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The business case for sustainability:

Value creation and the path to profitable growth

The next big shift

Think back to the proliferation of the internet, resulting digital transformation, and the age of information. Imagine if companies like Blockbuster, Nokia, and Sears had prepared for this shift. What could they have done differently, and what would they look like today?

Today's companies find themselves at a similar inflection point. A sustainability transition is already underway—one that has the potential to disrupt businesses and industries at a scale not seen since the early days of the internet.

Take energy, for example. Massive technological advancements and rapid scaling of associated supply chains over just the last few years have made it *nearly three times* cheaper in most parts of the world to build new solar generation capacity than to build a new coal power plant. Just 15 years ago, the opposite was true. And while legacy coal, oil, and gas facilities still account for 82% of the world's energy consumption, more than 80% of *new* capacity now comes from renewable sources.

Just as with the digital transformation, success today does not require predicting the future, but rather seizing the moment. First movers are already embracing sustainability as the profitable way forward. Those companies that are not looking for ways to unlock new opportunities that help people, planet, and their bottom line risk being left behind.

No longer a choice

A decade ago, few Fortune 500 companies were prioritizing sustainability. Today, that has shifted in the face of an unprecedented climate crisis and growing pressure to confront issues of inequality and inequity. Customers, community activists, employees, investors, and governments demand that businesses act and do better.

As regulatory requirements develop in the United States, Europe, and the rest of the world, corporate leaders now face the imperative to consider business risk and environmental, social, and governance (ESG) compliance alongside operational and financial performance. Organizations that embed sustainable business practices into their operations can gain efficiencies and optimize costs while meeting regulatory and stakeholder demands.

Additionally, sustainability presents a new lever for growth in a competitive environment often coupled with commoditized goods, fierce price competition, supply chain disruptions, and fickle customers. Companies that fail to recognize this (or take advantage of it) may be leaving money and market share on the table.

The cost of inaction

Headlines in recent years have been littered with companies that have not taken sustainability seriously. Such regulatory noncompliance has resulted in lawsuits and fines. Even more importantly, these infractions have the potential to create a lasting negative impact on a company's brand and reputation. Studies, reports, and targeted social media campaigns from nonprofits and nongovernmental organizations (NGOs), like Break Free From Plastic, threaten to affect stock prices, customer sentiment, and the ability to recruit top talent.

Increasingly, social and environmental regulations have a direct impact on companies' profitability and business operations. The Uyghur Forced Labor Prevention Act implemented in 2022 requires companies importing goods produced in certain parts of Asia to prove that inputs were not created with forced labor. More than $2.5 billion of electronics, apparel, footwear, and agricultural products have been held up by US Customs—creating stranded inventory and disrupting supply chains for companies that are not able to reliably trace products back to their second- or third-tier suppliers.

Ultimately, the greatest cost of inaction comes through loss of market share to competitors that are innovating and effectively incorporating sustainability into their business and product strategy. For example, the largest automakers are still playing catch-up to Tesla, which accounted for 56% of passenger electric vehicles (EVs) in the United States in 2023. In retail, as consumer packaged goods companies battle for shelf space and share of customer wallets, historical market leaders are losing out to more eco-conscious brands that appeal to a new generation of customers.

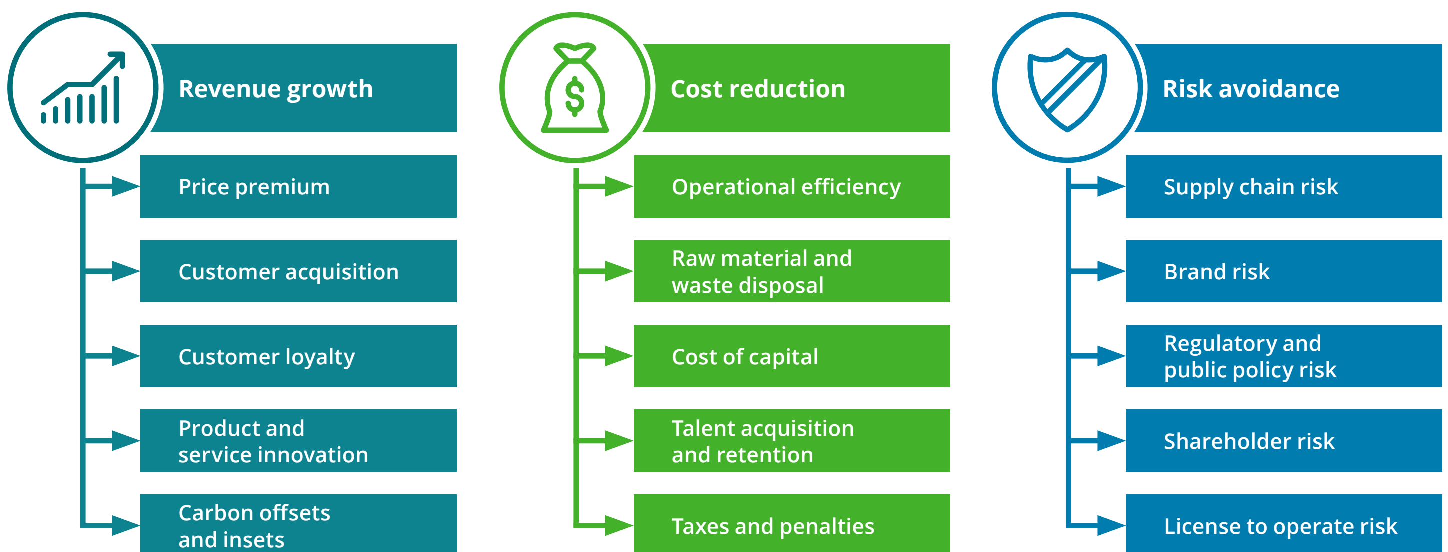
Making the case for profitable growth

The sustainability transition creates an opportunity to identify new revenue streams and optimize costs, positioning organizations for long-term, profitable growth that secures future market relevancy. Reliable evidence across sectors and industries shows that companies can meet their environmental and social goals while outperforming their competitors and driving positive top- and bottom-line growth.

It helps to evaluate the potential benefits of a sustainability initiative through the **Sustainability Value Framework** (figure 1). The framework starts with three categories most C-suite executives already focus on: revenue growth, cost reduction, and risk avoidance. The levers in each of these categories can then be used to construct a business case that demonstrates how sustainability can drive long-term growth and profitability for the business.

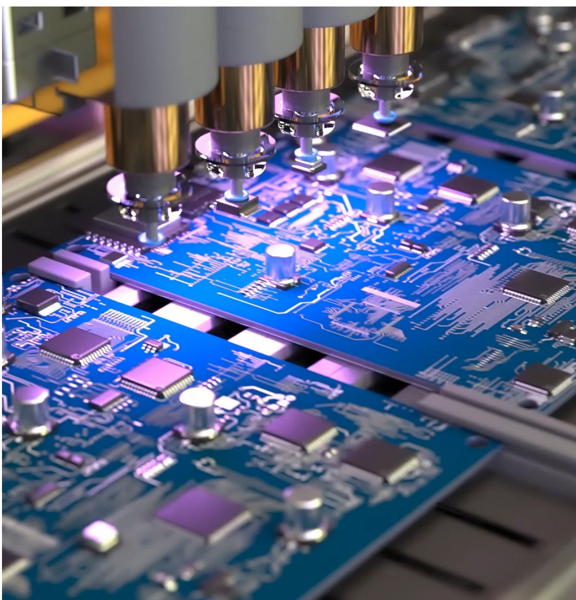
By using the Sustainability Value Framework, business leaders can evaluate opportunities and clearly articulate a case for investment to their cross-functional stakeholders, who are inevitably required to approve, plan, and execute on sustainability initiatives.

Figure 1: Sustainability Value Framework



1 Revenue growth

While some sustainable-branded products may cost more to produce, they often command higher price premiums. Unilever's Sustainable Living Brands (e.g., Seventh Generation, Dove, Ben & Jerry's) are often priced above nonsustainable competitors but are growing 69% faster than the rest of the business and delivering 75% of the company's growth.



Additionally, environmentally friendly products that meet changing customer preferences and more inclusive product design can often **increase loyalty** of existing customers and attract **new, values-driven customer segments**. Consumers who prefer sustainable products, according to a study cited in *Harvard Business Review*, tend to be more vocal advocates and are twice as likely to be "super promoters" who recommend the products to 10 or more people.

Companies can also generate new revenue streams through new business models, **product innovation**, and investment in emerging technologies. Ikea's Thisables program, for example, was established to make its furniture more accessible for people with disabilities (who often pay twice as much for furniture specifically designed for their needs). The furniture retailer designed open-source add-ons that could be downloaded and 3D printed by anyone, anywhere in the world, for free. Revenue for the products with these add-ons grew by 33% the year after they were released.

The most innovative companies are even beginning to generate new revenue streams by commercializing their carbon reductions through the **sale of carbon offsets or insets**.

Revenue growth

Carbon commercialization

A major US food processor helped its suppliers adopt regenerative agriculture practices. The company's CPG and QSR customers with public carbon reduction targets can now buy certified lower-carbon products with associated **carbon insets at a premium**

Value drivers enabling growth

- Customer acquisition
- Customer loyalty
- Product and service innovation
- Carbon offsets and insets

2 Cost reduction

Sustainability can also be used to drive down costs by implementing more **efficient operations and logistics** and taking energy and **waste out of production**. Nike's groundbreaking Flyknit technology reduces waste by 80% compared with standard cut-and-sew footwear. The associated shoe line has exceeded $1 billion in sales with an above-average profit margin. Similarly, Lockheed Martin's waste-to-bioenergy gasification plant in New York has saved the facility $1 million in annual heating and cooling costs and helped reduce carbon emissions by 9,000 MT per year (equivalent to removing 2,100 gas-powered vehicles from the road).

Companies that align their business and employee values with environmental and social responsibility may also see decreased **employee hiring and retention costs**. Patagonia, a brand renowned for its commitment to its sustainable mission and responsible business practices, has a 4% employee turnover rate—much lower than the average across the retail and consumer goods sectors.

Sustainability's impact on corporate finance should not be overlooked either. Studies show that businesses with responsible ESG practices often have **lower cost of equity and debt capital**. There are also an increasing number of **tax benefits** available at the federal and state level that accelerate the timeline for sustainability initiatives to reach positive ROI. Notably, the Inflation Reduction Act (IRA) made $416 billion available to businesses to invest in solutions that reduce pollution, expand clean energy production, and address historical and emerging inequities.

Cost reduction

Fleet electrification

A global transportation and logistics company created a roadmap to electrify its fleet. The transition plan is expected to result in **significant cost savings** for the company over the total life of its new fleet.

Value drivers reducing cost

- Raw material and waste disposal
- Operational efficiency
- Taxes and penalities

3 Risk avoidance

Mitigating risk is vital to the success of any business. Companies that prioritize sustainability can become more resilient in the face of physical risks and avoid **potential disruptions to their supply chain** from extreme weather events and longer-term changes to climate.

Hurricane Harvey, as an example, forced simultaneous closure of all major ports on the Texas coastline for days in 2017, effectively cutting off 25% of Gulf Coast oil and gas production and creating logistics nightmares for retailers and hospitals. Those who were unprepared faced shortages, shutdowns, and lost revenue.

Companies that invest in local renewable energy production and storage are better equipped for both sudden power outages, like Harvey's aftermath, and the rising cost of energy over longer time horizons. Take Google, which saw an opportunity to replace its backup diesel generators with battery-based systems at a data center in Belgium, simultaneously helping to meet its own carbon-free energy goals while de-risking its assets.

Google's initiative also illustrates how businesses can strategically use their sustainability investments to help reduce the **risk of negative advocacy** and increase the likelihood of community, employee, and NGO support of company priorities. When the Belgian data center is not using the backup capacity, Google lends out its batteries to help local renewable energy grid operators balance the grid—keeping energy costs lower, decreasing the likelihood of blackouts in the region, and generating local goodwill.

Sustainability investments can also mitigate **public policy risk** by preparing for pending legislation and increased scrutiny from regulators. In February 2024, there were more than 30 active lawsuits aiming to hold polluters accountable for the costs of climate change. Defendants' attempts to move the issues to federal courts have been rejected, increasing the likelihood companies will need to defend their climate policies in front of juries. Parallels to the settlements for tobacco and opioid lawsuits are already being drawn, where the harsh financial punishments were compounded by drawn-out, negative news cycles in the court of public opinion.

Organizations that fail to report on progress toward their public sustainability goals may also **risk backlash from shareholders and customers**—both of whom increasingly expect companies to walk the talk. The volume of ESG-related shareholder proposals reached a record high each of the last three years. The number of proposals being withdrawn is also decreasing, which could indicate that activist investors are willing to fight on these topics and even replace board members who are blocking or slowing progress toward public sustainability commitments.

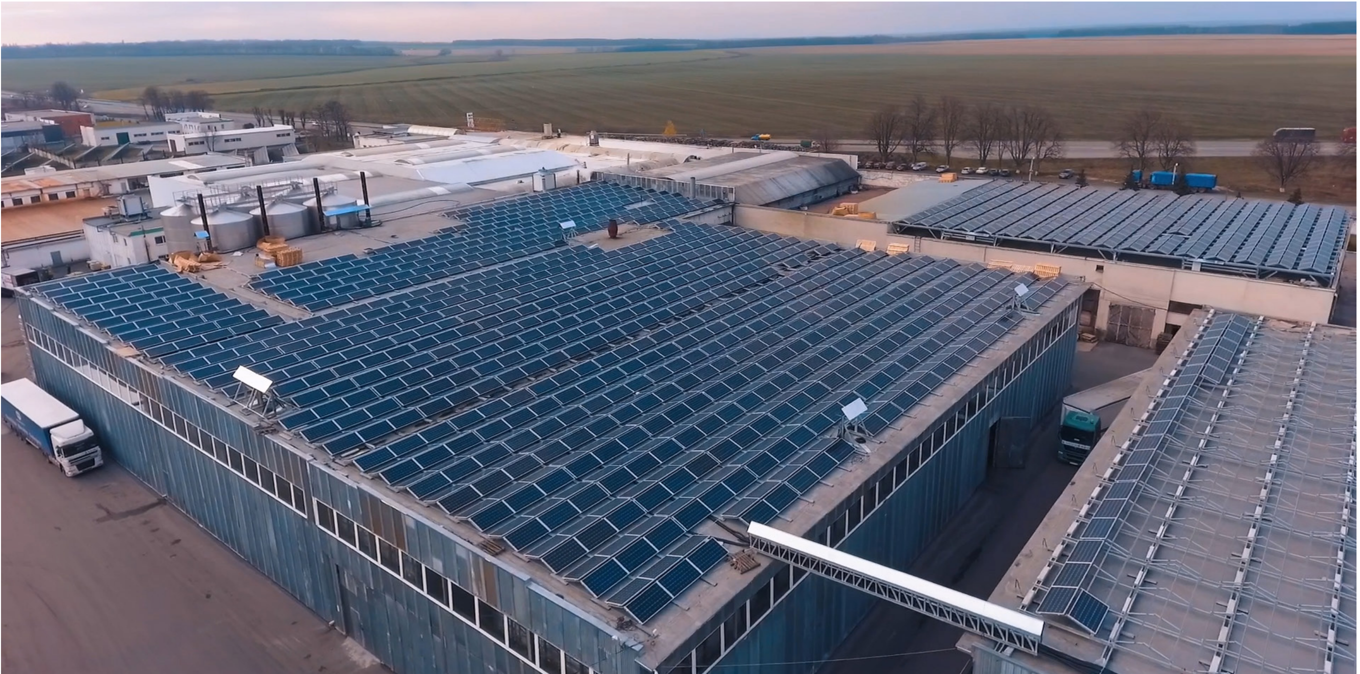
Risk avoidance

Supply chain resiliency

A leading manufacturer of construction and mining equipment designed a comprehensive strategy to secure access to a **resilient, localized, and closed-loop supply chain** for the batteries in its rapidly growing portfolio of electric machinery.

Value drivers mitigating risk

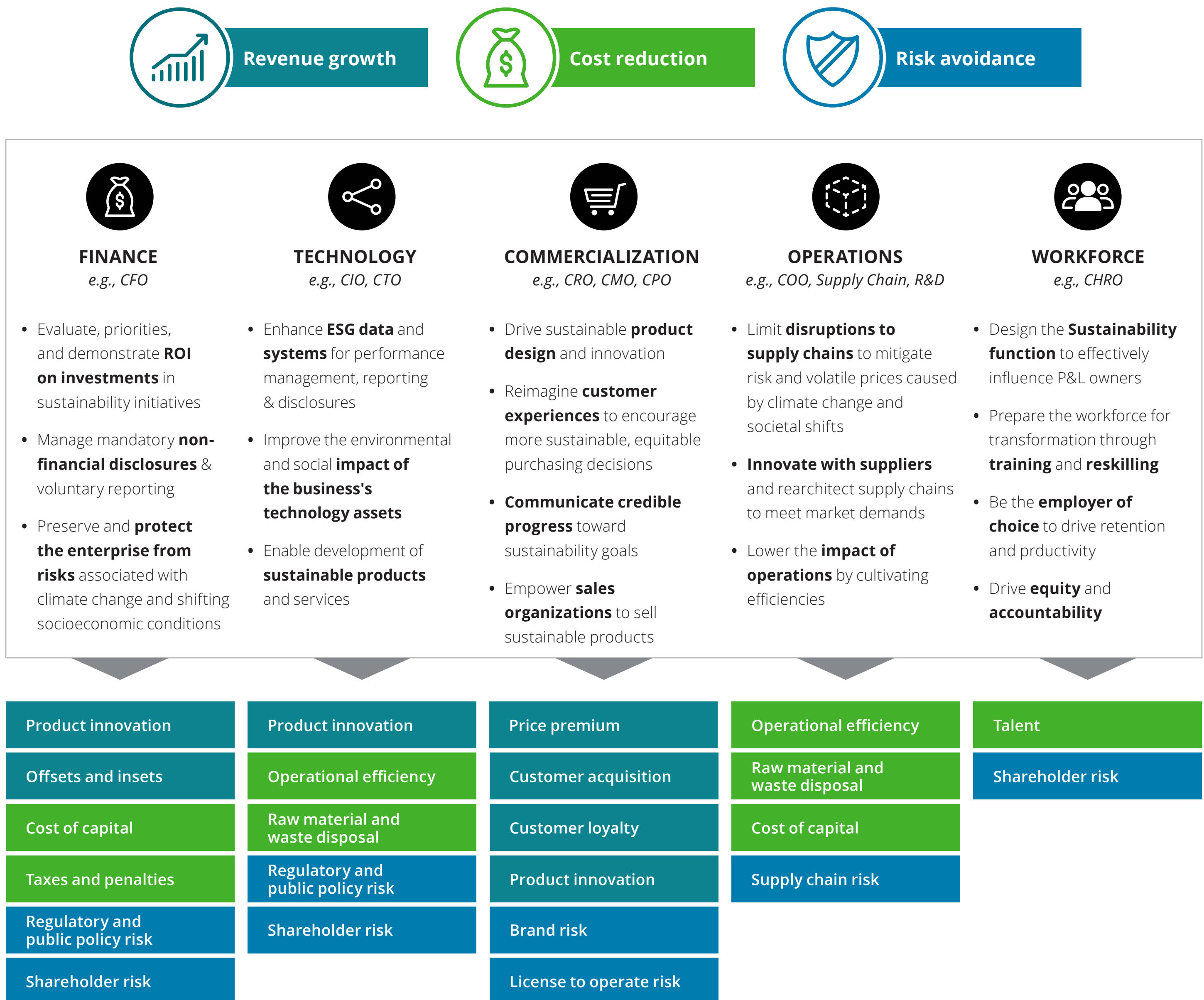
- **Supply chain risk**
- **Regulatory and public policy risk**
- **License to operate risk**



Embracing enterprise-wide transformation

Launching sustainability initiatives can take on many forms. Some companies may opt to start their sustainability journey in a single part of their organization, such as waste reduction or energy management. In many organizations, a **chief sustainability officer (CSO)** or equivalent ESG/Purpose leader will be responsible for defining a strategy, establishing goals, convening stakeholders, and driving progress. However, this is not for the CSO to solve independently; each function should contribute to the vision and partake in its execution. Maximizing benefits of a sustainability transformation requires C-suite sponsorship and an enterprise-wide approach (figure 2).

Figure 2: Enterprise-wide approach to sustainability



An independent, empowered sustainability function is often more successful at pursuing its objectives when it proactively engages the **finance function (CFO)**, which has the experience to understand where to lean in for real impact—navigating complex decisions around investment planning and spend, linking it to strategic objectives, executing and operationalizing plans. Finance also owns the external reporting responsibility and is a natural partner for questions about disclosure requirements related to SEC rules, the Corporate Social Responsibility Directive (CSRD), and other evolving regulations.

Finance may convene data and insights, regulatory considerations, and operational impacts to inform the organization's strategic direction, but the **technology function (CIO/CTO)** is an essential catalyst for successful enterprise-wide sustainability transformation. Technology can integrate financial and operational data to provide internal performance management insights and enable automated reporting for investors and regulators as standards evolve. This data traceability and transparency work can also support credible sustainability claims (e.g., digital product passport)—a critical component for the commercialization of new products and

successful sale of carbon offsets or insets. In addition, as businesses generate and consume exponentially more data, CIOs are increasingly being called upon to ensure their IT asset life cycles and associated energy use support the organization's sustainability ambition.

The operations function (COO) is responsible for implementing many of the core changes that make the business run more sustainably. This includes cultivating efficiency across sites and plants by reducing waste, managing energy and water consumption. The COO may also influence supplier innovation by aligning incentives to drive changes in behavior or even rearchitecting supply chains to meet market demand for sustainable products and services.

The **commercialization (CMO)** and **workforce (CHRO)** functions are critical to addressing the evolving needs and expectations of customers and employees. The CMO must collaborate across the organization to design new products and services that achieve positive climate and equity outcomes and meet customer needs. In addition, the CMO is responsible for cutting through the noise and making credible marketing claims that attract new and retain existing customers. The CHRO must ensure the workforce has the skill sets necessary to adopt more sustainable business practices and navigate a business environment undergoing rapid transformations. This involves building an inclusive company culture, recruiting and retaining top talent, and building a talent pipeline from new and more diverse sources.

Profitable path forward

In a world where companies often struggle daily to stay ahead of the competition, finding a path to long-term profitable growth is no easy feat. While adding sustainability requirements can feel like "one more thing to worry about" on top of a never-ending list of business priorities, sustainability and profitability do not have to be at odds. In fact, sustainability initiatives can help grow revenue, reduce costs, and avoid risk, especially when supported by the C-suite and undertaken at the enterprise level.

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