

Center for Sustainable Business

SIXTH ANNUAL
PRACTICE FORUM

SUSTAINABILITY IN PRACTICE:

**Applying the Financial Case for** 

Sustainability Investment March 14, 2023





Lead

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## **OPENING REMARKS**



#### **Raghu Sundaram**

Dean and the Edward I. Altman Professor of Credit and Debt Markets New York University, Leonard N. Stern School of Business



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# **KEYNOTE ADDRESS APPLYING THE FINANCIAL CASE FOR SUSTAINABILITY INVESTMENT**

## **TENSIE WHELAN**

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FOUNDING DIRECTOR, NYU STERN CSB CLINICAL PROFESSOR OF BUSINESS & SOCIETY

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**NYU Stern Center for Sustainable Business** 

## Unleash the business value of sustainability

#### &

# the transformative potential of business

to

solve societal challenges at speed and scale

## Motivating Leaders to Shape a New Business Paradigm

Innovation in Education

- Top 10 specialization among MBA students with 30+ offered classes
- Fellowships/internships
- Experiential learning
- Executive education

Practical Research

#### 

- Return on Sustainability Investment<sup>™</sup>
- Sustainable Market Share Index<sup>™</sup>
- Invest NYC SDG
- Private Equity Responsible Investing

#### Business Breakthroughs

- Research partnerships
- Bespoke executive trainings
- Practice forum

## The Latest and Greatest: CSB Research in 2022-23

- ESG reporting is not the same as sustainability
- The trouble with jobs metrics
- Helping private equity transform portfolios and do well
- Data tools to support sustainability improvements
- Deep-dive into consumer demand
- The business case for sustainability (ROSI updates)



## ESG Reporting is Not the Same as Sustainability

- ESG is a system of measurement, not a strategy
- ESG reporting metrics are process/output based
- Tick-the-box reporting does not drive value
- ESG accounting metrics are not tied to financial metrics



# **Outcomes, Outputs, Impact: Diversity and Inclusion**

Impact	Positive impact for society, target population and the business	A diverse, inclusive workforce that is more creative and productive					
	<b>企</b>						
Outcomes	Quantitative/qualitative improvement due to intervention (outputs)	<ul> <li>X% more Black managers</li> <li>100% equitable pay</li> <li>%positive reporting re: inclusion</li> </ul>					
	1						
Outputs	<ul><li>Policies</li><li>Training</li></ul>	<ul> <li>Diversity/inclusion policy</li> <li>50 managers trained</li> </ul>					
	<b>①</b>						
Activities	Implementation of initiatives	<ul> <li>Develop D&amp;I policy</li> <li>Training in diverse hiring and career development</li> </ul>					
	Ŷ						
Inputs	Financial, human, material resources invested	Hire Chief Diversity officer					

## SASB Apparel, Accessories and Footwear Reporting Metrics

#### Management of Chemicals in Processes:

- Discussion of processes to maintain compliance with restricted substances regulations **ACTIVITY** 
  - Discussion of processes to assess and manage risk and/or hazards associated with chemicals in products ACTIVITY

#### **New Metrics:**

- Current volume of use of key toxic chemicals (list) and time-based reduction/substitution targets
- Current volume of chemical waste and time-based reduction/substitution targets

#### **Environmental Impacts in Supply Chain Management:**

- Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 in compliance with wastewater discharge permits and/or contractual agreement **OUTPUT**
- Percentage of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 that have completed the Sustainable Apparel Coalition's Higg Facility Environmental Module (Higg FEM) assessment or an equivalent environmental data assessment **OUTPUT**

## SASB Apparel, Accessories and Footwear Reporting Metrics

#### Labor Conditions in the Supply Chain:

- % of (1) Tier 1 supplier facilities and (2) supplier facilities beyond Tier 1 that have been audited to a labor code of conduct, (3) % of total audits conducted by a third-party auditor OUTPUT/OUTCOME
- Priority non-conformance rate and associated corrective action rate for suppliers' labor code of conduct audits **OUTPUT**
- Description of the greatest (1) labor and (2) environmental, health, and safety risks in the supply chain **ACTIVITY**

#### **Raw Materials Sourcing:**

- (1) List of priority raw materials; for each priority raw material: (2) environmental and/or social factor(s) most likely to threaten sourcing, (3) discussion on business risks and/or opportunities associated with environmental and/or social factors, and (4) management strategy for addressing business risks and opportunities ACTIVITY
- (1) Amount of priority raw materials purchased, by material, and (2) amount of priority raw material certified to a third-party environmental and/or social standard, by standard OUTPUT/OUTCOME

## SASB Apparel, Accessories and Footwear Reporting Metrics

#### What material topics are missing from the SASB metrics?

- Greenhouse gas emissions: e.g. Net Zero, SBTI commitment to reduced GhG emissions and annual tracking
- Animal welfare: e.g. % of supply certified to credible third-party animal welfare standards and annual targets
- Water and waste management
- Product design and lifecycle management

#### What is missing from the SASB metrics overall?

- Context and benchmarking
- Targets and performance over time

## **But None of Those Metrics Capture the Upside**

Nike Flyknit process weaves knit strands of recycled polyester to form one seamless upper:

- Decreases waste 80%
- 19% lighter
- \$1 billion plus business
- Category disrupter



## **The Trouble with Jobs Metrics**

Ulrich Atz Tensie Whelan

## **U.S. Workplace Facts at a Glance**

- More than 51% of the Russell 1000 are not paying their employees a living wage – Just Capital 2022
- More than half of U.S. consumers were living paycheck to paycheck in May 2022, a 4 % increase from May 2021 – LendingClub 2022
- 32% of American adults could not cover an emergency expenditure of \$400 – Federal Reserve System Economic Well-Being of Households in 2021
- Less than 1 in 4 Americans think they will be able to save the \$1.1 M they think they need in retirement – 2022 Schroders Retirement Survey

## U.S. Accounting Practices Drive Unsustainable HR Practices (HBR, Peter Cappelli 2023)

- Employee salaries, benefits, training, etc are treated as current fixed costs, NOT investments.
- Employees are treated as externalities, NOT assets
- Benefits, vacations, and sick days are treated as liabilities on the balance sheet
- GAAP rules require reporting # of employees, but not workers who have been outsourced
- Managers incentivized to use vendors for leased workers (below the line). Evidence points to less efficiency and lower productivity
- Unlike physical assets, which depreciate over time, employees (with proper investment) become more valuable over time.
- International Financial Reporting Standards (IFRS) outside the United States allow companies to report more of the asset value of human capital.

## **Material Job Metrics (Italics NOT Reported)**

#### **Business Basics**

- Share of full-time employees (vs alternative employments)
- Turnover (voluntary; involuntary)
- Accidents, injury, and lost time injury rates (where material)
- Labor and safety controversies
- Fines and legal fees for labor and safety violations

#### **Financial Security**

- Starting hourly wage (by full-time; alternative employments)
- Average hourly wage (by full-time, alternative employments)
- Share of employees earning minimum wage (incl. alternative employments)
- Health care benefits (starting costs of medical plan; quality of plan if feasible)

#### **Job Excellence**

- Additional benefits (pension; paid time off; family leave, etc.)
- Internal promotion rate
- Diversity statistics
- Pay equity (adjusted; unadjusted; by gender and race)
- Subjective job quality ratings (e.g. crowdsourced)

## **Review Jobs-Related Metrics for Six Rating Agencies**

- Most "S" metrics are binary (e.g. yes/no answers such as do you have a workplace safety policy) for 40-80% of data. They tend to contain little useful information.
- When the raw metrics are continuous, e.g. percentage of diverse individuals in leadership, companies are unlikely to report on them (not available for 70-90%).
- Turnover is available for 12-50% of firms but varies widely (e.g. may not distinguish between voluntary and involuntary). Pay levels are sometimes disclosed (e.g. lowest pay threshold) but are not available from the ESG raters we analyzed.
- Finally, ESG raters offer no metrics for the value of pensions or health benefits (e.g. starting cost of medical plan) even though some companies disclose such data

## Why This Matters: Amazon Turnover

- Regretted attrition: 69.5%-81.73% across Tier 1 to 10 employees
- NYT investigation: 150% amongst hourly employees (others found 100%)
- Only 1 of 3 new hires in 2021 stayed with Amazon for more than 90 days
- Regretted and unregretted turnover costs \$8B
- Total profits: \$33.36B (2021)
- Could have improved profits by 25%

# amazon

## **Recommended Material Jobs Metrics**

#### Voluntary and Involuntary Turnover

• Turnover is relatively easy to track, half of the S&P 500 already report it, and it is one of the most robust financially relevant metrics.

#### Share of employees making a liveable wage

• Wages are the single most important issue for employees, part of SASB, and research demonstrates that high wages can work as a competitive strategy.

#### **Business basics**

- Depending on the industry, this may be the ratio of full-time to alternative employments, the injury rate, or investments in employees.
- Accounting for personnel expenses not only as costs but also as investments will relax some of the pressure to minimize labor costs in capital markets.

## **Responsible Investing with Equity**

Julien Marchese Tensie Whelan Jessica Weiss

With support from Arthur D. Little Climate Works Foundation

## CSB Responsible Investing Framework for Private Equity

#### <u>Context</u>

After <u>Phase I</u>, CSB identified practical tools needed to help private equity embed sustainability and conducted interviews with 30+ GPs, LPs, and other stakeholders to get feedback on these ideas:

Ideas 1) ESG valuation model based on ROSI,2) LP DDQ addendum, 3) guide toembedded sustainability, 4) ESG scorecard,and 5) set of LP/GP guidelines

#### GPS:

- Currently, not identifying sustainability value drivers at beginning of investments
- Unclear which ESG KPIs to track and how to tie with business case
   LPS:
  - Not using GP ESG data

#### Phase 1

Academic literature review of the state of private equity Development of a PE Responsible Investment Framework Categories of impact: management & human capital, financial engineering, fund management, strategy & innovation, reporting transparency, societal impact

#### Phase II

The second phase of research will support the implementation of a responsible investing approach across the ownership lifecycle

### CSB defined GP practices across the lifecycle to understand where specifically tools are needed

Areas of

\*indicates best practice

		Deal Sourcing / Pre DD	Due Diligence	Owner Farly Invostment	rship	Exit
Current Practice	•	Check company against exclusion list* ESG data request* If Impact focus, sourcing only on specific criteria (e.g., Quality Jobs) Gating methodology	<ul> <li>Reviewing material issues, some ESG KPIs*</li> <li>Deal teams conduct valuation analyses (advanced may add ESG sensitivities)</li> <li>ESG scorecard</li> </ul>	<ul> <li>Outline what KPIs to be tracked*</li> <li>Focus on cost cutting</li> <li>Management team dialogues</li> <li>Outline ESG accountability structures*</li> </ul>	<ul> <li>Track some KPIs (potentially EDCI, LP-required, or regulatory)</li> <li>Create annual sustainability reports at portco level (SASB material metrics)</li> <li>Send ESG data to LPs</li> </ul>	Add a sustainability story to sell at exit (often hacked together instead of planned for)
Limitation /Issues	•	Difficult to understand how deep to go with ESG	<ul> <li>Valuation doesn't reflect full extent of ESG</li> <li>Difficulty in understanding how "ESG mature" portfolio company is</li> <li>Lack of data for SMEs</li> <li>Not factoring opportunities</li> </ul>	<ul> <li>Lack of understanding of what KPIs to use</li> <li>Lack of knowledge around best sustainability levers to focus on</li> <li>Lack of developed ESG strategy</li> </ul>	<ul> <li>KPIs that are tracked are focused on process, not outcomes</li> </ul>	<ul> <li>Lack KPIs to point to for sustainability story</li> <li>Never capture ROSI and "avoided costs"</li> </ul>
Interest & Rationale (Where to	Prioritize)	• N/A	<ul> <li>Quick valuation assessment DD tool denoting material issues (separate from holding period tool)</li> </ul>	<ul> <li>Denoting most impactful sustainability levers is adjacent to ROSI and allows business to know what to focus on immediately</li> <li>Accurately capture specific value creation</li> </ul>	<ul> <li>Helping frame material sustainability levers at early investment allows GP to know what to track over lifetime</li> <li>Track KPIs and link to valuation throughout</li> </ul>	<ul> <li>Track ROSI/ESG metrics to substantiate sustainable value growth at exit</li> </ul>

## During the DD phase, GPs need a quick assessment tool to identify material risks/opportunities; this changes once they are holding the company

#### Rationale for Two-Part Valuation Tool

Effectively
Identifies and
Measures
Sustainable
Value
Creation

Different

Needs at

Each Point of

Investment

Lifecycle

Second aspect of framework (after DD assessment tool) will identify **the most important sustainable value levers and define KPIs to track over the course of the investment** 

- **DD Phase:** quick, high-level tool due to time constraint – identify the material issues, practices, and value drivers before ownership
- Holding Period: define the highest impact ESG areas, define associated KPIs, and measure over time, pointing at real data at exit and developing a sustainable growth story

Applicable to<br/>Wider<br/>AudienceFramework can be applied by various<br/>stakeholders – GPs, portfolio companies,<br/>other practitioners

#### Proposed Workflow

#### 1<sup>st</sup> Part of Framework Tool – Quick Assessment

- 1. Once a company has been identified during the DD process, map the industry value chain
- 2. List the most important material issues, practices, and value drivers for the target (both risks & opportunities)
- 3. For the specific company, identify highest impact areas and indicate current performance – the analysis for the first tool is complete, providing a quick and directional assessment

#### 2<sup>nd</sup> Part – Deep Dive

- 1. Define ESG and ROSI KPIs and key strategies needed at the early investment stage
- 2. Measure KPIs over time and build the sustainable growth story; at exit, GP / portfolio company can point to track record of improvement and sustainable value creation and receive an ESG premium valuation

## In the first stage of the tool, users input the sector of the target portfolio company and rate it across key criteria

Identify sector of target company

2 Auto-Populated Buckets

Identify Target &

Sector

After selection of sector, the tool identifies the most relevant material issues for the sector, then indicates mitigating or value-adding strategies, and underlying practices and value drivers

Material Issues (Defined by SASB)	Strategies	Practices	Value Drivers
• Energy Management	<ul> <li>Improving Energy Efficiency &amp; Use of Renewables</li> </ul>	<ul> <li>Adopt products, services, and processes that use less energy</li> <li>Convert energy purchase (or generation) to renewables where possible</li> </ul>	<ul> <li>Lower energy costs</li> <li>Reduced exposure to energy cost volatility or grid break-downs</li> <li>Reduced regulatory fines and risks.</li> </ul>

3	Assessment of Target Company	Next, identify how the target stated commitments, and pr	sponding to th s commitments	onding to the material issues and related strategies, ommitments				
4	Rating	Finally, add scores of 1-5 across five criteria	Current Progress	Clear Targets	Innovation & Growth	Risk Mitigation	Credible Reporting Standards	

# The DD assessment tool guides towards the most material issues and indicates value-add responses

Assessment of Target Company Performance

drivers

Recommended Strategies and Practices, and Associated Value Drivers

Matarial laguag	Ctrotomy	Total	Strategies	Practices	Value Drivers	
Material issues	Strategy	(Weighted)			Operational efficiencies in terms of costs Reduced exposure to regulatory fines and fees Reduced reputational and market risk Lower cost of capital Improved employee recruitment and retention	
Ecological Impacts	Ensuring Protection of Biodiversity and Ecosystem Conservation	5.0	Mitigating Climate Change Impacts	Reduce emissions across all three scopes, focusing on direct emissions first, but also focusing on where the biggest emissions		
GHG Emissions	Mitigating Climate Change Impacts	4.5				
Labor Practices	Investing in Worker Wellbeing	2.8	Investing in Worker	Salary and benefits Engagement on sustainability Close pay equity gap Increase wages Promote flexibility	Improved retention Higher productivity Lower recruitment costs Fewer work stoppages/ strikes/lawsuits	
Materials Sourcing & Efficiency	Implementing Sustainable Sourcing	1.9	Wellbeing			
<ul> <li>After rating the t criteria, better un company is response relevant to the se commitments</li> <li>For every materia strategies with ling</li> </ul>	arget company acr nderstanding of hor onding to material ector and any gaps al issue, the tool pro nked practices and	oss the five w the issues in current ovides value	Implementing Sustainable Sourcing	Funding projects/partnerships that protect natural resources/local communities Sustainability certification or code compliance of suppliers Preferred supplier status, long-term contracts and incentives for sustainable sourcing	Increased market share and premium Improved supplier and customer loyalty Reputational brand benefits Reduced regulatory, operational and market risk Increased customer loyalty	

## **Invest NYC SDG: Private/Public Partnerships for a Sustainable, Equitable NYC**

Marianna Koval Wythe Marschall Divya Subramanian Kendra Gibbs

## **Invest NYC SDG**

**Developing Concrete Projects Across Six Ecosystems** 







ECOSYSTEM	Food & Health	Sustainable Mobility	Built Environment	Waste	Renewable Energy	Climate Resilience
PROJECTS	M.A.P. NYC Healthy Corner Stores Rikers Island Indoor Commercial Farm FoodMap NY	The Equitable Commute Project Electric barges and EV infrastructure Last-mile delivery	Carbon Compass: LL97-PACE Data Tool Green workforce development and placement	Organic waste collection and processing Anaerobic digesters Glass waste to low carbon concrete with Pozzotive®	Community solar on city-owned property Geothermal Offshore wind	Early warning and predictive Al systems
SDGs	9 MARTING MAR	9 ₩ MARTING AND	9 MARTIN MANTIN 9 MARTINGTON 11 MERCANAMUNTS 11 MERCANAMUNTS 11 MERCANAMUNTS 13 ACTIVITY 13 ACTIVITY 13 ACTIVITY 14 MERCANAMUNTS 17 MERCANAMUNTS 17 MERCANAMUNTS 17 MERCANAMUNTS 17 MERCANAMUNTS 17 MERCANAMUNTS 17 MERCANAMUNTS 17 MERCANAMUNTS 18 MERCANAMUNTS 19 MERCANAMUNTS 19 MERCANAMUNTS 19 MERCANAMUNTS 10 M	9 MACHY MANNAR 9 MACHY MANNAR 11 SCHMAR 13 CHMR ↓ COM 17 MINISSER 17 MINISSER ↓ COM 17 MINISSER ↓ COM 18 MINISSER ↓ COM ↓	9 MORT HANNEN → → → → → → → → → → → → → → → → → → →	9 MACHANY MANANA 9 MACHANY MANANA 11 ACCOMMANDES 13 MATTIN 13 MATTIN 13 MATTIN 14 MACHANANALES 17 MARKANAMALES 17 MARKANAMALES 17 MARKANAMALES 18 MACHANANALES 19 MACHANY MARKANA 19 MACHANY MARKANALES 19 MACHANY MARKANALES 19 MACHANY MARKANALES 19 MACHANY MARKANALES 19 MACHANY MARKANALES 19 MACHANY MARKANALES 19 MACHANY MARKANALES 10 MARKANALES 10 MACHANY MARKANALES 10 M

## Invest NYC SDG

#### M.A.P. NYC: Measuring and Mapping Agricultural Production in New York City

#### Welcome to M.A.P. NYC

A catalogue of urban farms and gardens in New York City Read more about the project on the <u>About</u> page. Are you running a farm/garden in the city? <u>Sign up</u> to



Urban agriculture improves community access to fresh local food while offering educational opportunities and green jobs.

2 ZERO HUNGER

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GOOD HEALTH

Invest NYC SDG/NYU Tandon wiki-style database to map commercial + community agricultural production in NYC, as well as neighborhood demographics, gentrification, and food security status.

Can help NYC set production goals, support policy innovation, assist growers in connecting with resources, build thriving businesses, and help create green jobs.

<u>Visit the site ></u>

#### **Invest NYC SDG** LL97-PACE Data Tool: Decarbonizing NYC's Built Environment



Goal: Accelerate PACE lending for energy efficiency retrofits and support NYC's Climate Mobilization Act.

**9** INDUSTRY, INNOVATIO AND INFRASTRUCTUR 13 CLIMATE

NYU Stern CSB has developed an innovative data tool with MOCEJ and NYCEEC that maps banks' scope 3 emissions from NYC real estate holdings and can help banks generate profit from green lending, beginning with their own portfolios

Searchable by mortgage lien holder, it details the carbon emissions in mortgage lender portfolios.

Check out the tool

#### **Consumer Purchasing of Sustainability-Marketed Products Annual Review**

Randi Kronthal-Sacco IRI

## Sustainable Market Share Index: U.S. Consumer Purchasing

Sustainability-marketed products continue to grow share every year



36 categories examined

## Sustainable Market Share Index: New Products

The percentage of new products that incorporate and communicate sustainability benefits have increased every year since 2017.

60.00%



New Products
#### Sustainable Market Share Index: 2021 Carbon Labeling

Sales of carbon-labeled products doubled from 2020



+\$3.4B

# The Return on Sustainability Investment (ROSI) in the Food and Beverage Sector

Researchers: Chisara Ehiemere Elyse Douglas Divya Chandra Maggie Paruta

Funders: ArcaContinental, HSBC Bank USA, Investindustrial Foundation

## **Overview of Food & Agriculture Framework**

NYU Stern CSB has developed a ROSI<sup>™</sup> framework for food & agriculture with publicly available monetization tools to help the industry understand where and how sustainability can unlock financial value.



| Improving water security                                             | Improving soil health                                    | Mitigating and adapting<br>to climate change               | Reducing the use of<br>harmful chemicals                          |
|----------------------------------------------------------------------|----------------------------------------------------------|------------------------------------------------------------|-------------------------------------------------------------------|
| Ensuring protection of<br>biodiversity and<br>ecosystem conservation | Raising and treating<br>animals with respect and<br>care | Incorporating circularity<br>into food waste<br>management | Implementing<br>sustainable sourcing                              |
| Improving nutritional profile of food products                       | Adopting sustainable<br>packaging solutions              | Investing in employee<br>and supplier well-being           | Investing in sustainable<br>brand marketing and<br>communications |



## **ROSI<sup>™</sup> Applied to Multiple Products and Strategies**

Improving regen. soil health practices Better nutrient management practices by barley growers improves regenerative soil health practices on-farm, improves operating efficiency, reduces carbon emissions, and captures brand value.



Launching an innovative sustainable beef category using verification and consumer-facing labeling to increase consumer awareness, creates upside



Promoting sustainable bee friendly farming practices improves fruit pollination and yields, reduces input costs for growers and leads to carbon sequestration benefits for achieving Scope 3 targets

Sustainable sourcing

Responsible sourcing of cocoa improves supply chain transparency and creates market opportunities

Reducing Food Waste The adoption of biological controls to combat aflatoxins in corn increases yields for growers and lowers risk and improves operational efficiency for the company



🖉 Anheuser-Busch







#### Nutrient Management Practices Drive Carbon Emissions Reductions, Operational Efficiencies, and Brand Value

ROSI<sup>™</sup> methodology was used to assess the benefits of working with barley growers to accelerate adoption of nutrient management practices



#### The Value of Regenerative Beef Production and Consumer-Facing Labeling for Applegate



DO GOOD DOG<sup>™</sup> is the first, nationally available hot dog made with beef source from verified regenerative U.S. grasslands.

ROSI<sup>TM</sup> monetization for Applegate and rancher benefits:

- Focus was on a verified regenerative agriculture beef product with a consumer-facing label
- Includes investment in building consumer awareness for a growing category
- Incorporates media coverage and sales & marketing benefits



#### The Business Case for Sustainable Farming to Improve Biodiversity



#### → Financial Opportunities

Adopting sustainable bee friendly farming practices improves fruit pollination and yields as well as reduces inputs costs

**Environmental Benefits** Adopting bee-friendly farming practices within the company's supply chain helps achieve Scope 3 targets through carbon sequestration

Competitive Advantage
 Being the first to introduce a
 sustainably sourced natural spread
 addressing biodiversity protects
 against a competitor gaining first
 mover advantage

# Hero

A 10-year NPV of €3.6 million (before costs) was estimated with an average annual operating income impact of €650K. ROSI<sup>TM</sup> was estimated to be 33%

#### Sustainable Sourcing in Cocoa Drives Better Performance

For Natra\*, a private label chocolate manufacturer, its investment in fully traceable cocoa yields a net positive bottomline benefit.



#### Agricultural Interventions Drive Positive Societal Impact



Aflatoxins are naturally occurring toxins in agricultural crops, and pose a severe health risk to plants, humans and animals if consumed. Contaminated crops pose an economic risk of food waste loss. CSB partnered with Ingredion USA's affiliate, Rafhan Maize, to assess benefits from promoting the use of AflaPak<sup>™</sup>, an aflatoxin biocontrol product, in its upstream corn supply chain.



### **Additional ROSI Projects**

#### Green H2 Project In UK Supports Net Zero Goals and a Good ROI: Kimberly-Clark with ALO Advisors

- Implementation of this project would eliminate up to 25.7K MT of GHG annually, representing 35% reduction in K-C's UK total Scope 1 emissions vs. 2021 actual emissions
- ROSI<sup>TM</sup> analysis revealed significant upside for the project, including forecasted sales growth, less GHG taxes and the ability to secure government grants
  - Represents leadership opportunity for K-C as many business in the UK are using electricity from renewables, but few have decarbonized their thermal energy sources

ROSI<sup>™</sup> Monetization Analysis 8-Year Cumulative Benefits Supporting Investment

NEWS News Barrow: Plans for £40m 'green hydrogen' plant submitted An 8-year NPV of \$20.9 million (net benefits) was estimated, having



an IRR of 144% and a payback period over 3.4 vears



# The Business Case for Decarbonization in Healthcare

- Healthcare accounts for 4.5% of greenhouse gas (GHG) emissions globally, and 8.5% of US emissions.\* Could reach six gigatons per year by 2050. \*\*
- CSB is developing a strategy map and monetization framework to support decarbonization in healthcare delivery systems by providing the business case for actions that the healthcare delivery systems can take.
- Analysis of how the industry can expand the methods it uses to account for and value investments in decarbonization practices and provide tools and insights that companies can use for calculations
  - Tools and insights will be open source for use by delivery systems of all sizes
  - Project completion August 2023

\* <u>Health Care's Climate Footprint</u>, Health Care Without Harm and Arup, 2019 \*\*The Global Roadmap for Healthcare Decarbonization, Health Care Without Harm



## **Initial Findings on Decarbonization Strategies**

Adoption of decarbonization interventions by hospitals can be complex, including regulatory, clinical, supply chain, and OR approvals. There are opportunities nonetheless:

• Energy

- Reductions through lighting changes and other building retrofits
- Change energy sources (location dependent) and/or VRECs

#### • Buildings

- Design and build focused on energy efficiency and resilience
- Lower emissions materials
- Supply Chain
  - Reprocessed medical devices
  - Procurement contract requirements to cover "influenceable scope 3"

• Clinical

- Switching anaesthetic gases
- Care delivery changes for reach and equity
- Waste Reduction
  - Tray optimization; only open what will be used
  - Medical waste
- Awareness and Training

### **Decarbonization Strategy Example (illustrative)**

| Practice                                             | Example of<br>Sub-Practice                                                                                                                                                                                                               | ROSI™ Benefits (for a<br>hospital purchasing<br>the reprocessed<br>device)                                                                                                                                                                           | Types of Information/Potential metrics to monetize                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Implement<br>Reprocessin<br>g/Circular<br>Healthcare | <ul> <li>Hospital<br/>switches to<br/>reprocessed<br/>medical<br/>devices, as<br/>available,<br/>from devices<br/>typically<br/>designated<br/>as<br/>"single-use"<br/>(In<br/>compliance<br/>with FDA<br/>requirement<br/>s)</li> </ul> | <ul> <li>Carbon<br/>Reductions for<br/>Scope 3</li> <li>Cost Reduction for<br/>medical devices</li> <li>Avoiding potential<br/>future fines</li> <li>Reductions in cost<br/>of capital if<br/>adopted broadly<br/>within the<br/>hospital</li> </ul> | <ul> <li>Total annual purchased cost for the devices before changing and after changing (Operating Efficiency)</li> <li>Scope 3 emissions pre- and post-changing and the related cost of carbon (suggested by research, or used by the entity) (Operating Efficiency)</li> <li>Regulatory changes (Risk Management) Where regulatory changes are afoot, costs of implementing now vs. waiting for when supply might be tighter</li> <li>Cost of Capital (Operating Efficiency)</li> <li>Innovation - Overall staff and administration being more open to switching based on success of one program</li> <li>Avoidance/saving of waste disposal</li> </ul> |

costs

## **ROSI<sup>™</sup> Digital Tool Development**

Digital tools to increase ROSI accessibility

## C LTIMindtree

**ROSI<sup>™</sup> Employee Wellbeing** 

- Monetize companies' investments in employee wellbeing strategies across industries
- Companies input data on employees (headcount, hours worked, wages, turnover, % of high performers, etc.)
- Tool provides a directional estimate of cost savings due to reduced turnover and increased productivity

Decarbonization Risk & Opportunity

Tool that allows investors and companies to estimate the financial value of strategies to reduce GHG

• The values will be expressed in terms of:

Valutus

The Value of Values

- P/E impact for Investor purposes
- Revenue impacts for corporates

#### **Recent Publications**



<u>Measuring the Financial</u> <u>Return on Sustainability</u> <u>Investment in the Chocolate</u> <u>Industry</u> Coming soon...

Global Change Begins at Home

## **Questions?**

#### **Get Involved with CSB**

Learn more and stay up-to-date about CSB educational programs, ROSI Methodology and other original research, career resources and events. <u>www.stern.nyu.edu/sustainability</u>



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#### **Today's Agenda**

9:55 - 10:40 am ESG in Black and White: Media's Role in Sustainability Culture Wars

10:40 - 11:00 am

Fireside Chat w/ Investindustrial

11:00 - 11:50 am

ROSI Roundtable: Monetizing Sustainability Initiatives Across Industries

#### 11:50 am - 12:50 pm

Lunch

12:55 - 1:10 pm

Trends in Technology

1:10 - 1:45 pm

2022 Sustainable Market Share Index

#### 2:15 - 2:25 pm

NYC's Climate Transition

2:25 - 3:00 pm
Capital for Climate
Commitments
3:00 - 3:20 pm
Practitioners' Guide to Embedding
Sustainability

3:20 - 4:00 pm

Coffee Break

4:00 - 5:00 pm

Breakouts:

- Embedding Sustainability Strategy
- ROSI & Circularity
- ROSI & Sustainable Sourcing
- Stakeholder Mapping & Materiality
- Marketing & Communications

5:00 - 6:00 pm

Happy Hour

#### **ESG IN BLACK AND WHITE** THE MEDIA'S ROLE IN SUSTAINABILITY CULTURE WARS



Heather Clancy VP & Editorial Director GreenBiz



**Amy Cortese** Editorial Director ImpactAlpha



**David Gelles** Climate Reporter The New York Times



Mindy Lubber (Moderator) CEO and President, Ceres



**Gillian Tett** Chair, Editorial Board & Editor-at-Large, US, Financial Times

#### **FIRESIDE CHAT**



#### **Roberto Ardagna**

Managing Principal Investindustrial



#### **Patrick Temple-West**



Governance Reporter Financial Times

#### **ROSI<sup>TM</sup> ROUNDTABLE** MONETIZING THE RETURN ON SUSTAINABILITY INVESTMENT



**Gary Cohen** President Healthcare Without Harm and Practice Greenhealth



**Virginia Covo** Head of Sustainability, North America AB InBev



**Michael Tears** Senior Director, Energy & Environment Kimberly-Clark



John Platko (Moderator) Managing Partner ALO Advisors

# LUNCH BREAK

Programming will continue at 12:50pm EDT

#### **TRENDS IN TECHNOLOGY**



#### Nana Baffour



Chairman, CEO, and Chief Cultural Officer Qintess

#### Y NYU STERN

Center for Sustainable Business

# Qintess

## Maximizing Sustainability through Data and Technology Innovation

PRESENTED BY: NANA BAFFOUR, CFA

**Global CEO and Chief Cultural Officer, Qintess** 



## **GLOBAL TRENDS**

2

## Climate change

## Diversity and Inclusion

## Economic downturn

3

The world demands an action - the moment is now for a more sustainable ecosystem driven by technology innovation and data



## THINK GLOBAL

How do we respond to challenges in our businesses and everyday lives ? Our ability to create sustainable solutions is critical for market transformation and improving people's lives



## **CREATE SUSTAINABLE SOLUTIONS**



## **Key impact areas:**



**ESG** Reporting









Initiatives execution



## ESG REPORTING AND IMPACT ASSESSMENT

## **ESG Data Monitoring Dashboards:**

Integrated ESG data platforms

novisto



AUDITBOARD



Energy Management Systems:
Al driven platforms to track energy consumption



eSightenergy

**VelocityEHS**°





## SUPPLY CHAIN MANAGEMENT

#### **End to End Blockchain: Promote more ethical sustainable sourcing**



# **Robotics and Automation:**

Al powered tracking and transparency



## MANUFACTURING EFFICIENCIES

# Waste Management: Executing a circular economy strategy Advanced Recycling using Al and Machine Vision

## **Production Efficiency:**

Industrial Automation (smart censors, cloud computing,
 Industrial IOT (Additive manufacturing/ 3D printing)

Q Qintess

## Employment

Recruiting

Employee Management Data Integration Technologies

**DEI INITIATIVES** 

2

Healthcare

Robotics and Automation

## **Smart Cities**

Water Conservation Technologies

Smart Traffic System



## TECHNOLOGY FOR GOOD, TECHNOLOGY FOR ALL

Our dependence on Technology Innovation and Data for sustainable solutions should be free from bias, projecting Social Inclusion for all

Technology companies need to ensure that there is a strong focus not only on building sustainable solutions for clients, but also on projecting DEI initiatives internally at their workplace



## CREATING A DIGITAL TRANSFORMATION DEI HUB

## Qintess ACADEMIES

At Qintess, we have our Talents Academy, a framework that combines hard and soft skills, agility, design, and innovation.



## CREATING A DIGITAL TRANSFORMATION DEI HUB

We aim for 50% of our trainees to be women, dedicating as well, additional quotas for minority professionals (Black, LGBTQI, disabled) Qintess

## CREATING A DIGITAL TRANSFORMATION DEI HUB

# More than 40% of our leadership positions are held by women.


## A CLEAR PATH TOWARDS MAXIMIZING SUSTAINABILITY

## **An Optimistic Vision:**

The moment is now to transform our challenges into opportunities....

.... An opportunity to leverage high-level technology and data to design and build sustainable solutions

.... Accelerating human creativity and maximizing social impact



## THANK YOU !

## 2022 SUSTAINABLE MARKET SHARE INDEX<sup>TM</sup>



#### **Randi Kronthal-Sacco**

Senior Scholar NYU Stern CSB

## 2022 SUSTAINABLE MARKET SHARE INDEX™



#### **Randi Kronthal-Sacco**

Senior Scholar NYU Stern CSB



**Nishat Mehta** 



President, Global Products & Solutions Circana (formerly IRI)

## **FIRESIDE CHAT**



## Paul Knopp



**Gillian Tett** 

Chair and CEO KPMG Chair, Editorial Board & Editor-at-Large, US Financial Times

## **NYC'S CLIMATE TRANSITION**



## **Rohit Aggarwala**



Commissioner, New York Department of Environmental Protection Chief Climate Officer of New York City

## **CAPITAL FOR CLIMATE COMMITMENTS**



Kenza Bryan (Moderator) Moral Money Reporter Financial Times



Andrew Kessler President NY Green Bank



**Lindsay Luger** Co-Founder and Partner Energy Impact Partners



**Priscilla Lu** Partner/Managing Director, Head of Sustainable Investments for APAC, DWS

## PRACTITIONERS' GUIDE TO EMBEDDING SUSTAINABILITY



#### **Chisara Ehiemere**

Senior Research Lead, ROSI NYU Stern Center for Sustainable Business

## Why Produce an Embedded Sustainability Guide?

<u>The challenge:</u> companies are working to understand and address sustainability risks and opportunities with inadequate background and tools

<u>The opportunity:</u> a guide that provides:

- Step-by-step practical guidance on how to build a sustainability strategy, culture, governance and reporting/communications
- Case examples from companies
- An analysis of common barriers and how to address them
- An embedded sustainability maturity model for self-assessment

Generous support provided by



## What is Embedded Sustainability?

Sustainability is embedded when the proactive management of material sustainability issues and a balanced approach to the needs of stakeholders (including shareholders) are completely and effectively integrated into the company's business strategy with the goal of creating positive societal value as well as better financial returns.

## Why Embed Sustainability Core to Business Strategy?

Provides a total quality management approach through a sustainability lens:

- Identify and mitigate environmental, social and governance risks
- Identify growth and innovation opportunities
- Identify operational efficiencies
- Unlock opportunities to increase sales and customer loyalty
- Increase ability to attract and retain talent
- Improve stakeholder relations (including suppliers)
- Increase positive media coverage and reputation

## **Examples highlighted**

#### STAKEHOLDER ENGAGEMENT

GOODYEAR GATHERS STAKEHOLDER FEEDBACK, BUILDING ON INFORMATION GATHERED DURING MATERIALITY ASSESSMENTS

| STAKEHOLDER GROUP                                               | REGULAR STAKEHOLDER INTERACTION                                                                                           |  |  |  |
|-----------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------|--|--|--|
| Board Members                                                   | Board meetings     Committee meetings     Annual shareholders meeting                                                     |  |  |  |
| Customers                                                       | Daily communication via email, calls and meetings     Occasional on-site visits     Annual customer conferences           |  |  |  |
| Distributors                                                    | Daily communication via email, calls and meetings     Occasional on-site visits     Annual customer conferences           |  |  |  |
| Suppliers                                                       | Daily communication via email, calls and meetings     Occasional face-to-face meetings at Goodyear or supplier facilities |  |  |  |
| Regulators                                                      | Engagement with governments in countries of operation, as necessary                                                       |  |  |  |
| Industry Associations and Non-Governmental Organizations (NGOs) | Tire Industry Project and ongoing working groups     Trade Associations     Frequent interactions with NGDs               |  |  |  |
| Investors                                                       | Ouarterly earnings calls     Annual shareholders meeting     Frequent investor calls and emails                           |  |  |  |
| Collaborators                                                   | Various collaborator engagements throughout the year on a variety of projects                                             |  |  |  |
| Community Members                                               | Communication with and contributions to charity     Regular volunter activities     Community program development         |  |  |  |

| The Unilever Compass                                                                                                                                                                                                         |                                                          | Crow                                              | Compo.                               |                                              | Ľ                                                      |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------|---------------------------------------------------|--------------------------------------|----------------------------------------------|--------------------------------------------------------|
| Our Vision is to be the global lead<br>sustainable business. We will den<br>how our purpose-led, future-fit bu<br>model drives superior performant<br>consistently delivering financial re<br>the top third of our industry. | ler in<br>ionstrate<br>isiness<br>:e,<br>esults in       | Store With put                                    | Ale ace<br>le living<br>place triffe | Multi-stakcholder<br>Our People<br>Customers | Model<br>Consumers<br>Suppliers & Business<br>Partners |
| I. Develop our portfolio into high growth spaces Hygiene Hygiene Silon care                                                                                                                                                  | Prestige becady                                          | Functional Autorities                             | Plant-based<br>foods                 | Society                                      | Planet                                                 |
| 2. Win with our <b>brands</b> as a force for good, powered by purpose and i<br>improve the health<br>of the plant.<br>confidence and withough                                                                                | Contribute to a fairer, more<br>socially inclusive work! | Win with differentiated science<br>and technology | 1                                    | Shareholders                                 | -                                                      |
| 3. Accelerate in USA, India, China and key growth markets<br>build further scale in USA, Leverage emerging<br>bolis and China markets provide                                                                                | i i                                                      | 2                                                 |                                      |                                              |                                                        |
| 4. Lead in the channels of the future                                                                                                                                                                                        |                                                          | -                                                 |                                      | Multi-year Einand                            | al Framework                                           |
| Accelerate pure-play and Develop e828<br>omnichannel eCommerce business platforms                                                                                                                                            | Drive category leadership<br>through shopper insight     | <u> </u>                                          |                                      |                                              |                                                        |
| 5. Build a purpose-led, future-fit organisation and growth culture                                                                                                                                                           |                                                          | 4                                                 |                                      |                                              | O I                                                    |
| Unlock sepacity through agility Be a beacon for diversity, inclusion<br>and digital transformation and values-based leadership                                                                                               | Build capability through<br>lifelong learning            |                                                   | N                                    | Competitive<br>growth                        | Profit<br>growth                                       |
| Operational Excellence through the 5 Growth Fundam                                                                                                                                                                           | entals                                                   |                                                   |                                      | .0                                           | 12                                                     |
| 1 Purposeful 2 Improved Penetration                                                                                                                                                                                          | 3 Impactful<br>Innovation 4                              | Design For<br>Channel 5                           | Fuel For<br>Growth                   | Cash generation                              | Top 1/3 TSR                                            |



#### ESG Pay-Link Adoption by Region

Europe

U.S. and Canada

Asia-Pacific

Africa and Middle East

SUSTAINALYTICS

Latin America and Caribbean

BOARD OF DIRECTORS COMMITTEES COMMITTEES COMMITTEES COMMITTEES COMMITTEES COMMITTEE COMPARE EXECUTIVE COMMITTEE EXECUTIVE COMMITTEE COMPARE EVISIONABILITY TEM HUMACRECOMMITTEE COMPARE EVISIONABILITY TEM COMPARE EVISIONABILITY TEM COMMITTEE COMMITTEE COMMITTEE COMMITTEE COMMITTEE COMMITTEE COMMITTEE COMMITTEE COMMITTEE

Figure I: Arca Continental's Governance Illustration.

# Figure II: Arca Continental's Sustainability Committees Hustration.



#### **Process Steps**

Section 1. Design Your Corporate Strategy
Section 2. Create a Culture of Sustainability
Section 3. Governance and Organizational Structure
Section 4. Communications and Reporting

## Section 1. Design Your Corporate Strategy, Steps 1 to 4



**Step 1:** Determine Material ESG Factors for the Company Strong performance on material issues leads to better results



Step 2: Map and Engage Stakeholders Identify opportunities for learning and collaboration



**Step 3:** Create a Materiality Matrix Internal analysis and stakeholder views to prioritize efforts



**Step 4:** Develop Your Sustainable Business Strategy Plan for prioritized issues and create baseline

## Section 1. Design Your Corporate Strategy, Steps 5 to 8



**Step 5:** Develop Organization-Wide KPIs Develop outcome and impact-based KPIs



**Step 6:** Develop and Implement Action Plans for Goals *Timing, resources and activities* 



**Step 7:** Identify and Recruit Partners and Collaborators Includes NGOs, precompetitive partnerships



**Step 8:** Understand and Track ROSI™ Identify value drivers and monetize results

## Section 2: Create a Culture of Sustainability

Includes the company's beliefs, attitudes, and values at the core of their business operations and how they affect employee engagement:

- Ensure vision, mission, purpose, and values align with sustainability; act ethically
- Address Employee Relations and Diversity, Equity & Inclusion
- Assess and Manage Culture Change
- Employee Training

Our Purpose is "To Stand Together for the Future of Flavor." Our Vision is "A World United by Flavor—where healthy, sustainable and delicious go hand in hand." – McCormick\*

#### patagonia





## Section 3: Governance and Organizational Structure

Evaluates the structural processes in place to promote and monitor sustainability integration across business functions

- Board Governance
  - Sustainability committees, ESG credentials
- Leadership, Management and Accountability
  - Capital Allocation
  - Organization-wide KPIs and work plans
  - Executive compensation tied to results
- Structuring an effective sustainability function





Creating Markets, Creating Opportunities

## Section 3: Governance and Organizational Structure

Example: Structuring an impactful sustainability function – not a one-size fits all, and considerations include

- CEO prioritization and visibility
- Sustainability function aligns with the way the rest of the organization works
- Sustainability function has the authority to have cross-departmental and cross-functional reach
- Buy-In from the finance function

## **Section 4: Communications and Reporting**

Discusses how the company communicates its sustainability values and commitments to internal and external stakeholders

- Employee Communications
- Communicating with Investors
- Communication with Suppliers
- Communication with Customers and Consumers



## **Navigating Barriers**

#### Some barriers that are addressed are:

- Our employees know that sustainability is important, but they don't have the knowledge they need to take action
- We have conflicting KPIs across departments
- I am having some difficulty making the consumer argument and can only find anecdotal proof that consumers want these products and will pay more for them
- We are concerned about setting aggressive public (or even internal) goals for fear of missing them
- I feel stuck in bureaucratic inertia

## How Embedded is Sustainability Within My Organization?

- Corporate Strategy Evaluates the degree to which sustainability is integrated into core business operations. It has a higher weighting as it is the backbone of embedding sustainability – 40%
- Governance Evaluates the structural processes in place to promote and monitor sustainability integration across business functions - 30%
- Culture Evaluates the company's beliefs, attitudes, and values at the core of their business operations and how they affect employee engagement - 15%
- Communications Evaluates how effectively the company communicates its sustainability values and commitments to internal and external stakeholders-15%



Explorer

Integrator

Embedder

## **Practitioners' Guide for Embedding Sustainability**