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### Building the Financial Case for Return on Sustainability Investment

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## FORTUNE Why Milton Friedman Was Wrong

EheNew HorkTimesShareholder Value Is No Longer Everything, Top C.E.O.s Say

# **Forbes**

Purpose At Work: Why BlackRock's CEO's Letter Is A Wake-Up Call To All Brands



# The Revolution Comes to Davos

At the anti-capitalist capitalist event, radical sentiments erupt in unexpected places.

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Q: How to better track and assess the value of sustainability/ESG for business management and financial performance?

- Analyze where financial value is being created by sustainable practices and where it is being destroyed by short-term, unsustainable practices
- Integrate ESG metrics and financial metrics together-- into improved accounting, reporting and decision-making systems
- Develop new partnerships and mechanisms to scale up financing of sustainability

### **Our Research Begins with This Premise**

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#### Return on Sustainability Investment (ROSI™) Framework

When a company embeds sustainability in its strategy and practice, it...



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### For Corporates:

- Embed sustainability together with ROSI into corporate business strategy, decision-making and accounting.
- Result: Better performing business, socially, environmentally, and financially

#### For Investors:

- Use ROSI to better assess where relative value exists in corporate ESG strategies and investments. Use as an overlay to understand ESG data.
- Result: Improved investor decision-making and valuation

### **Corporate Partners on ROSI™ Projects**

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Valuing the Opportunity for Sustainable Fashion Research Initiative

### Valuing the Opportunity for Sustainable Fashion

**Research Objective:** To estimate the value of tangible and intangible benefits accrued by making strategic investments in more sustainable business practices

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#### The Issue

 Apparel manufacturing has significant environmental impacts (i.e., land use, water use, biodiversity, etc.) and societal impacts (i.e., child and forced labor, low wages, etc.)

#### **Project Outcomes**

- Estimate the value of the benefits accrued from implementing the highest value opportunities for a more sustainable business
- An industry-wide monetization tool that can be used by the apparel industry to assess the value of benefits that could be accrued through more sustainable business practices

### EILEEN FISHER **Reformation**





#### = Areas of focus chosen by partner companies



\* Impacts transportation and waste cost as well as carbon emissions

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#### Sustainable Strategies

Leverage circular business
 models

- Improve corporate sustainability
- Substitute more sustainable materials
- Improve supply chain traceability

#### **Sustainable Practices**

- Apparel recycling program, taking back old clothes, refurbishing, and reselling
- Use digital samples
- Producing more sustainable
   material product lines
- Third-party certification

### **Benefits**

- Incremental store sales, sales of new line, reduced material cost, improved redemption, new customers
- Reduction of labor, materials, transport costs
- Improved sales, lower returns, free media
- Reduced fines, loss of sales

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11

#### **Initiative Description**

A large retailer is undertaking initiatives related to the use of sustainable materials in its private label products.

	Benefit (Cost)	
Gross Margin Benefit (cost)	Calculate <b>per unit sale price</b> and <b>per unit cost of goods sold</b> difference of Sustainable vs. non-Sustainable products	
Sales Growth	Calculate unit sales volume difference of Sustainable vs. non-Sustainable products	
Returns Impact	Calculate <b>unit return volume</b> difference of Sustainable vs. non-Sustainable products and <b>multiply by average cost of returns</b> (incl. discounting, handling costs, etc)	
Earned Media	Calculate benefit of unpaid media exposures <b>multiplying # of exposures</b> by <b>average</b> media cost	
Impact on Customer	Approaches described on the next slide	

	Benefit (Cost)	
Improve Customer Profitability & Loyalty	Measure the impact on improvement to behavioral attributes such <b>as average # of store visits, average basket size, customer retention rates, and customer lifetime value</b>	
Expand Customer Base	Calculate the sales impact of attracting new customers by measuring the impact of new sustainable products – for instance <b>social</b> media traffic (look at Instagram <b>activity</b> , <b>clicks to website and conversion rates</b> )	
Impact on Customer Acquisition Costs	Calculate the impact on customer acquisition costs – for instance, a new product line may bring in new customers who have never purchased the brand before – <b>estimate # of new customers and multiply by the average cost of acquisition</b>	

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#### **Initiative Description**

Apparel recycling program, taking back old clothes, refurbishing, and reselling them.

	Cost	Benefit
Direct Item Acquisition Cost	<b>Cost of gift card given to clothes donors</b> Multiply cost of gift card times number of items donated to takeback program	Incremental sales related to incremental in-store traffic Calculate sales from customers who also donate clothes in transaction Redemption Rates on gift cards Compared to other coupon offers
Reverse Supply Chain	Costs associated with taking items back and refurbishing for resale Calculate shipping, warehousing, refurbishment and recycling (non-sellable items) costs associated with taking items back	<b>Reduced material costs related to use of recycled goods –</b> Recycled material product line, over-dyed and re-sewn goods and recycled (fiber-to-fiber) – <i>by multiplying weight of recycled goods multiplied by average cost of virgin materials less cost of recycling</i>
Reselling Process	Direct operating costs of takeback program sales channel Calculate the direct operating cost of takeback sales channels (i.e., marketing, website costs, dedicated store costs, etc) Direct operating costs of recycled material product line, over-dyed and re-sewn goods and recycled (fiber-to-fiber) Cost of disposing of unused goods to recyclers for shredding	Sales from takeback program sales channel Calculate aggregate revenue of items from various sales channels (i.e., online, dedicated stores, racked in stores, pop-ups) Sales from recycled goods - Recycled material product line, over- dyed and re-sewn goods and recycled (fiber-to-fiber) Calculate aggregate revenue of recycled items from various sales channels
Customer Impact		Does program help acquire customers and/or customer loyalty?Calculated customer acquisitions related to takeback program and multipleby the lifetime value of a brand customerIs there a benefit – earned media?

### For questions and suggestions, please get in touch.

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Elyse Douglas edouglas@stern.nyu.edu Kevin Eckerle keckerle@stern.nyu.edu Quality Jobs and Corporate Financial Performance Research Initiative

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**Research Objective**: To explore whether investing in improving the quality of employment is beneficial for corporate financial performance and investor returns

#### The Research Gap

- Often disinvestment in employees is driven by financial considerations, but academic research has historically focused on policies and procedures relating to a safe workplace or employer-paid healthcare.
- Job-related metrics such as fair pay or workplace discrimination are only recently available on a big data scale.
- The question of whether investments in quality jobs improves corporate financial performance **remains unanswered**.

#### **Research Initiative**

- Develop a **novel framework** that defines quality jobs (through **security, viability, and flexibility) and assess** the Russell 1,000.
- Analyze the relationship of quality jobs and business performance with **unique datasets** from our partners Arabesque and Just Capital.
- Supported by Prudential and Robert Wood Johnson Foundation









Robert Wood Johnson Foundation

### Conceptual Framework (preliminary): Relationship Between Quality Jobs and Financial Metrics

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#### 2019

#### **Control variables**

Size (sales); value (book-to-market); etc...

**Mediating variables** R&D investments; customer satisfaction; etc ...

**Quality Jobs** (as measured by ESG data providers and CSB primary research)

#### Financial success defined by

- market-based measures (e.g. Tobin's Q)
- accounting-based measures (e.g. Return On Assets)

#### CSB framework derived from JUST Capital metrics (illustrative examples)

## Indicators from third party ESG data providers, e.g.

- Employment Quality
- Diversity
- Training and Development
- Labor Rights
- Compensation



2020

In a longitudinal setting we also control for unobserved, time-constant effects such as company history.

#### Initial Model of Employment Quality and Return on Assets by Sector

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Each chart is a scatterplot between return on assets and employment quality (an Arabesque feature) by sector (MSCI The Global Industry Classification Standard) overlaid with the line of best fit (correlation).

This illustrative chart only shows associations but our model will aim for more causal explanations.

Employment quality (ESG feature score, 0-100)

### For questions and suggestions, please get in touch.

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# Invest NYC SDG Initiative

### Invest NYC SDG



**NYU Stern Center for** Sustainable Business launched the first multi-stakeholder initiative engaging private sector finance to advance the UNSDGs and create a more sustainable, inclusive, and resilient NYC.

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- Facilitate private sector engagement and financing of concrete investable projects
- Suggest government policy and finance mechanisms
- Create a roadmap for other cities in the US and globally



#### Focus Areas

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With these focus areas, we hope to: reduce GHG emissions, create jobs, support a circular economy, address food insecurity, and mitigate and prepare for the impacts of climate change.

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#### The Built Environment

Waste

#### 1. Unlock PACE financing to support Climate Mobilization Act mandated energy efficiency in NYC's buildings, which contribute to more than 70% of the City's GHG emissions

2. Create high-profile demonstration project(s) using PACE to implement a full energy efficiency package

3. Build an efficient green job training and placement business to meet the demands of re-engineering and maintaining NYC's built environment 1. Expand infrastructure for reclaiming organic waste, which makes up 40% of NYC's waste stream, through anaerobic digesters (waste to energy), aerobic systems, and composting technology, looking to non-utility scale

2. Develop new paper pulp offtake facilities to recycle the ~27% of waste that is paper in NYC 1. Create an early digital warning system for noncoastal flooding and heat emergencies in NYC

**Climate Resilience** 

2. Build delivery of smaller scale battery storage systems for climate emergencies.



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### **Questions/Suggestions**

### You can help us:

- Join our team of finance advisors
- Share potentially investable opportunities in NYC





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### Corporate Engagement with Students

We welcome corporate partners to work with our students on experiential learning, or career development.

If you'd like to discuss projects, internships, or full-time roles for undergraduates or MBAs further please be in touch!

**Current Corporate Partners** NESPRESSO. RALPH LAUREN Calvert **BNP PARIBAS** nternational Finance nationalgrid Corporation SUBWAY **HSBC** Goldman Sachs NRDC west elm amalgamated 27

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