Walking the Talk: A Guide to Corporate Sustainability Goals and Action

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In the wake of climate change and its worsening impacts, companies and communities have been faced with a high-stakes ultimatum—adapt or fail.

To avoid the latter, overcome mounting environmental challenges and strengthen their ties with the increasingly eco-minded masses, many of these bodies have begun to implement robust sustainability strategies into the way they operate.

But undergoing such a transition creates new challenges in itself. For businesses, many of these labors boil down to a balancing act between environmental and economic goals—that is, practicing sustainability without sacrificing profitability. And as corporate actions (or inactions) on this matter are watched from every angle with increasing scrutiny, the perils of this tightrope walk continue to multiply.

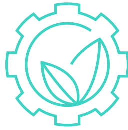
No longer can businesses treat sustainability as little more than a marketing tool, or brazenly proclaim being "green" without putting in the legwork. Everything from legislative action to consumer demand hammers in this fact, reinforcing the reality that thoughtful, effective and verifiable sustainability policies will soon be essential to a company's reputation and financial well-being.

Still, despite the many risks that come with this evolving frontier, there are even more opportunities—and some great examples of businesses who have capitalized on them to drive their own goals.

The Three Pillars of Corporate Sustainability

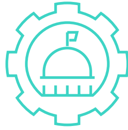
Environmental, Social and Governance (ESG) is a comprehensive framework that helps stakeholders evaluate a company's performance in sustainability and ethics, enabling them to assess its current and future ability to manage the risks and opportunities associated with those practices.

This framework centers around a company's impact on nature, its relationship with people and communities, and the mechanisms by which it is led and operated.



Environmental factors involve how a company impacts the natural world, including its resiliency and strategy against climate change, resource scarcity and ecological degradation. Examples include waste and resource management, energy use and efficiency, and emissions generation and mitigation.

Social factors delve into how a company deals with people, whether they're employees, suppliers, customers, or members of the community. Examples include diversity, equity and inclusion (DEI) policies, fair pay and human rights.



Governance factors look at how a company organizes itself, including how its leadership incentives and internal controls and practices ensure regulatory compliance, industry best practices and responsible corporate policies. Examples include financial transparency, risk management and business ethics.

Financial Risks Tied to Weak Sustainability

Investor Valuation

A sizable portion of a company's financial wellbeing is wrapped up in perception and the value given to it by investors. Environmental risks, their impacts on supply chains and the measures taken by companies to mitigate those risks, are all considerations that are factored into the equation. And it's understandable why.

According to CDP, suppliers predict a cost of $1.26 trillion from environmental risks by 2026. Many environmental risks highlighted by suppliers will result in cost increases, which if passed on, would cause a cost hike of $120 billion to corporate buyers.[1]

Private equity firms, too, are focusing on sustainability to a greater extent: For instance, BlackRock now expects companies to align their business models with the goal of reaching net zero greenhouse gas (GHG) emissions globally by 2050. "Sustainability risk—and climate risk in particular—is investment risk," BlackRock has repeatedly stated.

Regulatory Fines and Penalties

In the United States, an influx of new environmental policies have gained traction, indicating that the U.S. is rapidly shifting toward more sustainable measures and may soon overtake Europe[2] in its prioritization. The following are just a few examples.

- In keeping with the investment perspective above, the Securities and Exchange Commission has proposed new rules[3] that would standardize climate-related disclosures for investors, requiring publicly traded companies to provide Scope 1, 2 and 3 emissions and intensity metrics.
- Adding to emissions regulation, the U.S. Environmental Protection Agency announced[4] that it is bolstering its proposed standards to cut methane and other harmful air pollutants, including those from vehicles, industrial activities and waste.
- The EPA recently announced a sweeping proposal[5] to cut greenhouse gas emissions from fossil-fuel fired power plants.

Not meeting increasingly stricter standards can result in a wide scope of punitive action depending on the offence. Fines can wrack up in the millions, licensing can be suspended or revoked and lawsuits can compound, ultimately crippling even the most well-off of businesses.

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Employee, Customer and Community Aversion

While valuation and regulatory fines and penalties have more direct impacts on a business's finances, employee, customer and community aversion are powerful indirect forces on any operation's bottom line. Ignoring sustainability best practices is tied to higher turnover rates because it is essentially ignoring the fundamentals that make a business attractive to workers and consumers in the first place—things like safety, equity, respect, inclusion, transparency and a number of other aspects that are intertwined with ethics and the demonstration of good moral standing.

What's more, is disregarding such things can lead to bigger problems than losing workers or customers—it can inspire strikes, boycotts and other labor and trade actions. From a community standpoint, it can spur widespread activism and even drive new legislation that steadily slows, halts and dismantles a business.

In short, as investors, regulators, employees and customers alike scrutinize companies' sustainability efforts with a critical eye, organizations expose themselves to a variety of risks that can negatively impact their finances, harming, and in some cases, ruining their company.

The good news: With risk comes opportunity. Companies that have a well-considered plan for transitioning to a low-carbon economy and can demonstrate measurable progress toward that goal will be more likely to not just survive, but thrive.

Financial Opportunities Tied to Strong Sustainability

Talent Acquisition

In a competitive talent market, organizations that demonstrate measurable progress toward sustainability goals are better positioned to attract top talent. Millennials and Generation Z, who will make up 72% of the workforce by 2029, value sustainability concerns even more highly than older generations, MarshMcLennan reports[6].

Younger generations expect their employers to take leadership roles in tackling environmental issues. In the same MarshMcLennan report, students and young professionals rated companies with higher-than-average sustainability scores as more attractive employers.

Customer Generation

A recent study conducted by GreenPrint[7] found that nearly two-thirds (64%) of Americans are willing to pay more for sustainable products and services, though 45% state that they would first need a third-party validation source to believe those sustainability claims.

Google Trends, a service which ranks search terms over time and is often cited as a proxy for public opinion, shows that Google has seen a 5x increase in sustainability-related searches worldwide in the past 3 years. The increase has been even greater in the United States, where searches increased by more than 6.5x in the same time period.

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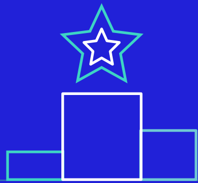
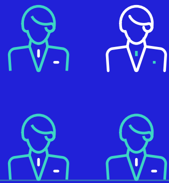
Here are some quick, but significant corporate sustainability metrics:

A good sustainability program can reduce company operating expenses by more than **60%** (McKinsey[8])



Of the fifty top-performers in the S&P 500, **74%** prioritize sustainability within their operations (Conservice[9])



Approximately **three out of four** CEOs have adopted sustainability as a core facet of their business (EY[10])

Returns and Profitability

Sustainability can reduce costs substantially. Among other advantages, executing an effective strategy can help combat rising operating expenses (such as raw-material costs and the true cost of water or carbon), which McKinsey research has found can affect operating profits by more than 60 percent.

Shifting to more sustainable operations may have its upfront costs, but in the long-term it has shown to yield greater returns. A Harvard Business School study[11] reviewing 2,000 companies over 21 years found firms that improved on material sustainability issues significantly outperformed their competitors.

It's no surprise that nearly three-fourths (73%) of CEOs have adopted sustainability strategically, EY's 2022 US CEO survey EY's 2022 US CEO survey reports, while one in three[12] Fortune 500 Companies have set formal climate targets. But putting sustainability targets in writing is one thing; attaining those goals is another.

The "As You Sow: Road to Zero Emissions" report[13] evaluated 55 of the nation's biggest corporations based on their progress towards net zero by 2050. Fewer than 6% of companies scored an "A," largely due to their inability to meet sustainability goals, or their lack of effort towards them. Clearly, many organizations are talking the talk, but far fewer are walking the walk. To ensure they're doing the latter, there are some key focuses that leading companies are putting their resources into.

How Leading Companies Integrate Sustainability into Their Business Strategy

At its core, sustainability is about identifying risks and opportunities. While businesses do this every day in some capacity, embedding sustainability as a key function of that business pushes them to systematically identify social and environmental risks and opportunities alongside economic considerations.

Making the switch from coal and oil to alternative fuels or renewable energy can be a good first step toward greener operations. However, leading organizations are going deeper than simply reexamining their approach to energy usage. A deep dive into materiality, one of the best and probably most enduring legacies of the Global Reporting Initiative (GRI)[14] approach, is a good framework for developing a corporate sustainability strategy, but it must be rigorous and honest, and involve diverse stakeholders.

Each organization's approach to sustainability will differ depending on the issues pertinent to the company and its industry. Nonetheless, every business should consider the following factors when pursuing their green goals.

Systematic Alignment of Financial Strategies with Environmental Strategies

Loans linked to environmental benchmarks and sustainability-linked financing are the fastestgrowing segment of the business credit market: More than $681 billion[15] in such loans were made in 2021. Successful ESG leaders can demonstrate to lenders and investors that they are serious about achieving their sustainability goals and that implementing such strategies will positively affect their business's bottom line.

Reassessing the Entire Value Chain

Solving climate change and many of the issues associated with resource scarcity and waste generation will require a societal shift from current value chains to more renewable ones. As these chains exist now, resources are taken, products are made and waste is generated either from the process itself or the products reaching their end-of-life.

Transitioning to a circular economy in which materials are constantly reused, recycled and / or transmuted into recoverable energy turns outputs from one process into inputs for another process. This ultimately creates a continuous cycle in which waste is eliminated, resource value is maximized and nature is given the opportunity to regenerate, as outlined by the Ellen MacArthur Foundation[16]. To hit these key points effectively, many leading organizations are willing to rethink the status quo and innovate—often with the help of sustainable materials management partners—to transform their linear business models into an ongoing, closed-loop system with very little going to waste.

Providing Transparency and Demonstrating Measurable Results

Environmental accountability is critical to just about every company stakeholder. Successful leaders know how to back up claims of progress in sustainability with hard data, often bringing in a third-party to audit and verify all operations, including their business's downstream partnerships. The third-party process is meant to objectively assess the validity of sustainability claims and provide added credibility and assurance in the marketplace that what's being said by a company is actually being done. What's more, a thorough thirdparty review can help identify risks and opportunities for improvement that may have gone undiscovered under other circumstances.

Environmental Justice

Some locales have been disproportionately burdened by pollution and contamination due to the cumulative effects of industrial operations, and that burden has tended to fall mostly on economically disadvantaged and/or non-white communities. Effective sustainability leaders address the environmental impacts that have been placed on such communities and sincerely try to better them.

They make financial investments that support education, help community infrastructure and promote a cleaner environment. They're consistently engaged with locals and the issues that matter to them. They contribute to scholarships, clean-ups, street fairs, food insecurity programs and more. They take on the role of an active community member and a good neighbor.

Diversity, Equity and Inclusion

Employees, particularly those from younger generations, expect to see diversity, equity and inclusion (DEI) at all levels of the workforce. Having representation in leadership is important, as is having a voice that is heard and respected even at the most junior tier. It demonstrates that an organization values people for their character and abilities, empowers them to take ownership of their work and fosters an environment where they can be comfortable as themselves and still develop professionally.

From an investor and regulatory standpoint, a commitment to DEI is essential for any organization seeking to achieve sustainable growth, because apart from mitigating civil liabilities which could negatively affect everything from operations to brand reputation, it attracts talent, retains it and enhances that talent's collaboration and innovation by unifying motley perspectives and experiences.

A recent McKinsey study[17] found that the greater the representation in a business, the higher the likelihood of outperformance. Businesses in the top quartile for ethnic and cultural diversity outperformed those in the bottom quartile by 36 percent in profitability. The same was true for gender diversity, racking up to a 48 percent difference in profitability between the most and least diverse.

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Lessons from Sustainability Leaders

Unilever Teams Up to Innovate Solutions

Minimizing plastic waste is a major goal for consumer-packaged goods company Unilever. But black plastic, which accounts for 15% of all plastic waste in the U.S., was a special challenge.

Because most waste-sorting machinery can't recognize the pigment in black plastic, it frequently ends up in landfills. To solve the problem, Unilever led a multi-industry R&D group to develop sustainable black plastic using a new pigment that can be "seen" by mechanical scanners, making the bottles recyclable at scale.

Subaru Rethinks Waste Management Processes

How did Subaru of America's (SoA) Indiana factory become the first U.S. auto assembly plant to achieve zero waste-tolandfill status?

SoA began by scrutinizing what they were throwing away throughout their entire production process. They then sought ways to lower manufacturing's resource consumption, eliminated the non-essential packaging it generated, implemented reusable materials where possible and found new markets for recycling their facility's byproducts. Over the course of 15 years, this systematic approach to sustainability reduced waste generated per vehicle by 53%. It also enhanced line efficiency and lowered costs.

Caterpillar Embraces the Circular Economy

Construction and mining equipment manufacturer Caterpillar has made the circular economy central to its business strategy. Last year, the company took back 127 million pounds of material for remanufacturing through Cat Reman, one of its many remanufacturing programs.

It starts with Caterpillar engineers, who've designed key products for durability under heavy use so they can be remanufactured. Cat Reman incentivizes customers to return these components to dealers when they reach the end of their serviceable life. The dealers then return the parts to Caterpillar, where they're remanufactured to like-new condition, complete with warranties.

Taking Tangible Action

While every company has unique challenges and resources at hand, borrowing certain take-aways from effective sustainability leaders can still help them develop and execute their own sustainability strategies.

When doing so, it's important they stay wary of "following the ratings" too closely. Measures such as the Dow Jones Sustainability Index, Morningstar Sustainalytics and other rankings of companies' sustainability success have their value, but it's easy for organizations to become overly focused on their position in the rankings. When that happens, sustainability can turn into a rote exercise in checking off boxes. Ratings and rankings can help tell a great story, but they don't know the specifics of a given business and what issues are most important to it.

Still, despite the prevalence of unique needs from business to business, there are some universal measures that can be taken to shift a wide variety of sustainability commitments into real-world, tangible action.

Communicate with Internal and External Stakeholders

Businesses should shape their strategies by seeking honest feedback from employees, partners, customers and local communities.

They should ask their audiences to identify gaps and shortcomings in their approach to sustainability. What's being done well? What could be done better? Welcoming and encouraging criticism as a valuable tool for improvement is essential.

Develop a Strategic, Data-Driven Roadmap

Organizations that embrace sustainability as core to the business, rather than simply paying lip service to sustainability as a marketing tool, will see greater impacts from their efforts.

As with any other core business function, sustainability strategies must be based on reliable data. Depending on a given business's industry and organization, that data could be environmental impact reports, the results of surveys in local communities or other key metrics.

Empower Employees to Take Ownership of the Mission

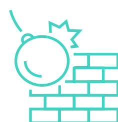
Employee buy-in is critical to the success of any sustainability strategy.

When employees have input into developing sustainability goals, can see how sustainability supports their organization's overall mission and are empowered to demonstrate the part they play in the larger story, they'll be galvanized to action, and the sustainability strategy will build on itself.

Set Measurable Goals and Key Performance Indicators

One business's key performance indicators (KPIs) may not look the same as its competitors'—it all depends on what's pertinent to the business.

Identifying desired outcomes will point the way to the right KPIs. A company should start by assessing the value of the metrics they're currently measuring, then build from there.



Eliminate Internal Work and Communication Silos

To achieve sustainability goals that support financial goals, an organization in its entirety must work collaboratively.

It must break down silos to better align leadership, data, and the teams and resources that will support its sustainability efforts.

Analyze Results and Adjust Strategies Accordingly

When it comes to sustainability, there's always room to do better.

Businesses should regularly review the results of their sustainability efforts and revise their action plans as necessary. They mustn't rest on their laurels when they achieve a goal. They should celebrate the win, then use what they've learned to set their sights on even more ambitious targets.

Meeting the Sustainability Challenge Head-On

Joining financial strategies with environmental strategies has become essential for any business that wishes to stay competitive in today's markets.

It demonstrates to stakeholders that an organization is looking beyond short-term profits and planning for future growth. As sustainability becomes an ever more important measure of business success, using lessons from leaders to develop an effective sustainability strategy can improve a business's reputation, reduce its risk and give it the competitive edge it needs for long-term growth and success.

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To learn more about sustainability and the solutions that drive it, speak to one of our experts.