February 2017

Laying the Groundwork for Brand Strength Through Sustainability

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Consumers play an active role in companies' success or failure. Armed with the internet and social media, consumers can use their voices and buying power to push a social agenda, demanding – through support for "good behavior" and denouncement of "bad behavior" – that companies behave in a manner that protects and sustains the long-term health and viability of the environment, communities, and employees who are its stakeholders.

Increasingly, consumers expect businesses to be responsible global citizens. Edelman's global Earned Brand 2016 study found that 62 percent of customers would not buy a brand if it fails to meet societal obligations.[1] Moreover, the number one driver of distrust in business is failure to contribute to the greater good, according to the 2016 Edelman Trust Barometer.[2]

Companies are beginning to respond to consumer pressure by incorporating sustainability into their core business operations, and many are finding that this shift has a direct and positive effect on the bottom line.[3] Those that can successfully navigate the challenges of doing business sustainably – considering all stakeholders, prioritizing the right areas, managing risks, bringing along suppliers and partners, and communicating their efforts effectively – will emerge as leaders.

Companies Rewarded for Concrete Action

Historically, consumer product companies and their supply chains have been linked to a host of unsustainable and socially irresponsible issues and practices: human rights abuses and poor working conditions, deforestation, animal product testing and animal cruelty, excessive packaging and waste, unsustainable sourcing of raw materials, harmful drilling practices, emissions rigging, conflict minerals, and many more.

In the past, some companies tried to burnish their sustainability credentials through marketing-based "greenwashing," in which a company presents an environmentally friendly image but does not make meaningful changes to its business practices. However, today, consumer awareness and activism have pushed a number of organizations to make corporate social responsibility (CSR) a central business concern.

Trends in some sectors already reflect this shift. In the food industry, for example, the organic market is growing three times as fast as the conventional food market, driven by consumer demand for organics.[4] In recent years, a few big-name fast-food, fast-casual, and casual dining establishments have announced intentions to transition to cage-free eggs in response to consumer concerns about the way their food is sourced.[5] And, motivated by more and more consumers buying green, automakers are investing in less-polluting vehicle models that rely on hybrid, electric, and fuel cell technology.[6]

These trends reinforce the idea that putting sustainability center stage can drive profits and position brands for long-term success. Furniture company IKEA has emerged as a leader in transforming its entire business around sustainability – and realizing substantial top-line growth in the process. IKEA's integrated strategy includes widespread use of renewable energy in stores (supported by a nearly 2 billion euro investment in solar panels and wind turbines) and a commitment to offer products that help customers reduce their environmental impact (e.g., energy-efficient lighting and responsibly sourced wood and cotton).[7]

With Strong Execution and Reporting, CSR Can Empower a Brand

Focused initiatives to address CSR and sustainability, and to accurately and robustly report on those initiatives and efforts, can enhance brand reputation and foster trust and loyalty. But putting sustainability front and center is not a simple matter. To be successful, companies need to understand the material issues as perceived by the various stakeholders to the business, including customers, employees, shareholders, nongovernmental organizations, and journalists.

Several groups – crossing not-for-profit organizations, governments, and industries – have developed frameworks that can help companies identify and report on the material sustainability issues that are relevant to their business. These frameworks, described briefly here, provide objective protocols that can help companies take on sustainability and also justify priorities and spending decisions to stakeholders.

Regardless of the framework, reporting should include a consistent narrative that connects values, strategy, business model, and sustainability goals. Reporting also must be accurate, consistent, and transparent.

Global Reporting Initiative

The GRI reporting standards include disclosure requirements that guide companies' efforts in reporting on governance, stakeholder engagement, and ethics. Companies are asked to disclose how they manage sustainability issues and why these issues are important and to provide evidence of their approach's effectiveness.[8] These standards are meant for public and private companies alike, and they are applied widely around the globe.[9]

International Integrated Reporting Council

The IIRC's vision is to align capital allocation and corporate behavior to wider goals of financial stability and sustainable development through the cycle of integrated reporting and thinking. To that end, the IIRC created a reporting framework to help businesses produce reports that integrate financial and nonfinancial (e.g., sustainability) performance, with a focus on value creation. Like the GRI, the IIRC has an international scope.[10]

United Nations Sustainable Development Goals

The U.N. developed a set of 17 global goals covering a wide range of issues, from poverty and equality to the environment and climate change. Companies that want to demonstrate their focus on CSR issues can use this framework as a touchstone for how they are working to advance sustainability on the basis of each of these goals.[11]

B-Corporation Certification

Companies that elect to certify as B corporations with the not-for-profit organization B Lab are subjected to a rigorous impact assessment to validate their social and environmental performance. Once the business is granted B-corp status, its directors and officers are given legal protection to consider the interests of all stakeholders, rather than just shareholders, in making business decisions.[12] They agree to comply with and be held legally accountable to B-corp standards.

European Directive on Nonfinancial Reporting

According to a European Union directive, large public-interest EU entities (listed companies, banks, insurance providers, and other companies designated as such by member states) with more than 500 employees should include in their management reports disclosures of information on their policies, primary risks, and outcomes relating to, at a minimum, the environment, social and employee aspects, human rights, anticorruption and bribery, and diversity in their board of directors.[13]

SASB's Sustainability Accounting Initiative

The Sustainability Accounting Standards Board (SASB) set out to create standards to help U.S.-listed companies report more meaningfully on the sustainability issues that are important to investors. Looking at 79 different industries, the SASB has identified the material sustainability issues that should be disclosed, by industry, in annual Form 10-K documents required by the U.S. Securities and Exchange Commission.[14] The SASB's initiative also includes accounting metrics that explain company performance with respect to sustainability. Investor software tools, such as the Bloomberg terminal, increasingly include many of these metrics so that investors can compare companies directly on the basis of sustainability performance.

Full Integration Crucial

Sustainability should not be an isolated initiative confined to a single department. Rather, a sustainability strategy should be conducted across departments, taking into account the perspectives, experience, and background of people from across the enterprise. Moreover, companies need to coordinate their efforts with supply chain partners and industry standard-setting groups. Stakeholders want to be assured that the broader industry and business ecosystems – in addition to the company's operations – are sound.

A comprehensive risk assessment can help to cement the full integration of sustainability into a company's operations, and this type of assessment must incorporate the perspectives of people across all areas of the company. The risk assessment should begin by examining the risks that could affect business operations, the company's reputation, or the company's ability to sell. These risks could stem from thousands of issues and many stakeholders. A detailed assessment can help to isolate the different sources of risk, identify the likelihood of the various risks occurring, and anticipate the impact to stakeholders.

Conducting Business With a Sustainability Lens

Consumer-facing companies increasingly are being compelled by socially and environmentally conscious consumers to conduct business with a focus on sustainability. Companies cannot afford to lag behind their peers and competitors on sustainability, particularly as social media has made it easy for consumers to promote the brands that they are excited about – and spread the word about the ones that disappoint them. Focused initiatives and accurate and robust reporting on those efforts will strengthen brand reputation, foster trust, and drive long-term success.

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Text created in and current as of February 2017; Cover and artwork updated in May 2018.

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MD-17000-048A