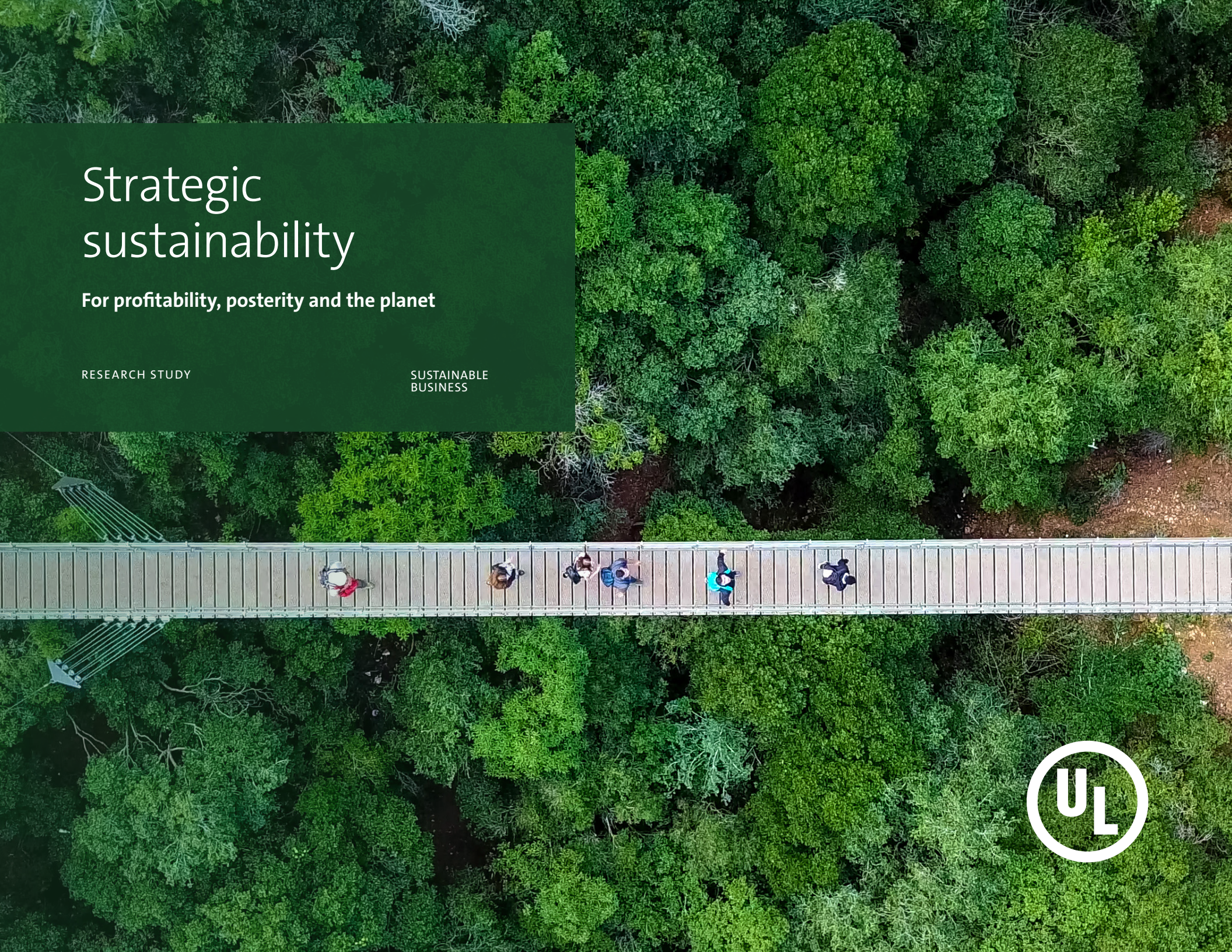
Strategic sustainability

For profitability, posterity and the planet

RESEARCH STUDY

SUSTAINABLE BUSINESS



The time for strategic sustainability is now

While the environmental movement in the private sector has been building momentum for decades, only recently has it gained extensive visibility, transitioning from a sidebar intiatitive to a fundamental tenet of doing business. Climate change poses a real threat to mankind. The cumulative global cost of climate change's effects on the environment, health and food security will reach between $2 trillion and $4 trillion by 2030.[1]

Just as the private sector remains indispensible to the success of the sustainability movement, sustainability proves equally essential to the success of businesses and their profitability. The private sector leaders in sustainability are those companies that pioneer the implementation of proactive environmental, social responsibility and sustainability reporting, and performance practices into their businesses.

After years of charting new territory, capturing metrics, and evaluating the results, the numbers are in: The clear conclusion is that strategic sustainability makes business sense. From cutting costs to increasing long-term viability, from building brand value to reducing risk, the pursuit of sustainability is strategic for businesses today.

And while the indicators, methods, tools and objectives are constantly evolving, companies are diving in, making progress, and seeing the value for their businesses. The time for strategic sustainability is now. Not convinced? We believe the evidence speaks for itself.

Transparency paves the path to trust

Sustainability claims are meaningless if companies fail to provide transparency. Following cases of greenwashing and corporate scandals, millennials are willing to take the time to validate claims. In fact, 76 percent of millennials say that when a company takes a stand on a social or environmental issue, they will do research to see if the claim is authentic.[2]

In a world of immediate feedback – courtesy of social media, a 24/7 news cycle and instant communication – transparency is no longer optional. Buyers can easily determine if a company is authentic, lives by its values and keeps it promises.

In fact, brand authenticity is demanded by multiple stakeholders: from consumers to investors, employees to regulatory bodies, supply chain partners to distributors.

81% of CEOs say that digital technologies are radically increasing the transparency of product lifecycles and supply chains

62% say that digitization has made trust a top priority for the company

Companies that fail to put their money where their mouths are can be subject to widespread criticism. It's no surprise that 81 percent of CEOs say that digital technologies are radically increasing the transparency of product life cycles and supply chains — and nearly two-thirds (62 percent) say that digitization has made trust a top priority for the company.[3]

But offering true transparency can be challenging for businesses, which must collect and consolidate information from disparate sources, align players across the entire supply chain, configure information from multiple stakeholders, and report in ways that meet governance, regulatory and marketing needs. For this reason, true transparency requires a digital transformation.

Transparency relies on the availability of data in a variety of areas. Depending on the product, transparency might require data about a product's chemical make-up, environmental impact and social ramifications.

Predictive analysis tools can help determine the potential impact of products on human health from a toxicological perspective.

An increasing number of stakeholders demand environmental, social and governance reporting (ESG) be part of a brand's commitment and value, requiring that information across the board be consolidated and formatted in specific ways.

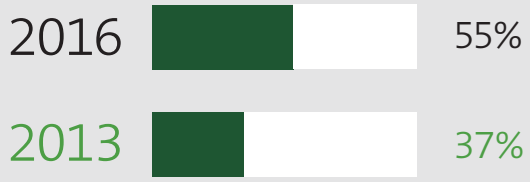
By looking to technologies and internal processes, companies can begin to move toward internal visibility and ultimately achieve transparency to share with stakeholders.

Trust is critical to brand success

According to a survey of CEOs from PwC, the brand name for PricewaterhouseCoopers, released in 2016, more than half the CEOs surveyed (55 percent) are concerned about the lack of trust in business today – compared with 37 percent just three years ago.[4]

A large portion of buyers (43 percent) said they were likely to be more loyal to a product or brand that offers transparency in product information, sourcing business practices and packaging.[5]

The rising concern about a lack of trust



Unsustainable businesses: Proceed at your own risk

For categories of products and brands, there is pressure to adopt sustainability measures. Those that fail to deliver sustainable products and pursue sustainable economic business models place themselves at undue risk on multiple fronts. Failure to gain internal visibility can result in volatility associated with limited access to resources or backlash from savvy consumers who have placed their trust in preferred brands. Fees and penalties may result from failure to meet growing regulatory and legislative standards, and potential lawsuits are common among products that cause health and environmental damage. As a result, companies that fail to pursue sustainability risk their financial well-being and reputation.

CEOs are taking action

40%

Nearly 40% of organizations identified sustainability as the biggest opportunity in 2016/2017

48%

of CEOs are making major changes to how they manage brand, marketing and communication, a testament to the importance of brand trust[4]

Digital transformation is required

33%

Only 33% of companies rate their company as "digitally advanced" today[7]

Digital technologies enable shorter operational lead times, higher asset utilization and maximum product quality, which is expected to save the U.S. $421 billion in costs each year through 2021[7]

A sustainability commitment is essential to establishing trust with buyers

79%
of CEOs say that brand, trust and reputation drive them to act on sustainability[3]

97%
of CEOs believe that sustainability is important to the future success of their business[3]

Nowhere to hide

The days of confining problems and limiting exposure are over. With the proliferation of social media, it's no longer possible to contain the spread of news. Information about companies and their products is dispersed and consumed instantaneously.

62% of American adults get their news from a social media outlet[8]

44% of the general population get their news from Facebook[8]

The potential for loss is great

The value at stake from sustainability issues can be as high as **25 to 70 percent** of earnings before interest, taxes, depreciation and amortization.[9]

More than **90 percent** of CEOs could point to a specific event or "trigger" that got them started pursuing sustainability, such as consumer pressure or a jump in the price of commodities.[9]

More than half cited long-term risks to their business:

26% mentioned mitigating reputation risk[9]

15% said avoiding regulatory problems and eliminating operational risks[9]

Examples of failure to pursue sustainability

Consumers are now wise to greenwashing, the practice of spreading misinformation in an attempt to demonstrate an environmentally responsible public image. As a result, companies seek third-party validations to defend their sustainability claims. Enormous, well-respected companies have been caught, again and again, making unsubstantiated claims. The results can prove to be extremely costly.

Automakers agreed to pay the equivalent of $350 million in fines, forfeited credits and certification testing to settle U.S. claims that they overstated fuel economy on the window stickers that buyers see in showrooms.

A major food distributor settled a lawsuit for an undisclosed sum after being sued by a Seattle nonprofit. After advertising its products were farmed in an "ecologically friendly and sustainable manner," the company contaminated local drinking water sources and polluted local areas with pesticides, causing significant harm to local ecosystems.

Greenwashing is the practice of spreading misinformation in an attempt to demonstrate an environmentally responsible public image.

Core components of sustainability

With brands' trustworthiness and the financial health of companies at stake, companies are taking a more serious and strategic look at how they can incorporate sustainability into their businesses in both an effort to reduce risk and advance their businesses. Yet, what does the notion of sustainability encompass and what does it take to be a good corporate citizen?

With so many different aspects of sustainability, it can be challenging for companies to know where to begin. Here are some core components of sustainability.

Economic

Companies with an eye on sustainability recognize the importance of moving away from an industrial age "take, make, dispose" economy, whereby resources are extracted, used and then disposed of at end of life. In light of climate change and limited resources on a densely populated planet, companies that choose to act as good stewards are recognizing the value of the circular economy, whereby energy and materials are managed throughout their entire life cycle, reusing, redirecting and diverting from the landfill at the end of the process.

Companies recognize this opportunity and are pursuing new business models that support circular economy ideas. Some examples include moving to a shared platform business model, whereby underused resources are shared; implementing a recovery and recycling program to collect and divert materials from landfills; building products with extended life options whereby the useful life of the asset is extended through upgrade options; repairing or refurbishing products; and more. Economically responsible businesses strive to achieve both long-term value for shareholders, as well as contribute in a positive way to a global, sustainable economy.

Environment

Environmental stewardship begins with the acknowledgement that the earth's resources are finite and fragile, and that it is this generation's responsibility to protect and preserve those resources for posterity.

Under the umbrella of environmental stewardship alone, there are vast possibilities for environmental attributes including: recyclability, use of renewable resources as raw materials, reduced carbon footprint, energy efficiency during the production process or use of the product, and use of water during production. Companies must choose the environmental attributes they wish to measure and track, and begin putting indicators and reporting processes in place to understand and measure reduced environmental impact.

Social responsibility

Stewardship also involves a social responsibility aspect: acknowledging the value and inalienable rights of present and future generations, those of great and little means, and running the business with the guiding virtues of cooperation, respect and mutually beneficial relationships. For companies, this means ensuring the ways in which their goods are produced don't take unfair advantage of people and that their business efforts enrich rather than impoverish local communities. For many companies, community stewardship also involves corporate philanthropic efforts. Companies often give back a percentage of profits to good causes of their choice through investments in education, the environment or local enrichment programs.

Human health and well-being

With innumerable new chemicals commonly used during the production of goods in the postindustrial world, there are new and unknown risks to human health due to exposure to these chemicals. Companies must take measures to help ensure that their products are safe for human use and do not pose health threats or damage quality of life during use. As cancer, allergy and other ailment rates skyrocket, consumers are demanding brands promote and protect human health and well-being. Companies have an overwhelming responsibility to understand the potential impact of the many chemicals existing in their products. At the same time, in the age of big data, there have never before been so many predictive and machine-learning tools available to help evaluate the impacts.

Growing demand for multifaceted reporting

A majority (**70 percent**) of Americans believe companies have an obligation to take actions to improve issues that may not be relevant to their everyday business.[2]

There has been a surge in the number of reporting instruments identified since the last report in 2013.[10]

2016

Research identified almost 400 sustainability-reporting instruments in 64 countries

versus

2013

180 instruments identified in 44 countries

Around two-thirds of the instruments we identified are mandatory, and around one-third are voluntary.[10]

ESG reporting is being added to regular financial reporting

82% G&A Institute found that 82 percent of S&P 500 companies published a corporate sustainability report in 2016[11]

Reporting is still evolving

24% Only 24 percent of executives believe they are fulfilling external information needs with their metrics and reporting[12]

63% ESG disclosure is still evolving with only 63 percent of the responding Global 250 companies obtaining some form of assurance on sustainability reporting[13]

42% When asked why they would not consider ESG issues in their decision-making, 42 percent of investors said that nonfinancial information is often inconsistent, unavailable or not verified[14]

ESG reporting comes with big benefits

Many executives (**83 percent**) believe that integrated reporting would help deliver success to their organizations[12]

A report by Oxford University and Arabesque Asset Management — based on more than 200 academic studies, industry reports, newspaper articles and books — found that **88 percent** of the research reviewed shows "solid ESG practices" at companies lead to better operational performance.[14]

***80 percent** of the studies analyzed show that a company's stock performance is positively influenced by good sustainability practices.*[19]

A new age for sustainability management

In the face of growing regulatory demands and the public's call for action to save the planet, companies are incorporating stewardship practices into their business models. Because sustainability impacts all aspects of business, the process of establishing, implementing and tracking ESG measures can be challenging.

Difficulty fully collaborating

Everyone from the CFO to CSO to marketing is involved and critical to the process. Some hold this as a primary role, while others hold it as a secondary or tertiary role. Coordination across multiple stakeholders and departments can be time consuming and difficult.

90%

As an example, more than 90 percent of all respondents feel there could be more collaboration between the marketing and sustainability departments.[6]

Disparate systems

With sustainability indicators originating from the vast reaches of the business, collecting, consolidating and reporting on data is burdensome, time consuming and inefficient for many companies.

60%

According to one report, 60 percent of respondents agreed that too much time is being spent on the reporting process.[6]

Increasing but nonspecific regulations

An increasing number of mandates, including everything from nonspecific guidelines to restrictions and mandates from multiple different sources, make it challenging to streamline compliance, tracking and validation.

New tools introduce new opportunity

New digital data solutions for ESG reporting are emerging. These corporate social responsibility (CSR) reporting systems will greatly facilitate the ESG reporting process with the following capabilities:

- Consolidate data from disparate sources: internal and third party
- Perform data validation to ensure data accuracy and completeness
- Offer intuitive dashboards that different users can customize to see the critical information of relevance to them
- Autoconfigure data needed to meet regulatory reporting structures, such as Global Reporting Initiative (GRI) and U.N. Global Compact
- Deliver enhanced analytics for predictive analysis.

The latest technologies will help companies get a handle on their complete sustainability data, from within the company as well as reports from outside the company. This will lead to more sophisticated sustainability programs and reporting, and likely, further reporting standardization across industries and continents.

The bottom line: reasons to care

While the pursuit of sustainability is in response to the reality that we live on a planet with finite resources as well as an innate sense of responsibility to be good global citizens; over time, companies have learned that there are also bottom-line benefits to the pursuit of strategic sustainability.

Command a price premium for your brand

Survey after survey has shown that environmentally conscious consumers are willing to pay more for brands that demonstrate a commitment to human health, the environment and greater social causes.

In the past year alone, sales of consumer goods from brands with a demonstrated commitment to sustainability have grown more than 4 percent globally,* while those without grew less than 1 percent.[15]

73%

Many consumers (73 percent) said they would be willing to pay more for a product that offers complete transparency in all attributes[5]

69%

The majority (69 percent) of consumers with children are likely to invest in a company well-known for its CSR program[16]

Attract employees and investors

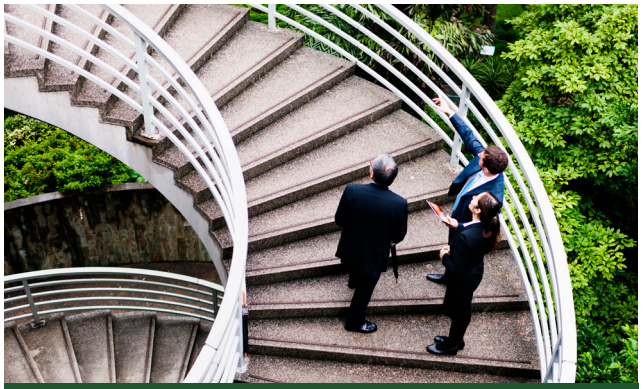
Consumers aren't the only ones who are making decisions about the companies they are willing to engage with based on their sustainability practices. Employees and investors are also looking to work with companies that are committed to the future of the environment.

58% More than half of Americans consider a company's social and environmental commitments when deciding where to work[17]

75% According to one survey, 75 percent of millennials say they would take a pay cut to work for a responsible company[17]

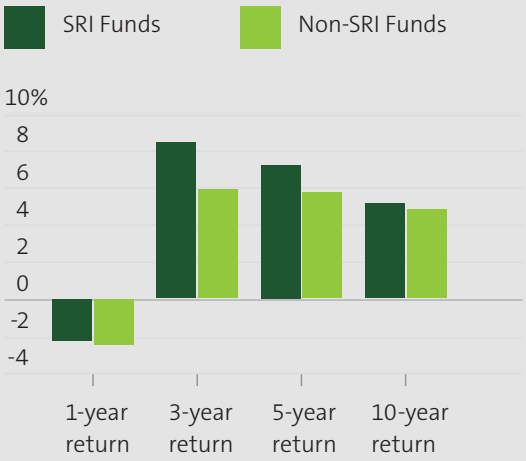
68% An Ernst & Young survey found that in the last 12 months, 68 percent of respondents said a company's nonfinancial performance had played a pivotal role in their investment decisions, up from 58 percent in 2015[19]

Returns of sustainable mutal funds outpace that of non-SRI funds[18]



Competitive returns

Performance of sustainable (or SRI) mutual funds versus ones that aren't.



*Across more than 1,300 brands in 13 categories in an average of 13 countries

Source: © 2015 Morningstar, Inc. | The Wall Street Journal.

It took Uber only
6 YEARS
to earn a valuation of
$68 BILLION,
SURPASSING THAT OF
100-YEAR-OLD
TRADITIONAL TRANSPORTATION
companies, like General Motors, Ford and Hertz.[20]

Help to ensure long-term visibility

A new global age and challenges demand that businesses pursue innovative business models. Companies that continue to pursue a linear model of take, make, dispose will likely find themselves unable to compete. Businesses face challenges including supply chain volatility, limited access to natural resources, rising energy and water prices, and demanding consumers. Successfully navigating these challenges calls for businesses that have true visibility, streamline their use of resources, reduce waste, and consider the needs of the customer. New economy business models are shifting from "product purchase" to "pay-for-performance" and from ownership to shared resources. Product life is extended or recycled for more efficient disposal or reuse.

Reduce risk

Reducing risk can mean everything from protecting the brand to avoiding financial ruin associated with failing to be a good corporate citizen. Claiming ignorance is no longer a viable excuse when companies are discovered to have caused damage to human health or the environment. By making sustainability a fully integrated part of the company strategy and operations, companies gain visibility into their own operations and supply chain. This way they can identify potential problems early so that they may be addressed in a timely manner. Preventing problems can protect the brand from serious reputational damage, as well as lawsuits, fines and stock price drops.

Gain real visibility into your operation

With predictive data and CSR/ESG reporting platforms on the rise, companies have an opportunity to streamline collection, consolidation and reporting of data using software that can organize information and metrics collected by the company, third-party auditors and outside sources. By consolidating information in a single location and making it accessible via powerful analysis tools and search engines, companies can gain true perspective into their sustainability efforts, achievements and risks. Often this kind of visibility leads to insights into other business challenges, inefficiencies, supply chain challenges or other operational problems that can save money when addressed.

Reduce costs

The reasons why strategic sustainability initiatives reduce costs are numerous and varied. However, time and time again, whether due to a reduction in waste, increased visibility into the supply chain that triggers changes in business or reduction in fees and fines, companies realize real bottom-line results and returns from their programs.

Since Unilever launched its Sustainable Living Plan, which launches brands that integrate sustainability information about their products' ingredients and life cycle into the value of those brands, its sustainable brands grew at twice the rate of the rest of the business and the profit margin on these products is two gross margin points, leading them to generate more than a billion dollars in revenue annually from sustainable products.[21]

Walmart undertook an initiative to double fleet efficiency between 2005 and 2015 through better routing, truck loading, driver training and use of advanced technologies. By the end of 2014, they had improved fuel efficiency approximately 87 percent compared to the 2005 baseline. In 2014 alone, these improvements resulted in 15,000 metric tons of carbon dioxide emissions avoided and savings of nearly $11 million.[22]

DuPont, a diversified science company, began its sustainability operations more than 20 years ago as a matter of risk reduction, but these have turned into a major profit center. Since 2011, the company has invested $879 million in research and development for products with quantifiable environmental benefits. DuPont has recorded $2 billion in annual revenue from products that reduce greenhouse gas emissions and an additional $11.8 billion in revenues from nondepletable resources.[9]

Conclusion

The trends, numbers and business case for strategic sustainability are undeniable. Worldwide, the public, governments and corporate leaders are mandating that businesses get serious about sustainability and become involved as corporate citizens in ways beyond just making a profit. The future points toward growing support of meaningful sustainability activities and reporting across the board. Obviously recognizing the benefits of sustainability, in a global 2017 study, 65 percent of companies indicated they are highly confident they will continue to make progress on sustainability even if government regulations that promoted sustainability were removed.[23] This is an indication that businesses are committed and seeing benefits beyond just what is required from a regulatory perspective.

The pursuit of sustainability, while not a simple proposition, delivers significant benefits to companies in the form of true insight, broad cost savings, competitive advantage and reduced risk. All of these benefits combine to make the company sustainable in the sense of protecting people, the planet and posterity, but sustainability also returns profitability and long-term viability of the business.

Whether a large company, entrenched in sustainable practices or a smaller business considering where to begin, the most important action is to initiate the journey and to continue setting a destination. Start a conversation with UL, a trusted provider of sustainability assurance, testing, certification and consulting, to help you achieve your sustainability goals, no matter how simple or complex.

Together, we can protect both profitability and the planet.

For more information, visit UL.com/Insights.

But while growing, progress is still somewhat stalled for many businesses. One report shows that a paltry 2 percent of companies are achieving or exceeding the aims of their sustainability programs.[24]

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