



# SBC's Business Case for Sustainability

*Today's marketplace is changing more quickly than ever before. Business leaders need to be further ahead of the game as they plan for and identify risks and opportunities. That's why businesses need a clear purpose, long-term focus, agile strategy and strong stakeholder relationships to remain financially, environmentally and socially sustainable.*

## What it means to be a sustainable business: Having purpose and being future-focussed

Sustainability covers all areas of a business - economic, environmental and social, and its governance. When done well, it sits at the heart of business strategy and business leaders consider it in all key decisions. Sustainable businesses are clear about their societal purpose<sup>i</sup> and make decisions that support that purpose over a long period of time. They innovate around their purpose to remain a resilient and relevant business. They have shifted their focus from quarterly returns to 5, 10 or 50 year plans that link their strategy, action, culture and brand story.

When done well, sustainability is a tool for engaging current and future employees, efficient use of resources and cost savings, encouraging innovation, stimulating business growth and keeping your business ahead of the regulation curve in a rapidly changing, disruptive and technologically-connected market place. It goes beyond just doing the same thing more efficiently. It strengthens brand and reputation through successfully balancing the needs and wants of a wide range of stakeholders, including employees while maintaining and growing a financially successful, environmentally and socially responsible business over time. Table 1 (at the end of this document) sets out some of the areas commonly considered by businesses assessing their sustainability practices.

## The business case for sustainability is evolving

Sustainability used to be at arm's length from core business decisions and seen as "additional" – it was often used to manage areas like brand or direct environmental impacts. But the scope of sustainability has shifted. It's now a boardroom issue. Forty years ago the bulk of a company's value linked directly to its tangible assets. Now only about a fifth relates to a company's financial performance and physical assets. The rest reflects intangible assets like brand, Intellectual Property and whether a business has a social licence to operate<sup>ii</sup>.

Internationally, there's a growing focus on development that doesn't compromise future generations. In 2015, New Zealand adopted the UN's Sustainable Development Goals (SDGs) and signed up to the Paris Agreement on climate change. Business will have a leadership role in achieving these goals.

## The benefits of being a sustainable business

It's not enough anymore for good companies just to focus on shareholder returns. Successful companies focus on all their stakeholder groups – investors, funders, regulators, consumers and customers, employees and communities as outlined below. They seek to build longer-term shareholder value by aligning their business activities to have a positive economic, environmental and social impact for these groups.

This can lead to greater customer satisfaction, new business and partnership opportunities and ultimately higher long-term shareholder returns.

Studies show businesses that integrate sustainability well outperform those that don't as it lowers the cost of capital, results in better operational performance and positively influences stock price<sup>iii</sup>

### INVESTORS

New Zealand and offshore investors are increasingly asking for more details on a business's strategy, policies and performance on sustainability. Better access to this information lowers the risk to investments and often there is a correlation between sustainable policies and performance and share price. The New Zealand Corporate Governance Forum (institutional investors with significant investment in NZX-listed companies) and the Responsible Investment Association of Australasia (whose members manage over a trillion in assets) recently released guidelines on responsible investment and reporting on non-financial matters. For a good example of how investors are active in New Zealand look at the Z Energy case study at: [www.sbc.org.nz](http://www.sbc.org.nz)

### FUNDERS

Sustainable companies generally have better access to, and a lower cost of capital<sup>iv</sup>. Funders (such as banks) are looking at sustainable business practices as due diligence because it can increase access to capital and lowers funders' risk<sup>v</sup>. Westpac and National Australia Bank (BNZ's parent company) are a good example of this in New Zealand. Fund managers are also debating whether they require it to meet their fiduciary duty<sup>vi</sup>.

### REGULATORS

Many regulators including governments and stock exchanges (NZX is currently consulting on this) require reporting on sustainability performance<sup>vii</sup>. A number of sustainability issues are already regulated in New Zealand such as health and safety and diversity. Having a forward-looking sustainability strategy helps a company identify risks and opportunities and get ahead of the regulation curve.

## CONSUMERS AND CUSTOMERS

Consumers and customers (especially business-to-business customers) are demanding traceability, they want a better understanding of where the goods and services they buy are from and how they were made<sup>viii</sup>. They expect efficiency, innovation and better social and environmental outcomes. More and more people are willing to pay more for sustainable products<sup>x</sup>. Many national and international businesses see value in managing and reporting on sustainable business practices and performance; over 72% of S&P500 companies report on sustainability<sup>x</sup> and it represents 10.7% of the values of these companies or \$356bn. Recent research by SBC shows that consumers in New Zealand expect businesses to pro-actively build sustainability into the way they do business and make it easy for them to make sustainable choices.

## EMPLOYEES

Sustainability helps attract, retain and engage staff - especially those from Gen X/Y or Millennials. Research from Colmar Brunton shows nearly three-quarters of Kiwis say it is important to work for a company that is socially and environmentally responsible<sup>xi</sup>. Gen Y is considered the most environmentally and socially concerned generation yet and will make up 75% of the workforce within the next decade. This is the key driver for the business case mentioned by the business leaders surveyed for this paper. A good case study on employees and gender pay gap with SKYCITY illustrates this and can be found at [www.sbc.org.nz](http://www.sbc.org.nz).

## EXPORTERS

Sustainable business processes and product or service credentials can lead to better access to international markets<sup>xii</sup>. Being geographically isolated and a long way from key markets New Zealand exporters need to ensure that their products are seen as premium to compete.

## COMMUNITIES

Businesses need a social licence to operate.<sup>xiii</sup> Experience shows that the greater the trust in a business the more receptive customers are to understanding their perspective or approach. It is the foundation for acquiring operational certainty, realising future opportunities and lowering risk for the business and requires trust, transparency and accountability of economic, social and environmental issues.

## Risks of not being a sustainable business

New Zealand businesses that fail to meet shifting expectations could risk the following:

- Consumers switch to a more sustainable brand and encourage others to do the same
- Businesses lose their social licence to operate within New Zealand or overseas
- It becomes harder to attract and retain talent
- Businesses are unable to respond to the needs of investor requests for information, making it harder to secure investments and access capital over time
- Businesses face significant extra cost through increased regulation

- The international community begins to question the operating environment for business in New Zealand if it does not meet the changing international standards for sustainable business practice and the associated transparency and accountability
- Businesses miss out on new work because of inability to compete effectively in bids and tenders because of a lack of sustainability credentials
- Inability to partner or collaborate to innovate with other sustainable businesses
- Businesses operating within international supply chains are deprioritised because they cannot meet international requests for information on financial, environmental and social impacts
- Cost savings and or business disruptions are not realised or foreseen as resources are not used efficiently or sustainably
- Not having goods or services that are relevant to customer's or consumer's needs.

## What is your role?

SBC business leaders have a key role in driving the sustainability agenda in New Zealand through:

- Mandating it through your supply chains
- Lobbying industry & government
- Telling stories – marketing/PR
- Making it part of your strategy
- Finding courage to keep going – because it can be uncomfortable
- Proving it through the numbers
- Talking to your peers about it

## Rising to the Challenge

Stories of businesses responding to the sustainability challenge demonstrate different approaches being taken and the benefits those companies are receiving. In compiling this business case we have heard many stories exemplifying sustainability in action. Visit our website for these stories and we encourage you to share your stories, both large and small, to inspire others and demonstrate that even simple actions can drive major changes.

## How SBC can help

SBC provides a platform for members to network and work together to advocate and influence, keep up with current best practice and tell the stories of exemplars nationally and internationally. For more information visit: [www.sbc.org.nz](http://www.sbc.org.nz).

**Table 1 - Sustainable business issues commonly considered in New Zealand<sup>xiv</sup>**

Social	Financial	Environmental	Governance
<ul style="list-style-type: none"> <li>• Access and affordability of product or service</li> <li>• Employee turnover</li> <li>• Consumer rights</li> <li>• Corporate philanthropy</li> <li>• Customer relations</li> <li>• Data security and customer privacy</li> <li>• Employee training</li> <li>• Diversity issues (ethnicity, age and gender)</li> <li>• Fair disclosure and labelling</li> <li>• Supplier relationships</li> <li>• Human capital management</li> <li>• Human rights – including discrimination</li> <li>• Labour relations</li> <li>• Product quality and safety</li> <li>• Responsible R&amp;D</li> <li>• Health and Safety</li> <li>• Stakeholder and community relations – Social Licence to Operate</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue and operating costs</li> <li>• Shareholder returns</li> <li>• Payments to capital providers and governments</li> <li>• Value chain financial risks e.g. security of supply</li> <li>• Significant financial assistance received from the government</li> <li>• Procurement</li> <li>• Employee financial benefits</li> <li>• Pro bono, in-kind, donations</li> </ul>	<ul style="list-style-type: none"> <li>• Air quality output</li> <li>• Biodiversity impacts and dependencies</li> <li>• Greenhouse gas emissions and management</li> <li>• Climate change resiliency</li> <li>• Energy use and management</li> <li>• Environmental policy</li> <li>• Fresh water use</li> <li>• Environmental compliance and regulatory risk</li> <li>• Waste, recycling &amp; hazardous materials</li> <li>• Raw material sourcing and use</li> <li>• Land use management and impacts</li> <li>• Natural resource management</li> <li>• Ocean productivity and acidification</li> <li>• Ecosystem Services and natural capital</li> <li>• Regulatory &amp; legal risks</li> <li>• Value chain and management</li> <li>• Environmental credentials of goods and services</li> </ul>	<ul style="list-style-type: none"> <li>• Accounting and audit process</li> <li>• Board composition and performance</li> <li>• Business ethics</li> <li>• Compliance</li> <li>• Executive remuneration</li> <li>• Lobbying and political contributions</li> <li>• Diversity</li> <li>• Ownership structure</li> <li>• Reporting and disclosure</li> <li>• Shareholder rights and relations</li> <li>• Succession planning</li> <li>• Transparency</li> <li>• Voting procedures</li> <li>• Ethical standards</li> <li>• Client alignment &amp; fee structure</li> <li>• Stakeholder interests</li> <li>• Advisory and Board committees powers and composition</li> <li>• Fund governance</li> </ul>

## References

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<sup>ii</sup> <http://ecopreneurist.com/2012/04/17/stakeholder-relationships-key-to-a-sustainable-enterprise/>

<sup>iii</sup> From the Stockholder to the Shareholder – How sustainability can drive financial outperformance ([http://www.arabesque.com/index.php?tt\\_down=51e2de00a30f88872897824d3e211b11](http://www.arabesque.com/index.php?tt_down=51e2de00a30f88872897824d3e211b11)) - This recent report by the Smith School of Economics and Finance, London Business School and Arabesque Partners represents the most comprehensive knowledge base on sustainability to date. It is based on more than 200 quality academic studies and sources on sustainability to assess the economic evidence for sustainable practices. This study found, amongst other things, that 88% of the studies reviewed show that solid ESG practices result in better operational performance and 80% of the studies reviewed suggested that stock price performance is positively influenced by good sustainability practices.

The Impact of Corporate Sustainability on Organizational Processes and Performance Robert G. Eccles et al [http://www.hbs.edu/faculty/Publication%20Files/SSRN-id1964011\\_6791edac-7daa-4603-a220-4a0c6c7a3f7a.pdf](http://www.hbs.edu/faculty/Publication%20Files/SSRN-id1964011_6791edac-7daa-4603-a220-4a0c6c7a3f7a.pdf)

Allocating Capital for Long-Term Returns – The strengthened case for sustainable capitalism <https://www.genfound.org/media/pdf-genfound-wp2015-final.pdf>

<sup>iv</sup> From the Stockholder to the Shareholder – How sustainability can drive financial outperformance ([http://www.arabesque.com/index.php?tt\\_down=51e2de00a30f88872897824d3e211b11](http://www.arabesque.com/index.php?tt_down=51e2de00a30f88872897824d3e211b11))

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<sup>v</sup> <http://www.westpac.com.au/about-westpac/sustainability/our-positions-and-perspectives/sustainable-lending-investment/>

<https://www.nab.com.au/about-us/corporate-responsibility/responsibility-management-of-our-business/managing-environmental-social-and-governance-esg-risks/esg-risk-in-lending>

<sup>vi</sup> <http://www.businessinsider.sg/blackrock-ceo-larry-fink-letter-to-sp-500-ceos-2016-2/?r=US&IR=T#.Vru1hh96M>

<sup>vii</sup> <http://www.carrotsandsticks.net/wp-content/uploads/2016/05/Carrots-Sticks-2016.pdf>

<sup>viii</sup> <http://www.sbcvaluechain.org.nz/overview/what-is-a-value-chain>

<sup>ix</sup> <http://www.nielsen.com/us/en/press-room/2014/global-consumers-are-willing-to-put-their-money-where-their-heart-is.html>

[http://www.colmarbrunton.co.nz/images/dims/Better\\_Futures/2.swf](http://www.colmarbrunton.co.nz/images/dims/Better_Futures/2.swf)

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<sup>x</sup> <https://www.globalreporting.org/resourcelibrary/Carrots-and-Sticks.pdf>

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<sup>xii</sup> [http://www.ifc.org/wps/wcm/connect/84a59480488559ca842cd66a6515bb18/Developing\\_Value\\_full.pdf?MOD=AJPERES](http://www.ifc.org/wps/wcm/connect/84a59480488559ca842cd66a6515bb18/Developing_Value_full.pdf?MOD=AJPERES)

<sup>xiii</sup> [https://www.sbc.org.nz/\\_data/assets/pdf\\_file/0005/99437/Social-Licence-to-Operate-Paper.pdf](https://www.sbc.org.nz/_data/assets/pdf_file/0005/99437/Social-Licence-to-Operate-Paper.pdf)

<sup>xiv</sup> Table derived from synthesised information from a range of sources including: Smith School of Economics and Finance, London Business School and Arabesque Partners - Stockholder to the Shareholder – How sustainability can drive financial outperformance

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