Sustainable business management: an introduction

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Outlines:

- To retrace the history of idea and systematize the key-concepts on sustainability;
- To discuss (interactively) the relevance of sustainability in a contemporary World focusing on critical issues & mega-trends (environmental and socio-economic);
- To share an overview on (non-conventional) measures of sustainability across different socio-economic systems (e.g. BES form ISTAT; local well-being from NEF; ecological/carbon footprint…)

Sustainability: key-concepts

English: **to sustain** (v.) - from Middle Age English ***sustenen*** - from old French ***sustenir*** (v.) – from old Italian – ***sustinēre*** (v.) from Latin ***sub*** ("below") + ***tenere*** ("to hold") - ***subtenere*** = "holding from below"

(Mexican Spanish: ***Sostén*** = **bra** (n. Eng.) / ***reggiseno*** (n. Ital.)

sus·tain'a·bil'i·ty *(n.)*, **sus·tain'a·ble** *(adj.)*, **sus·tain'er** *(n.)*, **sus·tain'ment** *(n.)*

To keep in existence; to maintain.
To supply with necessities or nourishment; provide for.
To support from below; keep from falling or sinking.
To support the spirits, vitality, or resolution of; encourage.
To bear up; withstand., to experience or suffer.
To prove or corroborate; confirm.
To keep up competently.

Conceptual implications of the etymology:

'Sustainability' is NOT natural (automatic).
CONSCIOUS and MEASURED EFFORTS are required to sustain any system.
'Sustainability' is NOT perfection; it is a dynamic quest to preclude the disruption/discontinuity of a system.

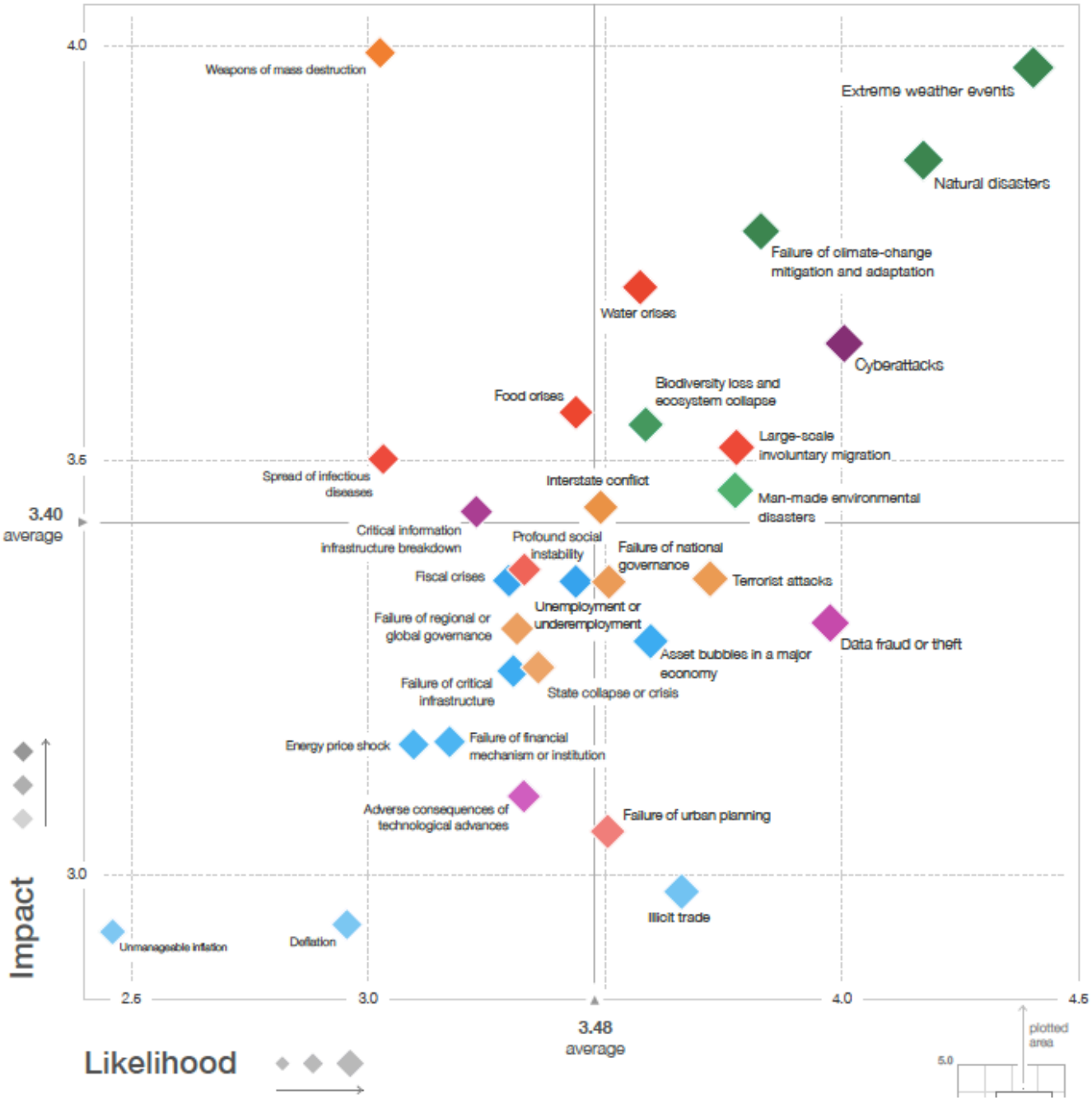
Sustainable economy:

Controlled transformation and management of change in an economic system, with maximum concern for the needs of present with minimization of the costs and burdens for future.

A World at risk:

WEF Global Risk Report 2018

Figure I: The Global Risks Landscape 2018



A World at risk

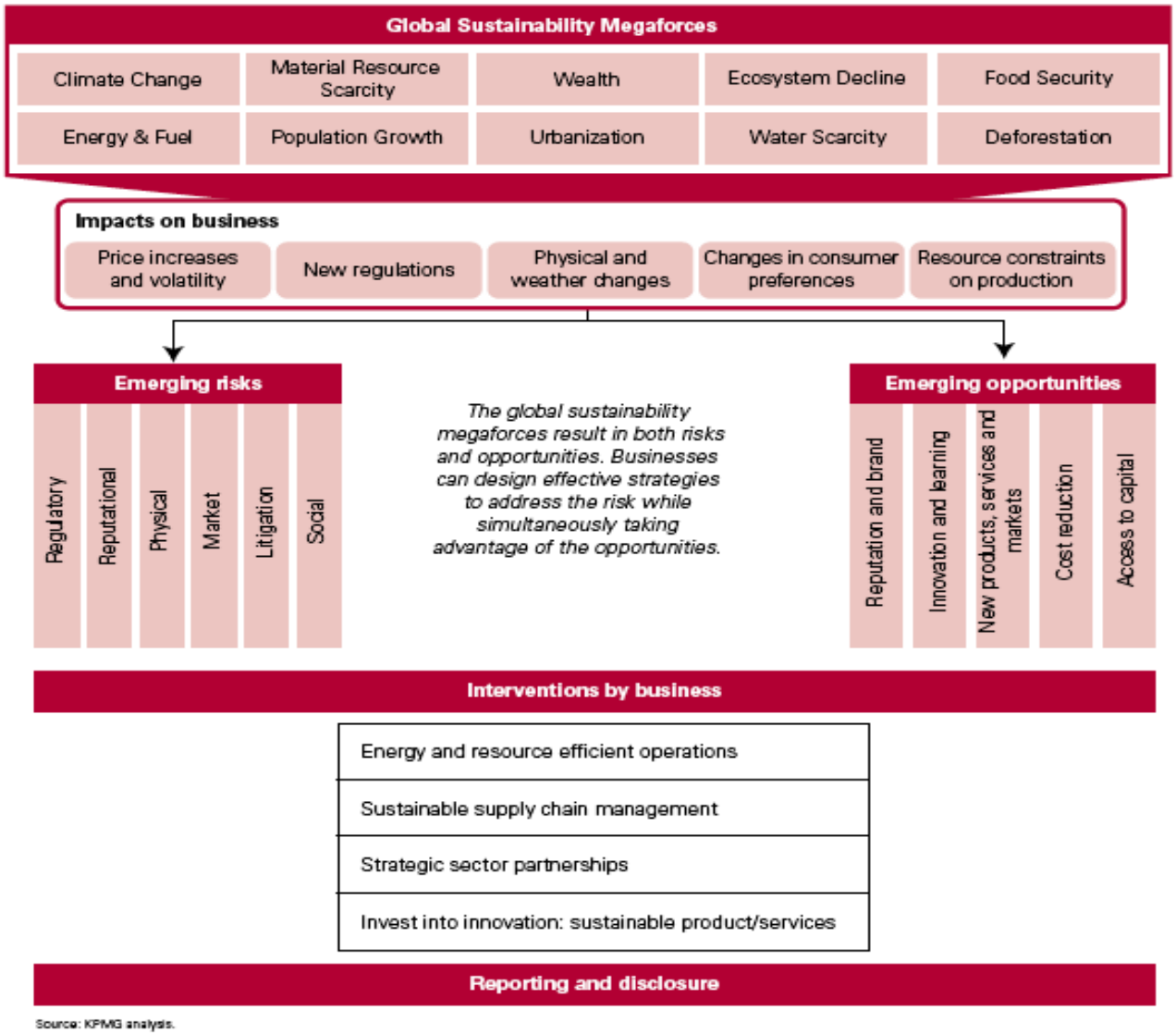
10 megaforces according to KPMG…

Megaforce	Indicator	% Change	Source
CLIMATE CHANGE	Energy-related CO_2 emissions	+20	IEA
	Mean temperature rise	0.5-1.0 °C	IPCC & Others
ENERGY & FUEL	Primary energy demand	+33	IEA
	Net electricity generation	+84	EIA
MATERIAL RESOURCES	Raw materials extraction (excluding fossil carriers)	+55	SERI
WATER	Demand for water withdrawals	+53	2030 Water R. Group
	% Population under water stress	+39	WEF
POPULATION	Total population	+20	UN
	% Population 65 and older	+50	UN
WEALTH	Middle-class purchasing power	+172	OECD
	Real gross domestic product	+130	Standard Chartered
URBANIZATION	Urban population	+44	UN
	Urban land cover km^2	+110	Seto, et. al. (2011)
FOOD SECURITY	Aggregate food demand	+50	FAO
	Key staples food prices	+70 to +90	Oxfam
ECOSYSTEMS	Terrestrial mean species abundance	-9 to -17	CBD GLOBIO
	Human ecological footprint	+33	GFN
DEFORESTATION	Net forest cover	-13	OECD
	Amazon forest loss	+55	WWF

A World at risk

and the impacts on business

Figure 49: Global sustainability megaforces – Addressing the risks while realizing the opportunities

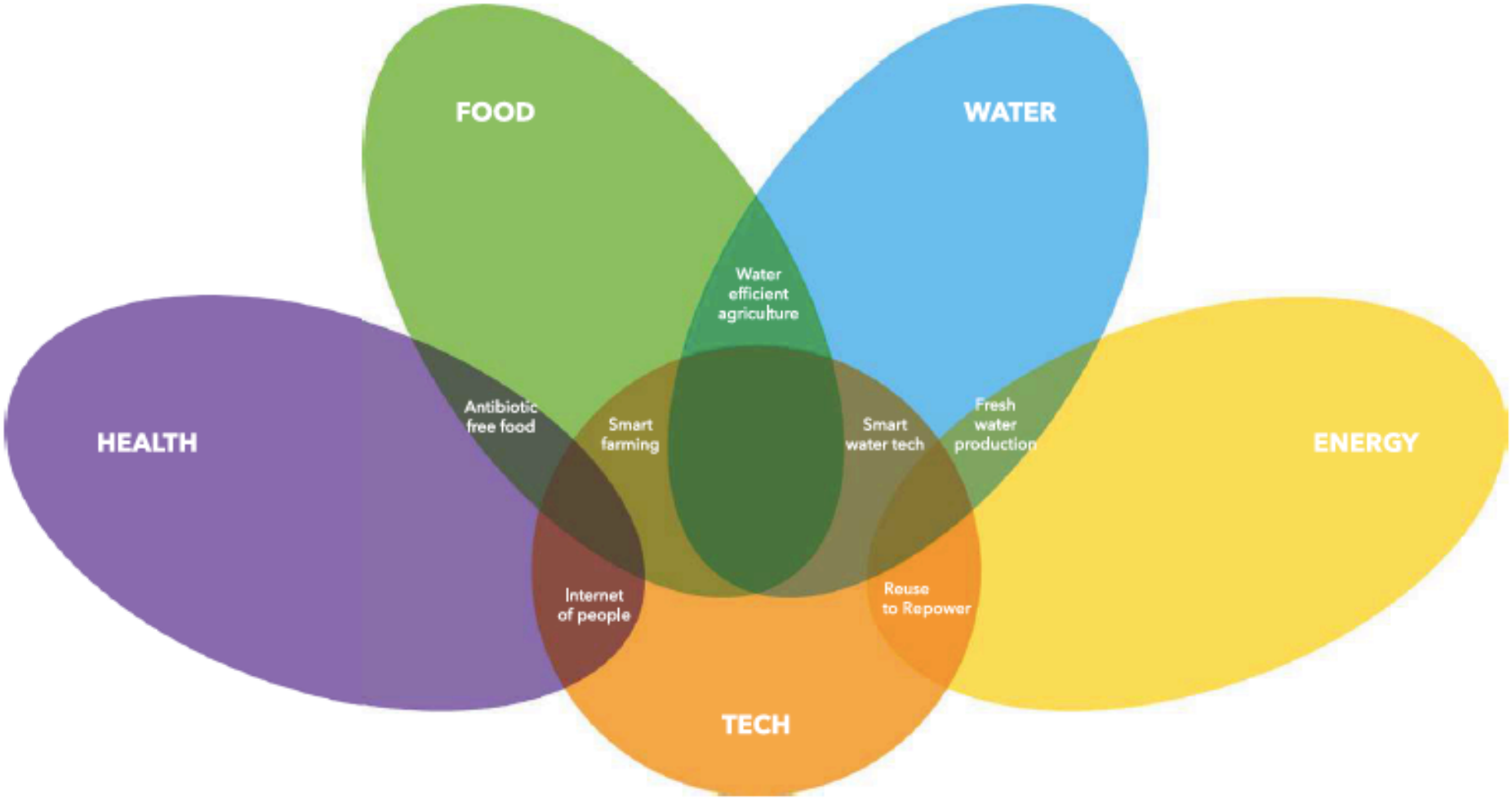


Source: KPMG analysis.

A World of opportunities: DNV GL Globla Opportunity Report 2018

1. At the **intersection** when specific markets are seeing new areas of overlap with technology changes

2. At the **edge** of existing markets when markets meet one another



Towards a real commitement

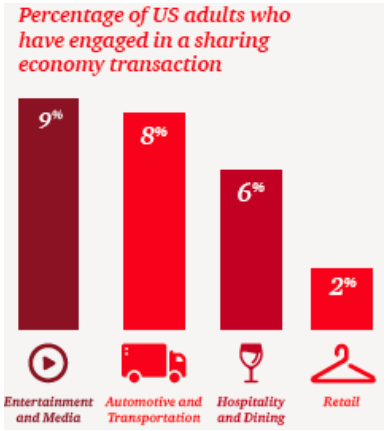
Milestones:

- 1992 (Earth Summit of Rio de Janeiro): ONU conference in order to promote sustainable development
- 1993-1995: pea to European companies to sign the “Manifesto against social exclusion”
- 2000 (Global Compact - UN): code of conduct for big companies on 9 guiding principles (human rights, work, corruption, environment…)
- 2000 (Summit of Lisbona): EU set as a target to become the most competitive, innovative, environmental-friendly economic area of the world
- 2001: EU Green Paper “Promote an European Framework for Corporate Social Responsibility”
- 2002: World Bank endorses Agenda 21 and Global Compact in order to promote four target (economic sustainability, environmental protection, social sustainability, transparency of management operations)
- 2002 (Earth Summit of Johannesburg): the economic growth should be oriented to social cohesion and environmental protection
- 2006-2007: new resolution of European Commission about the Corporate Social Responsibility
- 2007 (G8): further promotion of Corporate Social Responsibility
- 2011: A renewed EU strategy 2011-14 for Corporate Social Responsibility
- 2016-17: UN SDGs

Sustainability: a matter of culture

Past

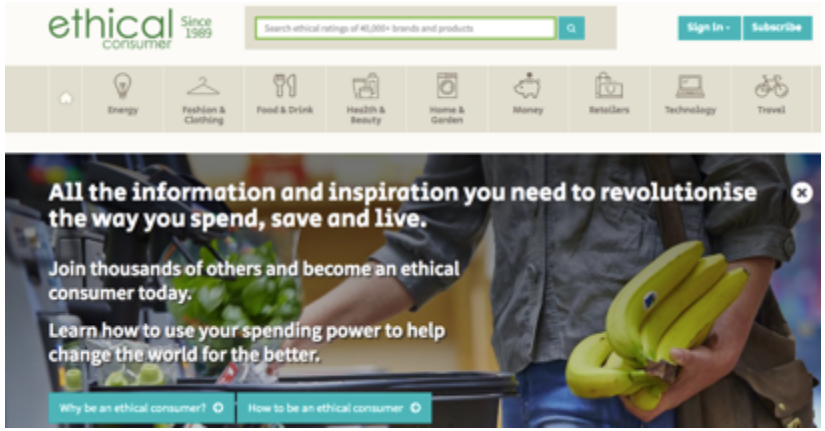
Present



- Airbnb: 155 mln pax/year (Hilton worldwide 127 mln) - Uber capitalization 41,2 bln $ (much more than Delta Airlines, United Airlines…)
- Towards a “zero” and “free from” World

The push factors towards a more sustainable World

Consumership side



International agenda

Sustainable investment rush

ROBECOSAM
We are Sustainability Investing.

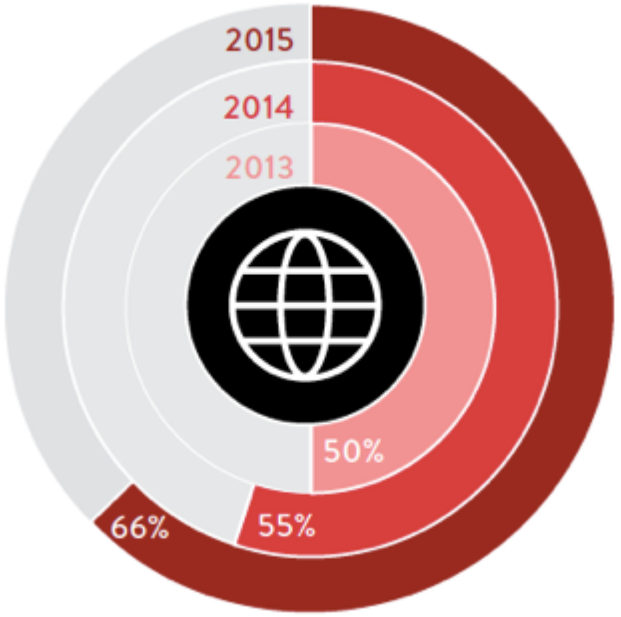
Standards

SASB
SUSTAINABILITY ACCOUNTING STANDARDS BOARD

GRI
Empowering Sustainable Decisions

Future-Fit
Business Benchmark

The push factors towards a more sustainable World



Trends:

1. Frugality glorification
2. Towards 0 society
3. Experience vs possession
4. Life style
5. Traceability
6. Accountability
7. Durability
8. ...

	GLOBAL RESPONDENTS	THOSE WILLING TO PAY MORE
The products are made by a brand/company that I trust	62%	72%
The product is known for its health & wellness benefits	59%	70%
The product is made from fresh, natural and/or organic ingredients	57%	69%
The product is from a company known for being environmentally friendly*	45%	58%
The product is from a company known for its commitment to social value*	43%	56%
The product's packaging is environmentally friendly	41%	53%
The product is from a company known for its commitment to my community	41%	53%
I saw an ad on television about the social and/or environmental good the product's company is doing	34%	45%

*For those willing to pay extra, the importance of these factors increased the most

Fonte: Nielsen, 2015

The push factors towards a more sustainable World

EU 2014/95: integrated reporting

Italian law 28 12 2015, n. 208, commi 376-384: Benefit Corporation

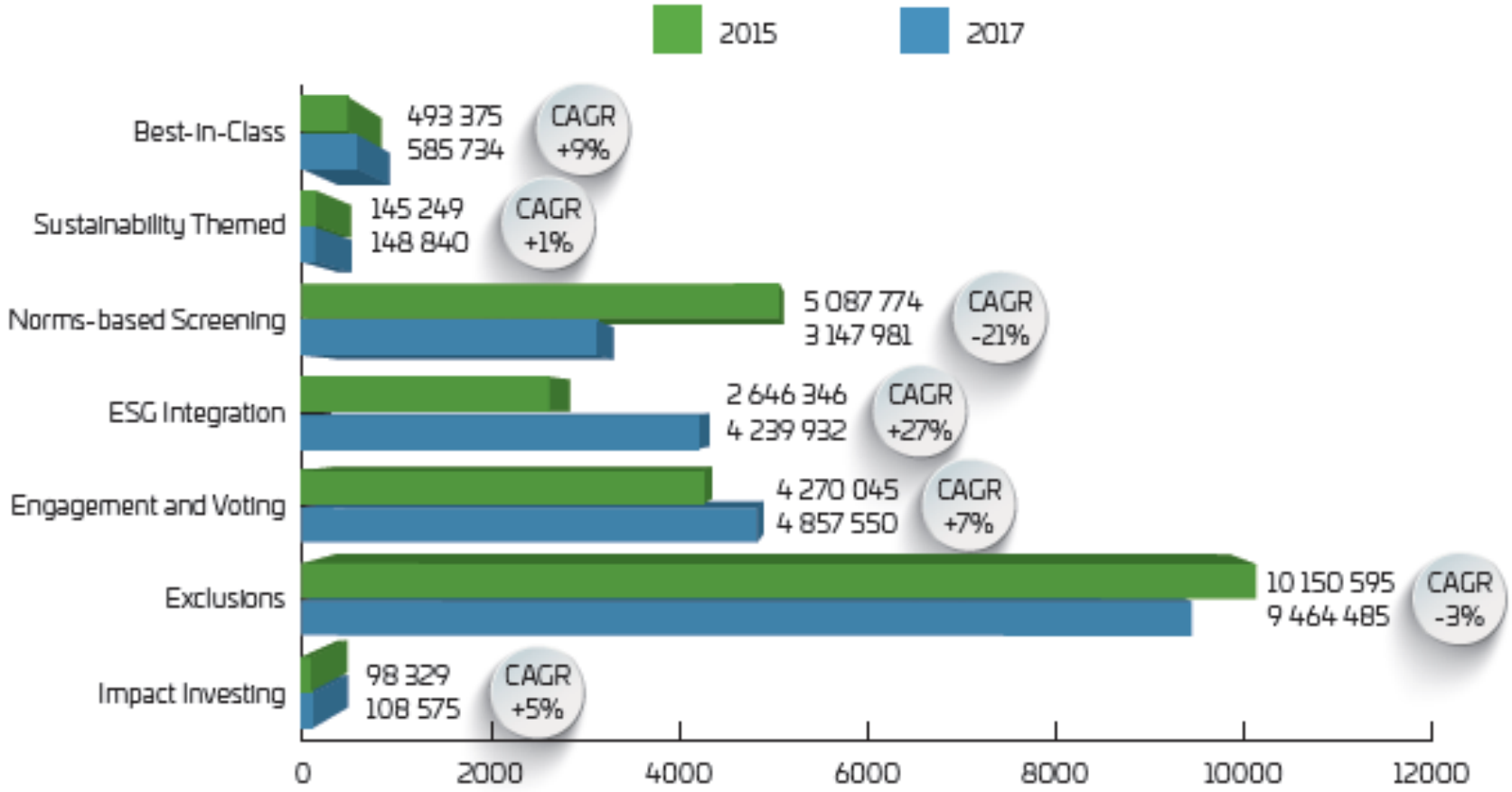
Italian Law 2016 28/12/2015 : Corporate welfare

EU Action Plan for a Circular Economy (2015)

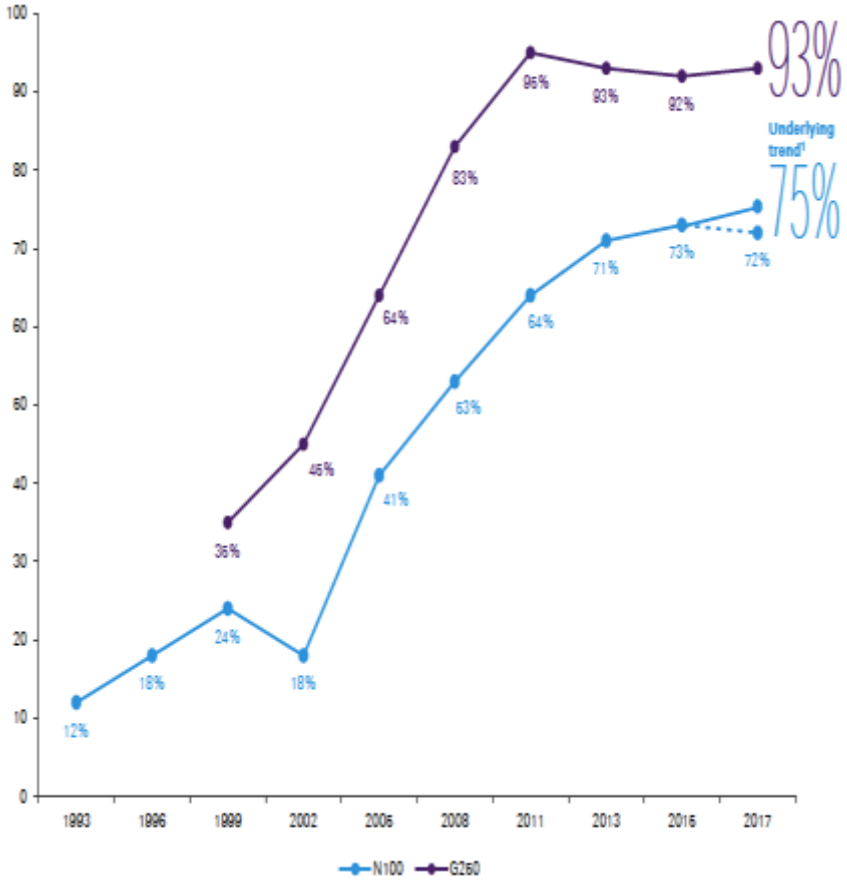
The push factors towards a more sustainable World

RESPONSIBLE INVESTMENT

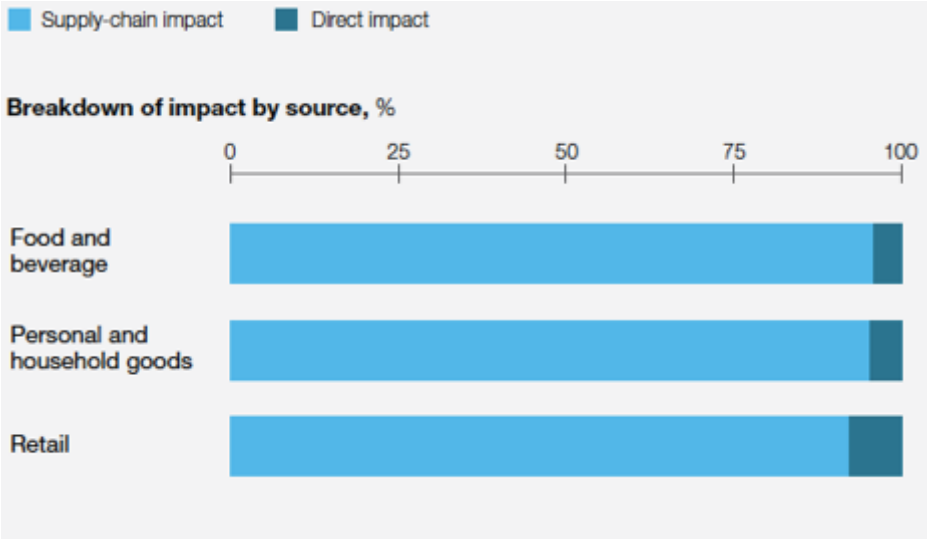
RSI in Europe: overview



The push factors towards a more sustainable World



Fonte: KPMG, 2017



Fonte: McKinsey, 2018

The push factors towards a more sustainable World

SUSTAINABILITY AS A STRATEGIC DRIVER

Harvard Business School	
Period	2012-2017
N°	3.802
Source	MSCI ESG
Ref	Harvard Business School - Working Paper 19-065, 01/01/2019. Ioannis Ioannou, George Serafeim

	Approach to corporate strategy	
	Common practices	Strategic approach
Push	Survival/legitimation	Differentiation
Effects	• Expectation on better performances	• Expectation on better performances • ROC (Retorn On Capital) • P/B (Price-to-Book)
Outcomes	• Isoformism	• Distinction • Competitive advantage
Role	Lagger\Follower	Leader\Champion
Example	Energy, pollution, H&S.	Data driven organization, circular economy

Different ideas and concepts on sustainability and business

Benefit Corporation
Corporation that creates general public benefits, with positive impact on society and environment. Shareholders care about economic performance as well as impact on society and environment (http://bcorporation.eu/italy)

Green economy
"One that results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities. It is low carbon, resource efficient, and socially inclusive" (UNEP, 2011).

Circular Economy
Aims to eradicate waste—not just from manufacturing processes, as lean management aspires to do, but systematically, throughout the life cycles and uses of products and their components. Differs from linear economy → "take and waste" (McKinsey, 2015) (http://www.ellenmacarthurfoundation.org/case-studies)

OUTLINE OF A CIRCULAR ECONOMY

PRINCIPLE

1

Preserve and enhance natural capital by controlling finite stocks and balancing renewable resource flows
ReSOLVE levers: regenerate, virtualise, exchange

PRINCIPLE

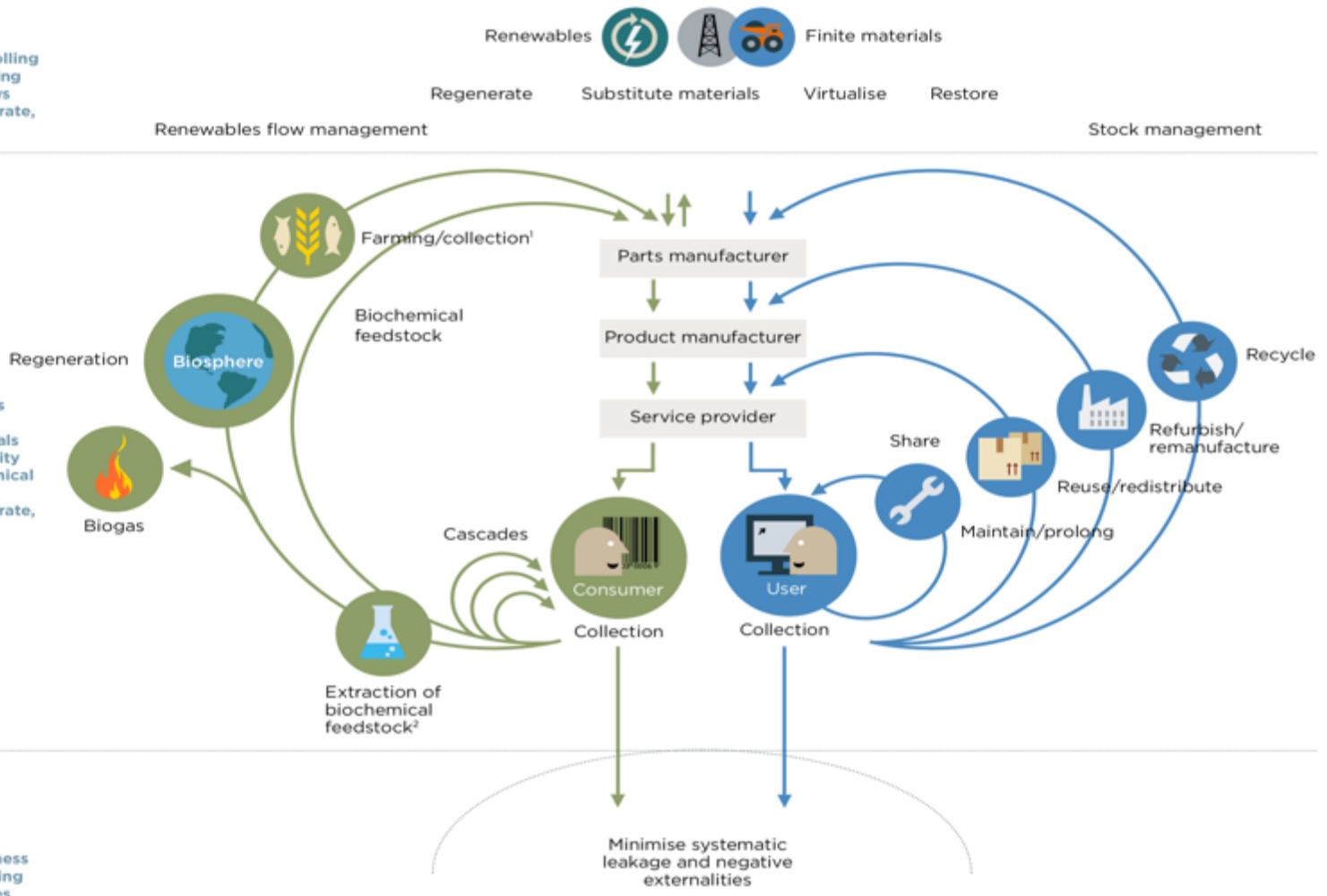
2

Optimise resource yields by circulating products, components and materials in use at the highest utility at all times in both technical and biological cycles
ReSOLVE levers: regenerate, share, optimise, loop

PRINCIPLE

3

Foster system effectiveness by revealing and designing out negative externalities
All ReSOLVE levers



1. Hunting and fishing
2. Can take both post-harvest and post-consumer waste as an input

Source: Ellen MacArthur Foundation, SUN, and McKinsey Center for Business and Environment; Drawing from Braungart & McDonough, Cradle to Cradle (C2C).

Shared Value

"…generating economic value in a way that also produces value for society by addressing its challenges. A shared value approach reconnects company success with social progress". (Porter & Kramer, 2011)

LEVELS OF SHARED VALUE	BUSINESS RESULTS	SOCIAL RESULTS
Reconceiving product and markets: How targeting unmet needs drives incremental revenue and profits	• Increased revenue • Increased market share • Increased market growth • Improved profitability	• Improved patient care • Reduced carbon footprint • Improved nutrition • Improved education
Redefining productivity in the value chain: How better management of internal operations increases productivity and reduces risks	• Improved productivity • Reduced logistical and operating costs • Secured supply • Improved quality • Improved profitability	• Reduced energy use • Reduced water use • Reduced raw materials • Improved job skills • Improved employee incomes
Enabling cluster development: How changing societal conditions outside the company unleashes new growth and productivity gains	• Reduced costs • Secured supply • Improved distribution infrastructure • Improved workforce access • Improved profitability	• Improved education • Increased job creation • Improved health • Improved incomes

Different ideas and concepts on sustainability and business

Bio Economy

The bioeconomy comprises those parts of the economy that use renewable biological resources from land and sea – such as crops, forests, fish, animals and micro-organisms – to produce food, materials and energy. (EU, 2015) (see: Novamont) (https://ec.europa.eu/research/bioeconomy/pdf/13-case-studies-0809102014_en.pdf)

Social Business

A social business operates for the benefit of addressing social needs that enable societies to function more efficiently. Social business provides a necessary framework for tackling social issues by combining business know-how with the desire to improve quality of life. (M. Yunus).

CSR

"Corporate Social Responsibility is the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large." (WBCSD, 2015)

How sustainability affects value creation?