

The Business Case for Sustainability

By Wayne Visser

Why should business care about sustainability issues like climate change, income inequality, biodiversity loss and human rights?

Some would say it's because business has a moral duty to do what is right or good. We can call this view the moral case for sustainability. Others point out that there are business benefits to be derived – and business risks to be avoided – by responding positively and proactively to sustainability concerns. This is widely known as the business case for sustainability.

In the Cambridge Institute for Sustainability Leadership (CISL) Business Sustainability Management online course (full disclosure, I serve as Head Tutor on this program), the business case for sustainability is described as having three strategic elements (brand and reputation, business models, stranded assets) and three operational elements (prices and regulation, operational disruption, productivity and engagement), which I will summarise briefly below.

- **Brand and Reputation.** This is especially relevant for sustainability, which is, in essence, an ethical proposition. When there is serious damage to a company's reputation, it can be costly. Volkswagen's "dieselgate scandal" involving cheating on vehicle emissions tests, has cost the company over \$30 billion, by its own admission. Others, like Enron and Lehman Brothers, went bankrupt after ethical breaches were exposed by whistle-blowers. More positively, a credible sustainable brand can reap the value of customer goodwill and loyalty. This is the case for companies such as IKEA and Patagonia, who have very successfully aligned their brand behind seemingly robust sustainable practices.
- **Business Models.** When markets shift to cleaner alternatives – for example, from internal combustion engine (ICE) cars to electric vehicles (EVs) – this changes the entire value chain for related products and services. Having a clear sustainable purpose and strategy can also identify how companies can deploy their core capabilities to create new markets and value propositions by serving society's changing needs. For example, EV manufacturers like Tesla are selling software as much as hardware. They cut out dealerships completely, substantially reduce the repairs market (since they only have around 200 parts, versus over 1,000 for ICE cars), and in the future are likely to sell transport-as-a-service, as autonomous vehicles – so-called robo-taxis – become commonplace.
- **Stranded Assets.** In June 2023, many major insurers stopped offering property insurance in California, due to the high risk (and associated losses) of wildfires and other climate related damages. Similar withdrawals have been seen in Florida, where properties are exposed to extreme storms, floods and sea level rise. There is, therefore, a risk that these assets, many of which are owned by businesses,

become stranded, meaning that their value drops significantly. A similar argument is made for coal, oil and gas reserves, most of which must remain unexploited to avoid catastrophic climate change.

- **Prices and Regulation.** Price volatility and rising prices may occur due to scarcity of natural resources, or regulation to ensure more rapid transitions to sustainable alternatives. Here, a good example is the swath of regulation that has emerged to restrict single-use plastics and plastic pollution. First movers, such as those who make bio-based, biodegradable and compostable plastics, can capitalise on getting ahead of these regulatory shifts. In addition, resource efficiency, such as using less energy and water, or creating less waste, can also save money.
- **Operational Disruption.** In 2019, Amazon employees went on strike to protest the company's perceived inaction on climate change, causing serious disruption. Nine years earlier, the BP Deepwater Horizon oil disaster took 87 days to stop and lost the company 50 percent of its market value in 50 days, costing around \$65 billion in liabilities. On the other hand, as companies adopt the circular economy strategies or renewable energy, they get back some control over their resources and energy supplies and are less likely to experience disruption due to socio-economic or political crises (such as the war in Ukraine).
- **Productivity and Engagement.** Research shows that over 70% of workers and those looking for work are drawn to environmentally sustainable employers, while 42 percent of Millennials and Gen Z are choosing relationships with companies with positive social or environmental impacts, and 38 percent are lessening ties with companies with a perceived negative impact. Sustainable and responsible companies also boost employee motivation, productivity, loyalty, and satisfaction.

These are six compelling aspects of the business case for sustainability. To enable these benefits – and others, which I detail in my '10 Rs of Return on Regeneration' framing of the business case – businesses will need to use their influence to create the external enabling conditions, such as positive advocacy to shape regulation. To conclude, let me make a final observation. There is an unspoken time dimension to the business case, namely by when a company expects to see business benefits from investing in sustainability. Although there are often quick wins (like savings from eco-efficiency), most research suggests that returns on sustainability investments are strongest in the medium to long term.

At its heart, sustainability is an agenda for change, which requires many skills, including the ability to persuasively articulate the business case for sustainability. And like all skills, to be most effective, this must be built on a solid foundation of knowledge. **Learn more about CISL's 8 week online course on Business Sustainability Management.**

Source:

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