

Greenwashing won't wash – the new sustainability imperative

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Executive summary

Our increasingly connected world has endured much in recent years — rapidly rising global temperatures leading to extreme weather events, rising income inequality, deepening geopolitical tensions and now a global crisis with a subsequent deep recession in the form of the COVID-19 pandemic. These events are linked in their systemic disruption of the status quo; they affect our health, environment, society and economies. They also are the catalysts for innovation — reconsidering what we thought to be fact and reshaping how we interact with our environments.

For business leaders around the world, a crucial lesson is emerging from these events: how to lead sustainably. How can an organization be led through today's volatility and not only survive, but thrive? The answer lies in reimagining the relationship between an organization and its purpose, relative to the environment in which it operates. These events increasingly remind us that business ecosystems are connected in complex ways that are not adequately addressed by current management paradigms in the long run.

Business leaders have long been skeptical of incorporating sustainability into their core strategy. Sustainability measurements have become mainstream, tucked away in annual reports over the last two decades, but in most cases they are not consistently translating into tangible

corporate action. Times have changed. Sustainability, in an environmental, social and financial sense, is now a management imperative, shifting corporate focus toward achieving tangible long-term viability alongside organizational ROI. Today's corporate consensus has shifted away from negatively associated justifications of resource use¹ to acknowledgment of the opportunities presented by sustainable management. We see this as the new sustainability imperative.

In this paper, we explore how investors, consumers, organizations and governments are driving the shift toward sustainability, describe the five pillars that comprise an effective sustainability strategy and how the Long Term Value Framework can guide the path to defining such winning sustainability strategy.

¹ Report of the World Commission on Environment and Development: Our Common Future, Brundtland Commission, Oxford University, 1987.

This global movement is driven by a unique coalition of a corporation's major stakeholders. Investors, consumers, industry peers and governments each are casting their own demands to cement sustainability as a non-negotiable strategic necessity for organizations to operate successfully in the future.

1. Investors

Capital markets are elevating the influence of performance against environmental, social and governance (ESG) metrics or shared value creation² in investment decisions, driven by a growing mountain of evidence that performance against these measures is indicative of an organization's creation of a long-term competitive and financial performance advantage.

Business leaders have long been skeptical of incorporating sustainability issues into their core strategy because the perception, until recently, has been that these initiatives would be incongruent with short-term profitability and thus would be punished by shareholders in generating "financial value." The evidence suggests that the opposite is now true. According to a recent EY survey, 90% of institutional investors would revise investments if companies do not at least reconsider the ESG criteria within their business model.³

FTSE Russell's 2018 survey estimates that over 50% of global asset managers have incorporated ESG issues into their investment strategies,⁴ while the EY

Global Institutional Investor Survey 2018 posts that 97% of investors formally or informally evaluate ESG issues.⁵ The degree to which executives historically underestimate the importance of sustainability in investor decisions is highlighted by a survey from Bank of America Merrill Lynch that revealed corporate managers estimated that 5% of their shares were owned by investment firms following "sustainable investment strategies," when approximately 25% of their shares are owned by such companies.⁶

In his now-famous letter to clients, BlackRock chief Larry Fink indicated that his firm, the world's largest investor, would place sustainability at the center of its investment approach and actively exit investments that indicate a high sustainability risk, such as coal-sourced energy.⁷ This is important to understand because the move clearly highlights a more unavoidable driver of investors seeking sustainable investments: systemic risk. A large portion of the world's invested capital is traded by large institutional investors, which must balance the factors affecting an individual firm's performance with the broader factors impacting their entire portfolio, such as climate change and transparency.

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When we emerge from this [COVID-19] crisis, and investors rebalance portfolios, we have an opportunity to accelerate into a more sustainable world.

Larry Fink
Chairman, BlackRock

² Michael E. Porter, George Serafeim and Mark Kramer, "Where ESG Fails," *Harvard Business School Institutional investor website*, 2019.

³ "Global Institutional Investor Survey 2018," EYGM Limited, 2018.

⁴ "Smart beta: 2018 global survey findings from asset owners," *FTSE Russell website*, 2019.

⁵ "Global Institutional Investor Survey 2018," EYGM Limited, 2018.

⁶ Robert G. Eccles and Svetlana Klimenko, "The Investor Revolution," *Harvard Business Review website*, 2019.

⁷ "A Fundamental Reshaping of Finance," *BlackRock website*, 2020.



Amid the current COVID-19 pandemic, BlackRock is doubling down on the importance of firms' long-term sustainability strategies. In Fink's words: "The pandemic we're experiencing now highlights the fragility of the globalized world and the value of sustainable portfolios. We've seen sustainable portfolios deliver stronger performance than traditional portfolios during this period. When we emerge from this crisis, and investors rebalance portfolios, we have an opportunity to accelerate into a more sustainable world."⁸ BlackRock and other major investors are now seeking to double their sustainable exchange-traded funds (ETF) offerings and further account for ESG risks in their portfolios and processes. We applaud this sentiment; though the short-term focus will be on managing through this crisis, remaining investors and firms will emerge with a new perspective about risk and managing with the long-term in mind.

2. Consumers

Especially in the millennial generation and younger, consumers now demand sustainable products and are willing to rethink their buying habits to incorporate environmental and social product benefits into their buying decisions. This means markets are changing and opening new opportunities for consumer value extraction.

Research shows revenue from sustainable products is growing at about six times the rate of other products⁹ and that 50% of consumers pay a higher price for products that have a positive social and environmental impact on the supply chain.¹⁰ By 2021 in the US, Nielsen estimates consumers will spend \$150 billion on sustainable products.¹¹ By 2025, EY finds consumers will consistently give preference to products or services that are less damaging to the environment, human health and society, when compared with other products.¹²

This trend is especially driven by younger generations, which are more connected to the idea that their futures will be significantly influenced by the impacts of climate change and the actions taken today to address them. About 50% of millennial and Generation Z consumers are willing to spend an increment of 10% or more on sustainable products compared with 34% of Generation X and 23% of baby boomers.¹³ These generations increasingly will challenge companies across industries to incorporate sustainability into their products to remain relevant.

What was previously a choice of convenience, if all other variables align, now increasingly is becoming a priority in purchasing decisions. This trend applies immediately to consumer products companies and will ripple through markets, affecting business-to-business companies as demand for sustainable products permeates the entire value chain.

⁸ "To our Shareholders," published shareholder letter of the BlackRock Chairman Larry Fink, *BlackRock website*, 2020.

⁹ *The Business Case for Corporate Investment in Sustainable Practices*, ICCR Institute, 2016.

¹⁰ "The Comprehensive Business Case for Sustainability," *Harvard Business Review*, 2017.

¹¹ "The Database: The Business of Sustainability," Nielsen, 2019.

¹² *Infinite possibilities: procurement in 2025*, Ernst & Young LLP, 2015.

¹³ Greg Petro, "Sustainable Retail: How Gen Z Is Leading the Pack," *Forbes website*, 2020.

3. Corporations

Driven by a clearer understanding of the financial potential locked away in sustainable opportunities and the internal employee demand to collectively pursue “purposeful” work, sustainability commitments from large companies have reached a critical mass and now are placing peer pressure on any CEOs that have yet to announce their commitment.

The sustainability imperative is driven, at its core, by one sweeping realization of the global business community: a firm's purpose beyond profit and its codependency on other firms, organizations and individuals in the ecosystems in which it operates represent significant forces in maintaining long-term profitability.

In addition to the other three drivers, this realization is also driven from the inside out. Now more than ever, employees demand that their work has purpose. We have all felt the difference a clear purpose can make in our motivation and the quality of our work. Clearly communicating the impact an organization is having beyond profit motivates the entire organization.

A revamped definition of “stakeholder capitalism” was the main theme at this year's World Economic Forum in Davos. Quoting from the Davos Manifesto 2020: *“A company is more than an economic unit generating wealth. It fulfils human and societal aspirations as part of the broader*

*social system. Performance must be measured not only on the return to shareholders, but also on how it achieves its environmental, social and good governance objectives.”*¹⁴ Albeit with some skeptics, 140 of the largest corporations in the world pledged support at the event to develop a common framework to standardize reporting of nonfinancial ESG factors.¹⁵

Over half of US businesses have responded to climate change by increasing their commitments to renewable energy. The United Nations Global Compact, an initiative seeking to drive responsible corporate behavior across the United Nations, has garnered commitments from more than 9,500 companies, including 28 companies with combined market cap of \$1.3 trillion announcing to step up to new level of climate ambition.¹⁶ This wave of announcements is cause enough for executives to reflect on the long-term purpose and impact of their own businesses. It also legitimizes the logic and value proposition behind the movement.

4. Governments

So far, corporate interest in sustainable management is being driven primarily by the upside it offers to investors, consumers and corporations themselves. However, government penalties for not complying with climate regulations already hurt companies across industries. Given what is at stake if further actions are

not taken, governments increasingly will bring certain aspects of sustainable management into hard-coded law.

Pressure is mounting from governments around the world to hold companies accountable for sustainably operating. While carbon emissions caps are long familiar policies around the world and governments set new market standards with legal anchors to reduce target sector goals, some lawmakers are exploring even more drastic measures for the future. The German Bundestag, for example, is examining a principle for sustainable supply chains to achieve economic sustainability if the free market itself does not prioritize transformation. The proposed legislation would force companies to investigate every sequence of their supply chain and likely would penalize them for unsustainability.¹⁷

The bottom line is this: the longer the free market does not demonstrate evidence-based control over its externalities that have negative impacts on society and the environment, the more severely regulatory bodies will try to impose restrictions on business operations. In this movement, there are simply too many stakeholders, too much capital and, most importantly, the social and environmental risks at play are too significant for governments not to step in.

¹⁴ “Toward Common Metrics and Consistent Reporting of Sustainable Value Creation,” *World Economic Forum website, 2020.*

¹⁵ “Measuring Stakeholder Capitalism: World’s Largest Companies Support Developing Core Set of Universal ESG Disclosures,” *World Economic Forum website, 2020.*

¹⁶ James Ellsmoor, “US Businesses Are Benefiting from Ambitious Environmental Goals,” *Forbes website, 2020.*

¹⁷ “Nur noch schnell die Welt retten,” *Handelsblatt website, 2020.*

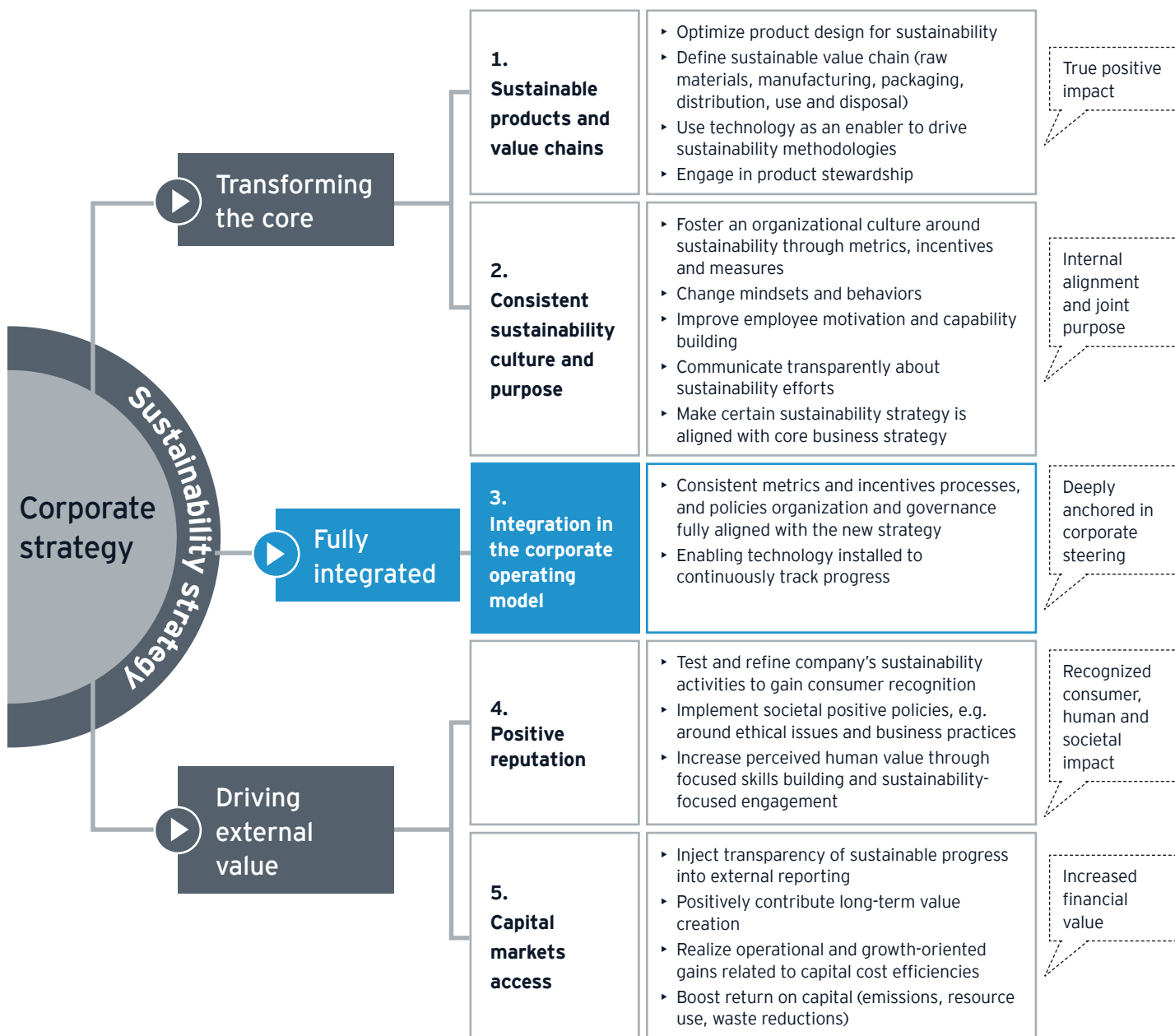


A hand is shown from the right, placing a white paper boat onto a dark, rippling body of water. The boat is simple in design, with a flat top and pointed ends. The water is dark, and the ripples are visible around the boat. The background is dark and textured, possibly a forest or a night scene. Two vertical blue bars are positioned on either side of the text.

The five pillars of successful corporate sustainability strategies

The sustainability imperative is here, and executives can take one of two paths. First, companies can try to immediately capitalize on the movement via branding and other marketing activities, while maintaining existing operations. This is a high-risk, half-baked approach that often leaves the true market opportunities on the table. The second path is to become truly sustainable, transforming from the inside out to integrate sustainability into the core of the business. This path is more difficult, but one that we believe will separate thriving organizations from those that may not last over the long-term. Our perspective is intended for organizations taking the second path.

The five pillars of successful sustainability strategies



Developing a strong sustainability strategy is important for today's organizations, but what does that mean for businesses seeking to transform? Many organizations have sought to model their recent sustainability strategies around the 17 UN Sustainable Development Goals and made commitments to reduce carbon emissions (EY included). But

few organizations know what comes next. What actions can be taken to walk the walk, not just talk the talk? This is where to look next.

A principle for future success is that sustainability should be ingrained into the corporate strategy, not driven by one-off initiatives or organizational silos. Across markets, we identify five pillars to consider when incorporating

sustainability into the corporate strategy. The pillars of sustainability strategy, conceived to structure the journey toward real sustainability in the organization, are: **sustainable products and value chains, sustainability culture, integration into the corporate operating model, positive reputation, and capital market access.**

Transforming the core

1. Sustainable products and value chains

Consumers increasingly are willing to pay for sustainably differentiated products, creating new market opportunities for companies across the value chain and a downside for companies that don't play. Our second pillar expands on this idea. Organizations seeking to capitalize on these markets must consider the entire value chain, both in the sustainability of each step and in the structure of the chain itself.¹⁸

There are three discrete product strategies to address the new sustainability markets. They are:

1. Rebrand an existing

product – Evaluate the existing portfolio against newly established and existing sustainability criteria. It is possible that there are quick wins – products that already meet internal and external standards – that can simply be rebranded to address the target market. This is a common strategy, which can easily backfire if the appropriate due diligence is not completed to identify the true external impact a product creates along its value chain. This is “greenwashing,” and it usually comes back to negatively affect the perpetrators¹⁹ (more on this later).

2. Adapt an existing product to make

it sustainable – The more likely scenario is that at least some of the existing product portfolio is the result of a partially unsustainable supply chain. It is, again, a common temptation to rush this process to capture market share or avoid a heavy investment. But to truthfully capture sustainable value

from an existing, unsustainable portfolio in these new markets, the unsustainable gaps must be addressed.

3. Create new sustainable products

and solutions – A third strategy is to capture value with an entirely new product or product line. This is

where the most disruptive potential is found and, so far, startups are more effective than incumbents at bringing new sustainable products to market with new business models, sales strategies and powerful branding.



¹⁸ Tensie Whelan and Randi Kronthal-Sacco (2019), “Research: Actually, Consumers Do Buy Sustainable Products,” *Harvard Business Review website*, 2020.

¹⁹ Pascual Berrone, Andrea Fosfuri and Liliانا Gelabert, “Does Greenwashing Pay Off? Understanding the Relationship Between Environmental Actions and Environmental Legitimacy,” *Springer Nature website*, 2020.

Tesla, Inc.

There are many reasons for its success, one of which is the brand it maintains around its purposeful mission statement of “seeking to accelerate the world’s transition to sustainable energy.” Tesla correctly understood the untapped potential of the electric vehicle market, driven by the unsustainable nature of the current, emissions-heavy auto industry. It was able to attract top-notch talent motivated by the company’s strong purpose, and it invested heavily in R&D for years, with a patient stream of capital supplied by long-term, sustainability-focused investors. Tesla is now valued at above \$300 billion in market capitalization – roughly 3.5

times the value of Volkswagen, the largest car producer by number of cars sold.²⁰

The Tesla case offers many valuable lessons for mature firms. For one, unique, valuable and untapped markets for sustainable products exist. Secondly, these markets have the potential to disrupt existing markets. Thirdly, considerable thought should be given to how new sustainable products are brought to market. The decision to leverage existing brand infrastructure, stand up an independently operating internal startup or buy a promising startup could mean the difference between success or failure.

Depending on an organization’s position in the value chain and the

industry in which it operates, bringing a sustainable product to market can be more complex than creating a socially and environmentally responsible product. Consumer-serving companies will push consumer demand for sustainable products through the supply chain, creating opportunities, or threats, for suppliers. This is how all supply chains work, but sustainable products require a new level of transparency to facilitate trust in the marketplace, which requires investment from one or many players in the value chain. The opportunity is valuable enough for some companies to vertically integrate across the value chain to create a market for their products.

Indigo Ag, Inc.

Indigo Ag, a startup valued at approximately \$3.5b, is seeking to disrupt the traditional agriculture industry with sustainable products and a unique, vertically integrated business model. Indigo Ag started as a microbiology company promising better yields and more sustainable chemical usage to protect crops.²¹ Indigo Ag was struggling to sell its sustainable products because of the homogenous, bulk trade commercial structure of the industry. Corn is corn, soy is soy and when farmers sell, most of it is consolidated before processing, meaning any sustainably produced crop is mixed in with crops that are produced unsustainably. To create a new market for its products,

Indigo Ag realized it needed to focus on creating evidence through product data, maintain product differentiation through supply chain transparency and, ultimately, provide a medium to connect interested buyers with these products.

Indigo Ag, therefore, created an agricultural data platform and a digital farm application suite, an app to match freight carriers with agricultural loads (like Uber for grain transport), and a digital marketplace to connect growers and sellers, among other businesses. With this model, food and beverage companies that are developing sustainable additions to their product portfolios now can source ingredients with more confidence, thus providing a more trustworthy product to consumers.

The key elements of this scenario, which we expect would apply to most value chains with a sustainability-demanding consumer at the end, are full transparency across the value chain to more directly connect demand to a sustainable supply and product-level data management capabilities to facilitate trust that the end product truly has sustainable qualities. This case study also highlights vertical integration as one strategy to facilitate supply chain transparency. Partnerships and inventory visibility are less capital-intensive options, though they provide less control over the distribution and processing of products. In either scenario, attempts to address new sustainable product markets have the potential to shake up a value chain’s structure, which is cause enough for executives consideration.

²⁰ Source: Yahoo Finance stock information on Tesla (TSLA), August 17, 2020

²¹ Charlie Mitchell, “How an ag company most people have never heard of could prove itself more disruptive than Netflix or Airbnb,” *The Counter website*, 2020.

Transforming the core

2. Consistent sustainability culture and purpose

Culture is of the utmost strategic importance. Without consideration for it, affecting any large-scale and sustained change will be very difficult. And this is what a true sustainability strategy entails: anchoring a new purpose and really changing behaviors.

The collective mindsets, behaviors and decisions of an organization ultimately shape the direction of a firm. What does a sustainable culture look like? A culture of sustainability is not only about encouraging employees to reduce the amount they print or carpool to work (though these can be impactful initiatives); it is about nurturing a long-term mindset and connecting to a collective purpose beyond profit also driving long-term consumer, human and societal value. A sustainability-oriented culture comes in two stages of maturity.

Stage 1: Leadership acting as a role model

Cultural transformation must start at the highest level. The first course of action for executives seeking to transform their organization is to clearly articulate the organization's purpose in line with its sustainability goals. The EY organization, in our purpose-led transformation framework, defines purpose as an aspirational reason for being that is grounded in humanity and inspires action. Purpose is the reason for a company's existence.²²

Having a clearly communicated purpose within the company determines the direction for what individuals and corporations actually do. Therefore, purpose provides a "North Star" that guides the actions of individuals across large organizations. Leadership plays the key role in combining individuals' and the corporate purpose through transformation. A purpose-led transformation should captivate and inspire employees to ignite long-lasting, positive change that fuels sustained improvement and innovation.

Kantar's Purpose 2020 study, a survey of more than 20,000 consumers and 100 leading brand interviews, highlighted that brands with a high perceived positive impact, or more purposeful companies, experienced growth of 175% over 12 years compared with 70% to 86% for brands perceived as having low or medium purpose.²³ Of the high-growth companies in the report, 80% demonstrated high levels of "purpose infusion" into the business, compared with only 32% of low- and

medium-growth companies. The 80% successfully made purpose the center of their organizations, starting with the C-suite and driving a clear priority and communicating the future vision of what the sustainable organization will look like.

Paul Polman, former CEO of Unilever, was a good example for painting a tangible vision of a sustainable future. Leadership created a road map that aimed to increase the positive impact of sustainability, while strengthening the position in the market. Many employees at Unilever were motivated by the plan and saw it as an occasion to seek out their own way of pursuing sustainability-oriented innovation. Companies like Siemens and Merck built sustainability-related performance criteria into their rating systems for executives – showing that the ultimate responsibility for futureproofing the business lies with the highest level of management and giving incentives to use sustainable business practices.²⁴

²² Thijs H.J. Geradts and Nancy M.P. Bocken (2019), "Driving Sustainability-Oriented Innovation," *Massachusetts Institute of Technology website*, 2020.

²³ "Purpose 2020: Inspiring Purpose-Led Growth," *Kantar website*, 2020.

²⁴ Heather Clancy, "The State of Green Business: Sustainability becomes an employee perk," *GreenBiz Group website*, [greenbiz.com/article/state-green-business-sustainability-becomes-employee-perk](https://www.greenbiz.com/article/state-green-business-sustainability-becomes-employee-perk), accessed May 14, 2020.

Stage 2: Empowering the organization

Because change is led organically by those closest to the problem, a successful culture shift ultimately will be determined by how deeply the entire organization buys into a new vision. Empowerment requires a thoughtful approach to balancing long-term metrics and short-term targets, spurring support for this approach through the chain of command to provide space for people to own the vision. A connection between individual purpose and corporate purpose is

the fuel that drives the engine, and is highly important. When individuals and corporate purposes are aligned, employees are willing to go above and beyond what is required to express their values.^{25,26}

Trane Technologies, for example, demonstrates the empowerment of its people through inclusion in its sustainability strategy. Every business unit builds a “Green Team” of employees, who get the chance to create change in their own community. In Waco, Texas, employees installed a rainwater collection system for

facility and manufacturing use in this water-stressed area. In Ireland and Rotterdam, Trane Technologies facilities are 100% zero waste to the landfill because all waste is recycled or reused. The Green Teams support Trane Technologies in its goal of becoming a zero-waste company, while providing employees the opportunity to connect their jobs to a real, impactful purpose. Giving them space to do so will mature the corporate strategy across the whole entity and strengthen the company's development.²⁷

Mindset and behavior-shifting tactics

Attempting to change a culture can feel like an intangible effort at the outset. Here are a few tangible tactics to jump-start change management in developing a culture of sustainability.

Make it real – Demonstrate how a newly articulated, sustainable vision will impact internal and external stakeholders. Bring in customers and partners to discuss why making a change is important.

Use symbolic behavioral artifacts – Identify the employee behaviors that embody the desired culture – for example, speaking out proactively against non-sustainable activities. Summarize the current behaviors and identify representative examples to symbolize the behavior that should change. Then brainstorm how to shift behaviors to the corresponding desired behaviors.

Create role models – Identify stakeholders with high formal or informal influence in the organization and work with them to exhibit small, purposeful shifts in behavior.

²⁵ Paul Polman, CB Bhattacharya, “Engaging Employees to Create a Sustainable Business,” *Stanford University website*, 2020.

²⁶ Thijs H.J. Geradts and Nancy M.P. Bocken, “Driving Sustainability-Oriented Innovation,” *Massachusetts Institute of Technology website*, 2020.

²⁷ “Empowering Employees: the Key to Achieving Environmental Sustainability Goals,” *Business Sector Media website*, 2020.

Fully integrate sustainability in corporate steering

3. Integration in the corporate operating model

An important factor in delivering on sustainability commitments will be how well managers understand and manage the required changes to run their businesses sustainably.

The third pillar focuses on operationalizing the strategy in the corporate operating model. This means incorporating sustainability into corporate steering and governance processes in the functions and different levels in the organization. It also covers the metrics and technology that will enable effective measurement against targets. Take, for example, a hypothetical business that recently announced a sweeping strategy to sustainably source all of its products, eliminate poor labor practices in its supply chain and make long-term investments in the communities in which it operates. Excellent! What happens next? It is tempting to think about this problem as another project, an effort that is started and eventually completed, when this vision represents a new way of doing business. So, the steering infrastructure of the operating model must be altered to effectively deliver on this vision.

Employees will have new responsibilities, perhaps even new roles. The “who” is a good place to start. Who will be responsible for

driving toward and maintaining the new commitment to source sustainable raw materials? Existing procurement professionals must be able to evaluate sustainability according to a new, uniform set of criteria, which may require new skills, tools and processes. The person responsible for designing and implementing these changes can serve in one of three roles: 1) an existing role with added responsibilities; 2) a new, dedicated role; or 3) an external role.

Managers' performance will be evaluated against new frameworks and metrics. New data assets must be created and managed. In today's world, new digital solutions will be developed to enable entire components of the operating model. And between it all are the new processes and governance policies that make each component work together effectively. Because corporate sustainability results from strategic alignment of the whole company, sustainability performance can be measured by the objectives of business units to become integrated in the company's core.

It is a foundational strategic element to measure ESG KPIs as digitally and automatically as possible to reduce the friction a massive manual effort can have on an organization's efficiency and accuracy and, thus, the adoption of new ways of working. If done correctly, digitized metric tracking also provides the level of accuracy required to transparently report progress toward achieving targets, which is crucial for maintaining internal and external trust. EY member firms have a robust perspective and offering around identifying and measuring the appropriate metrics to enable a broader sustainability strategy. Measurement receives a lot of attention when it comes to sustainability, and rightly so, but it is just one piece of the broader sustainability strategy puzzle. Furthermore, EY teams are driving the international Value Balancing Alliance, founded by BASF, which aims to provide greater transparency and comparability of data sources, procedures and indicators for sustainability reports.²⁸

²⁸ “Unternehmenswert neu definieren,” *Handelsblatt website*, 2020.



Driving external value

4. Drive your positive reputation

The fourth pillar, positive reputation, refers to capitalizing on sustainable business practices through brand value growth. The bottom line: extracting brand value from a sustainability strategy should be attempted only after demonstrating the intention and results around true sustainability targets.

As previously noted, the Kantar Consulting Purpose 2020 study, a survey of more than 20,000 consumers and 100 leading brand interviews, highlighted that brands with a perceived high positive impact, and more purposeful companies, experienced growth of 175% over 12 years compared with 70% to 86% for brands perceived as having a low or medium purpose.²⁹ The differentiator is more than marketing sustainability targets. It is more important to drive consumer, human and societal value by really changing the corporate culture, products and value chain strategy, and operating model. In other words, consumers and investors look beyond marketing tactics to real impact.

Sustainably conducted business is correlated with brand value growth. A recent study by the University of Cologne across 100 brands from 30 different industries and more than 700 companies surveyed showed a significant relationship between the dimensions of corporate sustainability and brand value. Sustainably engaged companies have a 50% higher brand value than average companies.³⁰ This is especially influential for younger generations and is gaining momentum

relative to other factors that drive their purchase decisions. Nielsen reported in 2014 that about half of millennial and Gen Z consumers were willing to pay more for sustainable products.³¹ In 2018, that number had risen to about 85% for both generations, compared with about half of consumers in older generations.³²

What will be counterproductive in extracting brand value from a sustainability strategy is greenwashing, which was defined by Greenpeace as misleading consumers with regard to a company's environmental measures or the environmental performance of individual products or services.³³ Amid the flood of corporate sustainability announcements are criticisms that most of these announcements are premature attempts to extract brand value without the intention of following through. Canadian Environmental Marketing Agency TerraChoice, in its still-relevant "Seven Sins of Greenwashing," describes how most sustainable product branding at the time (2010) succumbed to at least one of seven issues: hidden trade-offs, no proof, vagueness, irrelevance, lesser of two evils, fibbing and worshipping false labels.³⁴ These principles are intended

to highlight the pitfalls in product sustainability branding, but they highlight a broader truth when it comes to sustainability: to extract brand value from sustainability strategies, trust must be established.

So, true sustainability must first be demonstrated by cultivating a sustainability-driven culture and bringing sustainable products to market. In the future global economy, only companies that have transformed to be truly sustainable will be rewarded.

An example of how to appropriately extract brand value is Unilever's campaign to source eggs only from cage-free chickens for its mayonnaise products. It first understood the real sustainability impacts through its raw materials supply chain, assessed the implications to its supply chain given the broad procurement shifts and made the switch to eggs from cage-free chickens for some brands before communicating that to consumers.^{35, 36} This example highlights the importance of connecting the functions responsible for the end-to-end sustainability effort – product development and operations through to the marketing team – to develop and execute a cohesive sustainability branding strategy.

²⁹ "Purpose 2020: Inspiring Purpose-Led Growth," *Kantar Consulting website*, 2020.

³⁰ Jannik Nolden, "Investigation of the influence of sustainable corporate governance on the brand value," *Cologne University* (not yet published), 2019.

³¹ "Consumer-Goods' Brands That Demonstrate Commitment To Sustainability Outperform Those That Don't," *The Nielsen Company*, 2015.

³² "Was 2018 The Year Of The Influential Sustainable Consumer?" *The Nielsen Company website*, 2020.

³³ "Greenwashing," *Greenpeace website*, 2017.

³⁴ Nicole D' Alessandro, "7 Sins of Greenwashing (And 5 Ways to Keep It Out of Your Life)," *EcoWatch website*, 2020.

³⁵ Andrew Winston, "Avoiding Greenwash and Its Dangers," *Harvard Business Review website*, 2020.

³⁶ "Unilever joins the global cage-free egg crusade," *Bell Publishing website*, 2020.

Driving external value

5. Capital market access

Investors are placing value on sustainability and withdrawing capital where unsustainable business practices are identified. Establishing a formal strategy around investor engagement for the topic could maximize the amount of capital access gained and make certain that sustainable transformation efforts do not go unnoticed.

Capital market access is the final outlining strategy to engage with investors around sustainability and maintain or boost access to capital. Like capitalizing on brand value, our position is that capital can only be secured if the first three pillars of the sustainability strategy are truly addressed long-term. The depth of this principle is demonstrated by recent shareholder activism in the tech industry.

There are approaches beyond the substantive elements of becoming sustainable that an organization can take to more effectively engage with

investors. One strategy is to establish formal channels for communicating the long-term purpose to institutional investors. The Chief Executives for Corporate Purpose's Strategic Investor Initiative developed a template for organizations to articulate their long-term plans and established forums for organizations to share these plans with investors.³⁷ Executives should also seek to incorporate more long-term rhetoric into earnings calls. It is becoming more regular for companies to report down quarters, but show positive outlooks to see boosts in the share price.

Another rather direct strategy is to collaborate with investors to learn from their views about sustainability. Those investing in sustainable businesses are, after all, placing more emphasis on long-term results and should be incentivized to share insights into which metrics they believe are the most indicative of success. It is then possible to leverage the frameworks and analytics used by these investors to inform innovation around the sustainability strategy and engage in cautiously open conversations to show intentions.



³⁷ Robert G. Eccles and Svetlana Klimenko, "The Investor Revolution," *Harvard Business Review website*, 2020.

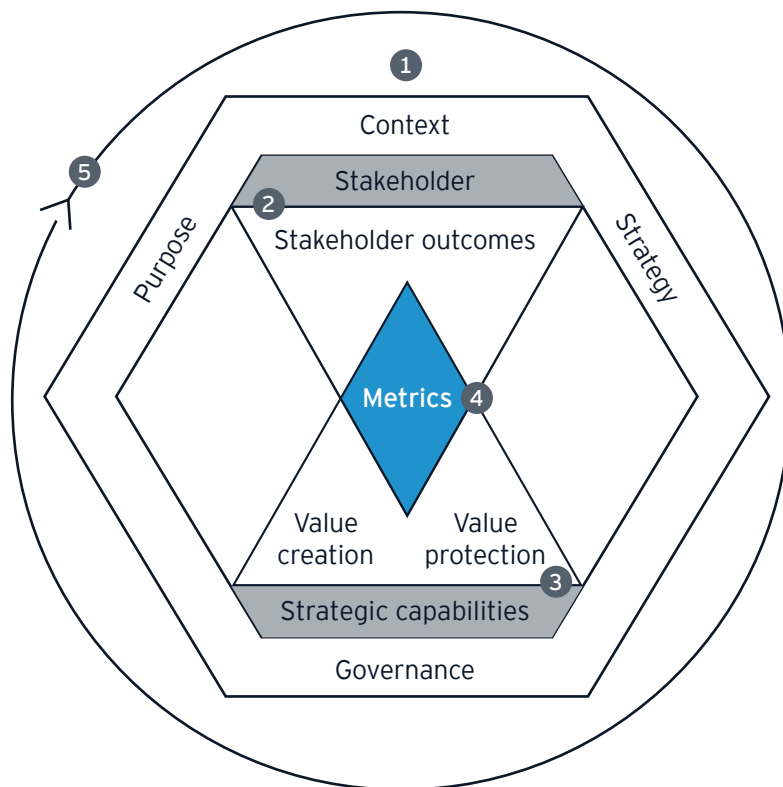
Leveraging the Long Term Value Framework to define your new sustainability strategy

The step to define sustainability strategies that really shift paradigms by fundamentally transforming the core of the firm toward long-term value for the company's key stakeholders is where many corporations struggle. To address this, the EY Long Term Value Framework provides a very powerful method to solve the rising complexity of multi-stakeholder strategy development within a coherent and structured approach.

The EY Long Term Value Framework has been developed to help CEOs define strategies that create value in the long term across a broader group of stakeholders, including employees, consumers, society and shareholders. The approach centers around five clearly defined steps:

1. Establish the business context

Determine the best fit purpose and strategy to operate in the long term context of your business. Key questions to resolve include: What is the current and future context the company operates in? What trends will impact your business model? Why does the company exist? What are implications for stakeholders? What is your long-term plan that will enable the organization to achieve its purpose? How does this translate to changes to products and value chains? How will you direct and control the organization in the future and deeply embed the metrics in your steering model?



2. Assess stakeholder outcomes

Identify business opportunities and risks from a stakeholder perspective and adjust your strategy to lift the potential. Key questions include:

Which stakeholders are at the core of your value-creation model? What outcomes are you aiming to deliver to meet stakeholder expectations? Are some outcomes more important than others?

3. Identify strategic capabilities

Define, build and strengthen the relevant strategic capabilities to create and protect financial, consumer, human and societal value. Key questions include: Are some outcomes more important than others? What resources and capabilities are needed to create long-term value?

4. Develop measurement and valuation approach

Measure your performance based on an outcome and impact perspective. What existing metrics can be used and which additional metrics are required to create long-term value?

5. Manage execution for success

Plan, track and report project development and outcomes. Identify potential risks and additional opportunities and facilitate stakeholder communication.



A final note

Those that choose to pursue a truly sustainable enterprise with a well-crafted plan of attack will be rewarded in driving their long-term value. Starting with the first three pillars – sustainable products and value chains, sustainability culture, and integration into the operating model – will promote the most effective transformation because these pillars will directly determine how sustainable an enterprise is. Only after these pillars are addressed can the value locked in the final two pillars – positive reputation and capital market access – be fully realized in the long term, driving increased brand equity and more favorable capital structures.

As more companies integrate sustainability into their products,

value chains, cultures and operations, pressure will rise on those that lag. This will be driven by investors, consumers and governments, increasing costs of capital, making alternative buying decisions and, ultimately, placing regulatory constraints on unsustainable operations.

The sustainability imperative is here to stay. The chaos inflicted by the current pandemic crisis will eventually settle, putting back into focus pressing sustainability issues and leaving behind a world that is even more sensitive to the needs and purpose of sustainability for human well-being, building even stronger justifications and upsides for those organizations that have the courage to be early movers to achieve real long-term value.

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