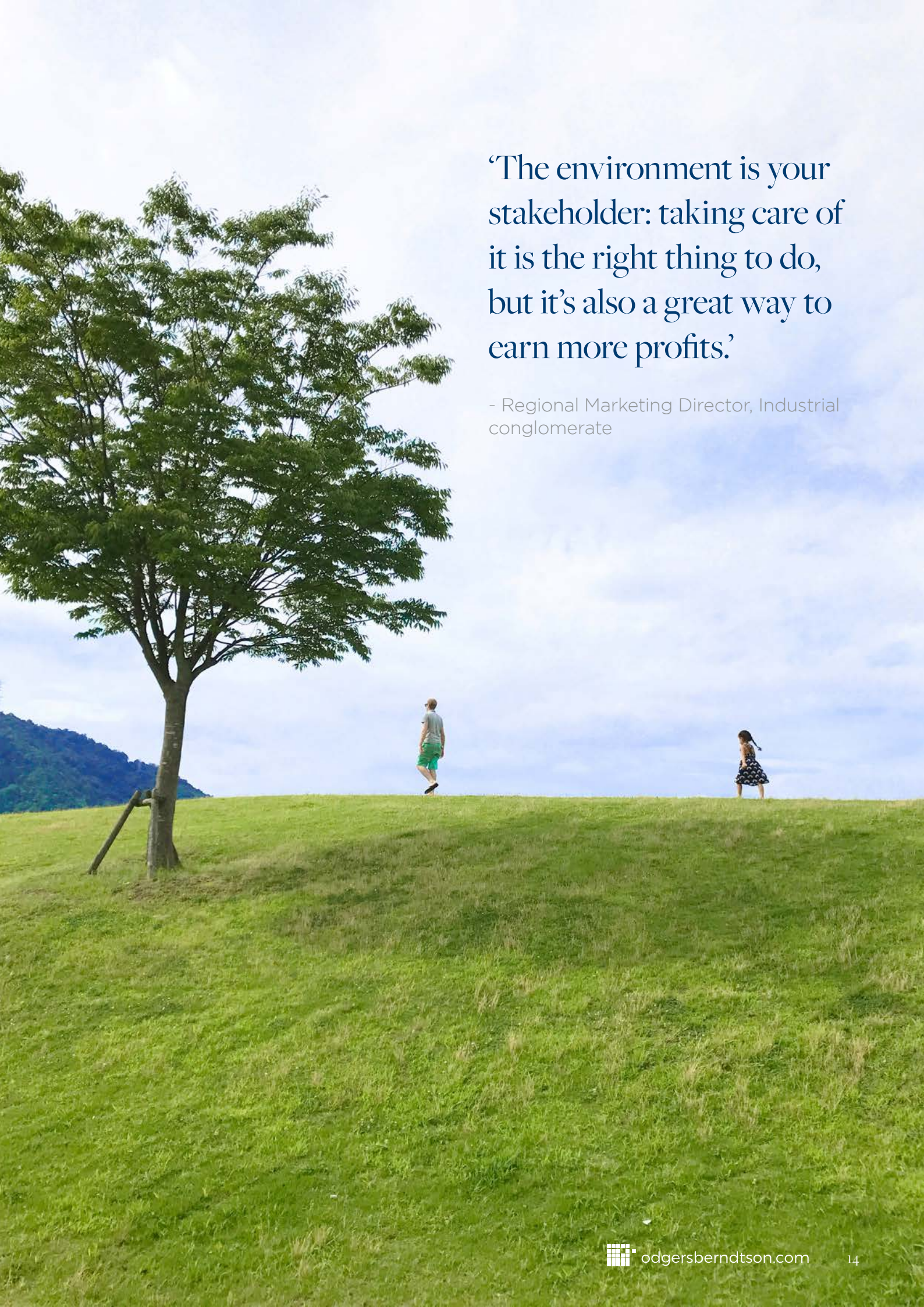
IT ATTRACTS TOP TALENT

A strong sustainability focus also sets a company apart as an ethical employer and one that attracts top talent. Employees are looking for a strong connection with the company which they will represent in the world. Those which communicate a strong environmental message have a better engagement record and higher levels of retention; they attract ethical and global-minded candidates, and inspire loyalty and a sense of pride.

Ultimately, lean and green means making do with less, tighter controls, zero waste, enhanced reputation, boosted profits and a higher public profile. As governments wrestle with the issue and in some cases withdraw from addressing it at all, it is business that is stepping forward to lead the change.

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