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ROI of Sustainability

Which sustainability investments generate long-term competitiveness?

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Sustainability has replaced digitalisation as the main challenge for business transformation. But while it's now widely accepted that sustainable strategies create shareholder value, it's far from obvious which initiatives to focus on. At BearingPoint we believe that companies must prioritise sustainability initiatives that deliver the most stakeholder value and provide the best ROI – and we explore how to do this here.

The ecological imperative, the growing expectations of customers and employees, and financial market preference for companies with a sustainable business strategy are all reasons to place sustainability at the top of the executive committee's agenda.

Sustainability initiatives are becoming more and more numerous and varied and are often difficult to prioritise according to the impact they have on value creation for both shareholders and society. Return on investment is difficult to assess in advance. Indeed, the ability to measure and quantify socio-environmental impact varies greatly depending on the type of benefits that are expected. For example, efforts to reduce greenhouse gas emissions or save energy are easy to anticipate, whereas benefits relating to preserving biodiversity or social dimensions may be more complex to assess.

It is difficult to reconcile the objective of creating shareholder value with maximising socio-environmental impact. The adoption of stakeholder governance by companies should help align the often-divergent interests of stakeholders (shareholders, employees, customers, environmental agencies, etc.), striking a fair balance between shareholder, customer, environmental and social value.

While we wait for stakeholder capitalism to take hold, it is nevertheless possible to find a common denominator to reconcile these often-opposing visions of value creation. In fact, sustainability initiatives that strengthen the company's long-term competitiveness also contribute to creating value in the stakeholder capitalism paradigm. These include initiatives that foster consumer and customer preference for brands and products, as well as the company's ability to develop its talent to promote excellence and innovation.

To help executives define the ideal sustainability portfolio for their business, BearingPoint conducted a survey of 3,500 citizens in 11 European countries to identify the initiatives that create the most value for customers and employees[1]

Customers prefer eco-responsible products and services

To maximise customer value, companies should prioritise projects that aim to make their product and service offerings more sustainable.

Indeed, in the B2C sector, consumers have a clear preference for healthy, eco-responsible and, preferably, local products. These are the most important factors when choosing between two products that meet a similar need. So "sustainable" initiatives that contribute to developing products perceived as healthy (organic or without harmful additives) and eco-responsible (using sustainable materials and reducing carbon footprint during production and use) contribute most to the competitiveness of the brand or retailer.

While healthy, local and eco-responsible products boost sales and show higher growth rates than conventional products, they also have higher production costs, putting pressure on margins. Our research shows that consumer behaviour has changed recently, particularly after the COVID 19 crisis, and that this extra cost can now be passed on to the consumer, without reducing volume. Indeed, around 80% of consumers say they are prepared to pay more for socially- and eco-responsible products, regardless of the type of purchase. For example, 23% of millennials and 35% of Gen Z consumers say they are willing to pay more than 25% more for IT/technology products that are sustainable. Some companies are already responding to this trend with initiatives to relocate production, shorten or even localise supply chains, and control product traceability and information along the production and supply chain.

Other initiatives carried out by B2C companies have less influence on the purchasing decision, but contribute to brand image. This is particularly the case where companies are actively involved in social initiatives, or provide pay-per-use, as well as normal purchase, options for products and services.

Corporate social responsibility (CSR) is becoming a key differentiator in B2B as well, impacting decisions about products or services to choose and suppliers to use. According to our study, for a quarter of the buyers questioned, the sustainability criterion accounts for more than 20% of the overall score. Furthermore, over the last three years, 42% of B2B buyers stated that they had delisted suppliers solely on the basis of CSR. This trend is likely to continue, especially as more and more companies are judging their B2B purchasers on specific CSR criteria, such as whether they have avoided or reduced the use of CO2.

Across all sectors, customer and consumer purchasing behaviour is changing rapidly. To be resilient, companies need to adapt and move their product and service portfolios towards greater sustainability. By doing so, they promote brand preference and, consequently, their growth and market capitalisation.

INITIATIVES CARRIED OUT BY A BRAND / DISTRIBUTOR THAT INFLUENCE CHOICE THE MOST

Which of the following initiatives undertaken by a brand or retailer most influence your choice ?

A commitment to sustainability is imperative for attracting and retaining talent

The competitiveness of today's companies now depends more than ever on their ability to develop talent, one of the components of the "triple bottom line", and particularly to equip them with innovation, AI and data science skills. Recruiting, retaining and motivating employees is becoming increasingly complex in a market where skilled labour is in high demand – and short supply. However, the active role played by a business in sustainable development has become a significant factor for candidates when choosing who they would like to work for. Moreover, a lack of commitment to sustainability can lead to employee attrition.

21% of Millennials and Gen Z say they are seriously considering changing jobs out of socio-environmental conviction. This may reflect a lack of action by a company relative to the competition, but sometimes it is the sustainability of an entire sector's business model that is called into question.

Among the typical actions that the company can take, employees place the greatest importance on actions to reduce its impact on the environment, particularly its carbon footprint. Next is the employer's commitment to involve employees directly in its sustainability projects, so they can feel part of a bigger effort. This is the case for both strategic and operational matters. At the strategic level, the definition of a company's purpose is a key moment to align and mobilise employees around the company's ambition and the path it intends to take to achieve socio-environmental transformation. This exercise can be carried out by writing a common narrative that all stakeholders contribute to, leading to a shared ambition for profound transformation. Other levers can be pulled to increase employee involvement, such as providing sustainability training that is bespoke to each employee's job and introducing variable remuneration using CSR criteria, or co-developing CSR action plans with the teams that will be required to implement them. This mobilisation of goodwill also enables the company to deliver its sustainable transformation.

Other major criteria for employees are the investments made by the business in social causes, the transparency of the company's involvement in sustainable development and how it communicates with its employees about sustainability initiatives.

In order to attract and retain talent, companies should focus on the projects that matter most to employees: projects that redesign their offering and reduce environmental footprint, while inviting employees to participate.

VALUE OF SUSTAINABLE DEVELOPMENT INITIATIVES TO EMPLOYEES

Which of the following initiatives undertaken by your company are of most value to you ?

Recommendations

Based on our research, we have made three recommendations that can help companies better define their sustainability priorities and ultimately accelerate their transformation to a socially responsible business.

1. Establish sustainable investment rules and define priorities

Companies wishing to accelerate their transformation into a sustainable business should systematically include environmental impact in investment cases and deprioritise projects with a negative net environmental impact. This reasoning should be applied as far as possible to the Scope 3 emissions as defined within the Greenhouse Gas Protocol, i.e., to those parts of the value chain that the business does not operate directly. Furthermore, any IT project (blockchain, AI, etc.) must take any negative externality into account to ensure the benefits of the project offset the CO2 footprint. In order to assess impact, simulations can integrate carbon tax evolution scenarios to anticipate any likely tightening of the regulatory framework.

For example, French bank La Banque des Territoires (a subsidiary of the Caisse des Dépôts et Consignations) is using impact criteria to identify the innovation projects within its subsidiaries that will offer the best socio-environmental benefits for citizens and regions (for example, social well-being, social inclusion and reduction of greenhouse gases).

To take account of the regulations and carbon pricing that have been put in place, or will be put in place in the future, companies are adopting an internal price for carbon, which varies according to the investment horizon and the company's activities. This internal price, which is included in calculating project profitability, encourages investment in the most environmentally beneficial initiatives. Some companies go even further by charging the carbon price internally to create "carbon funds" that finance internal environmental-efficiency projects. French banks Société Générale and Banque Postale are among the first companies to adopt this dual-incentive approach: collecting a carbon tax based on a subsidiary's CO2 emissions to finance environmental efficiency projects.

A company's portfolio of socially responsible initiatives can be prioritised to maximise value for both shareholders and stakeholders. The initiatives that customers and employees value most also have a positive impact on a company's competitiveness and should therefore be undertaken as a priority.

Where to start

✓ Review your rules for investing and prioritising projects to fully integrate the sustainability dimension, particularly for IT projects to ensure their net positive impact

✓ Equip yourself with tools for collecting and analysing data, enabling you to assess impacts, particularly environmental impacts

2. Involve stakeholders in your socially responsible investment (SRI) governance

The advent of "stakeholder capitalism" raises the thorny issue of enabling a wider range of stakeholders to be involved in governance. According to our research, 35% of European citizens say they want to take part in corporate governance.

Participatory budgeting, which is already being tested by several local authorities and public sector institutions, is a tool for involving citizens in innovation, governance and investment decisions. In the private sector, companies such as Pepsi, M&Ms, McDonalds and the Lego Group have been involving consumers in product development for the past ten years by asking them to vote on new product options. In the public sector, the city of Paris launched a participatory budget that resulted in more than 2,770 projects. The participation rate was nearly 10% of the adult population, with over 40% of those participating under 49 years old. This figure is in line with BearingPoint's research, in which a quarter of respondents say they want to participate in voting on corporate decisions related to sustainable development.

Where to start

✓ Share information on your company's planned actions and identify the issues on which stakeholders can make proposals

✓ Define the mechanisms for taking these proposals into account in your decision-making process

✓ Develop a digital platform that's dedicated to stakeholder participation

3. Go beyond a "traditional" SRI department to embed sustainable development in strategic decisions

The development of mission-based companies in France since PACTE (the French Government's action plan for business growth and transformation) came into effect has brought about a change in these companies' governance bodies. They have set up a new body, the Impact Committee, to monitor and evaluate the company's management in relation to its mission. Through this body, the purpose-driven business can involve its various stakeholders: suppliers, customers and employees, as well as external experts. This committee may have the power to alert the company directors or to refer matters to it, and it may also issue advisory opinions on all decisions relating to the proper execution of the company's mission. In the same way, companies can draw inspiration from this model by creating Impact Committees to better manage sustainability actions, but above all to ensure that their strategy is aligned with sustainability imperatives.

Where to start

✓ Define the most appropriate composition of your Impact Committee (number and representation from the different stakeholder groups)

✓ Define the Impact Committee's areas of intervention, its powers and its relationship with the Executive Committee

✓ Give the Impact Committee the means to supervise, including the monitoring of priority actions and extra-financial reporting

Sources

1. Survey on the importance of Sustainable Development for European citizens, with a representative panel of 3,500 respondents aged 18+ in 11 countries (UK, Ireland, France, Italy, Germany, Austria, Switzerland, Finland, Netherlands, Sweden, Norway), BearingPoint, H2 2021.
2. Survey on how purchasing departments view Sustainable Development, carried out among a panel of 800 buyers from companies in 8 countries (Italy, Germany, Austria, Switzerland, Finland, Netherlands, Sweden, Norway), BearingPoint, H2 2021
3. Survey on the importance of Sustainable Development for European citizens, BearingPoint, 2021

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About BearingPoint

BearingPoint is an independent management and technology consultancy with European roots and a global reach. The company operates in three business units: The first unit covers the advisory business with a clear focus on five key areas to drive growth across all regions. The second unit provides IP-driven managed services beyond SaaS and offers business critical services to its clients supporting their business success. The third unit provides the software for successful digital transformation and regulatory requirements. It is also designed to explore innovative business models with clients and partners by driving the financing and development of start-ups and leveraging ecosystems.

BearingPoint's clients include many of the world's leading companies and organizations. The firm has a global consulting network with more than 10,000 people and supports clients in over 75 countries, engaging with them to achieve measurable and sustainable success.

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