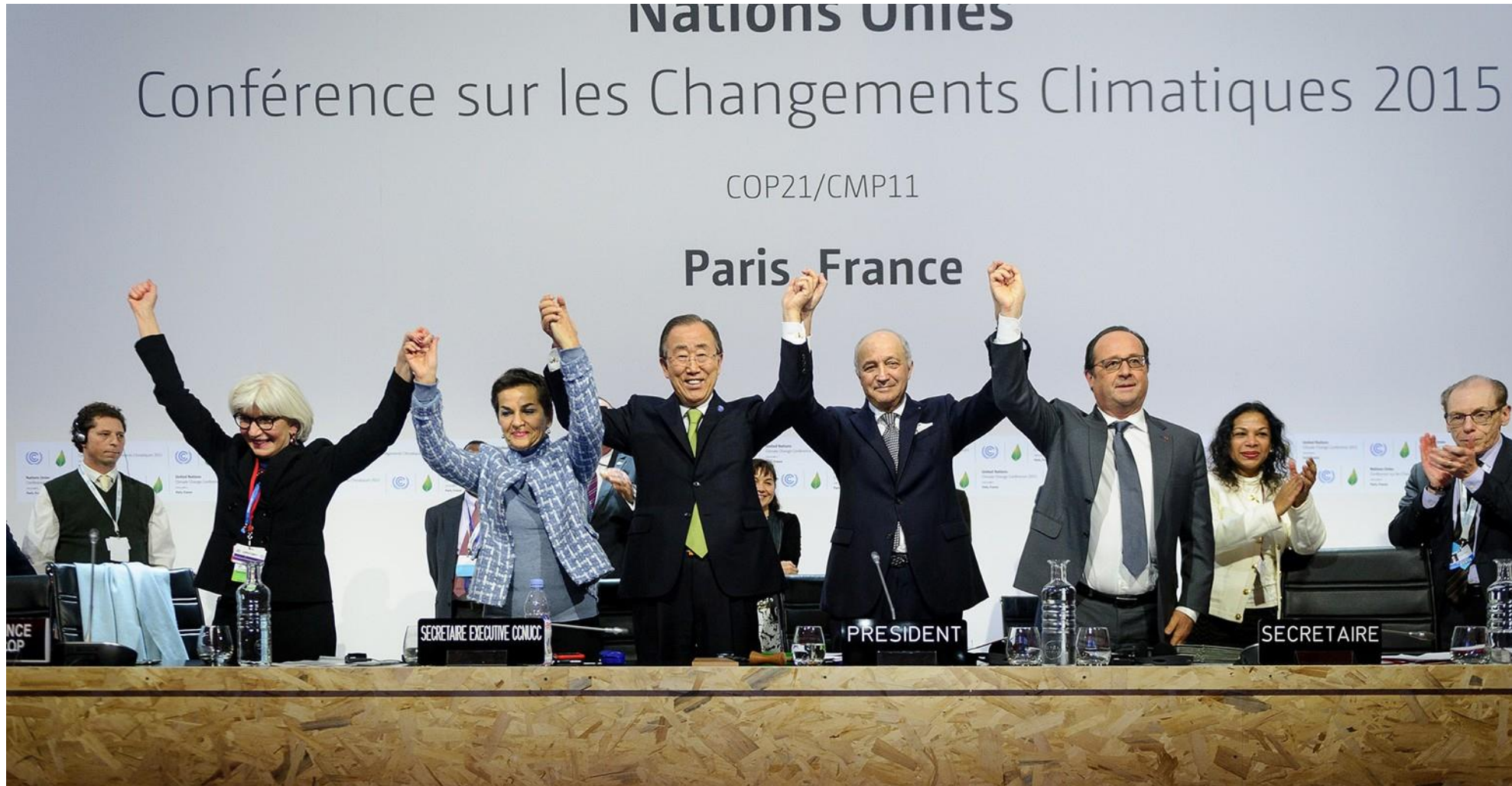


# Sustainability Leadership and Corporate Responsibility

Prof. Ioannis Ioannou  
Associate Professor of Strategy and Entrepreneurship

*"Yes, the planet got destroyed. But for a beautiful moment in time we created a lot of value for shareholders"*





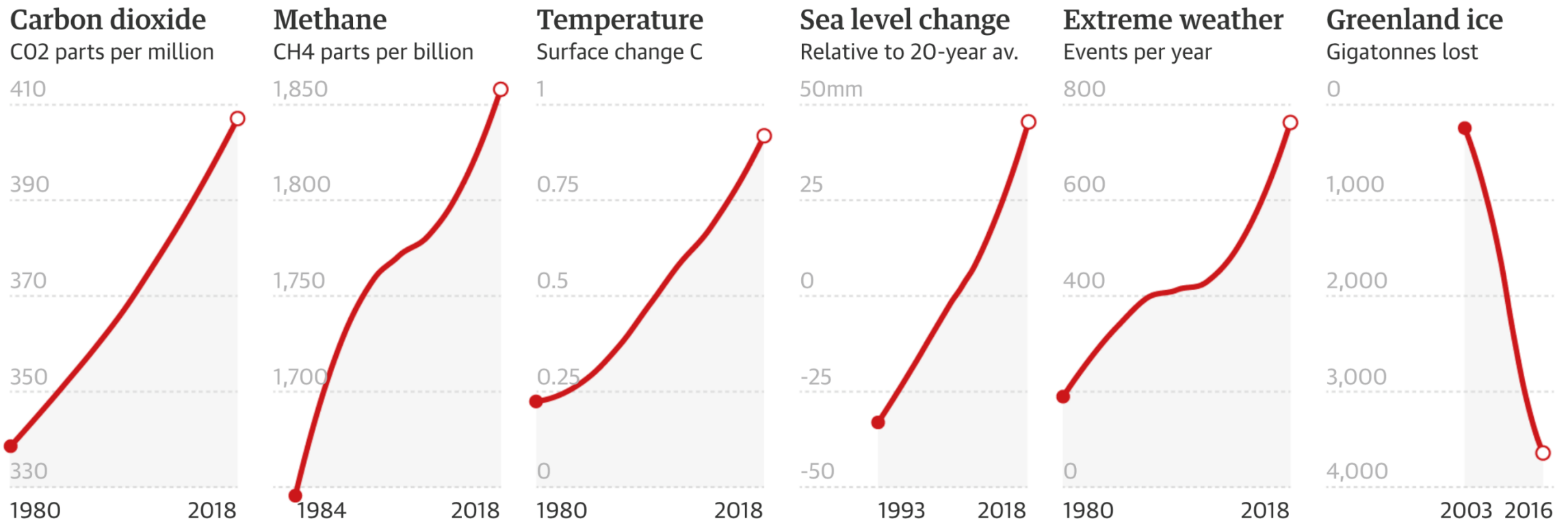
# United Nations Sustainable Development Goals





But are we truly committed to a sustainable future?

## 'Especially disturbing' - the impacts of the climate emergency

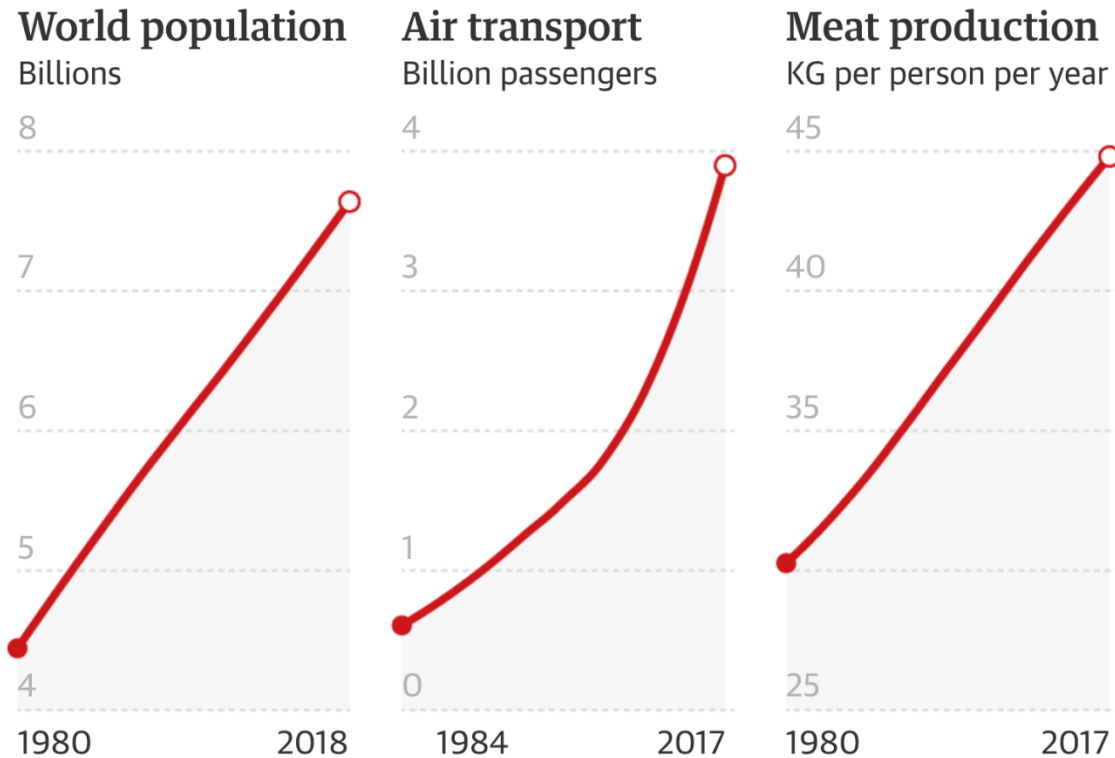


Guardian graphic. Source: Ripple et al, BioScience, 2019

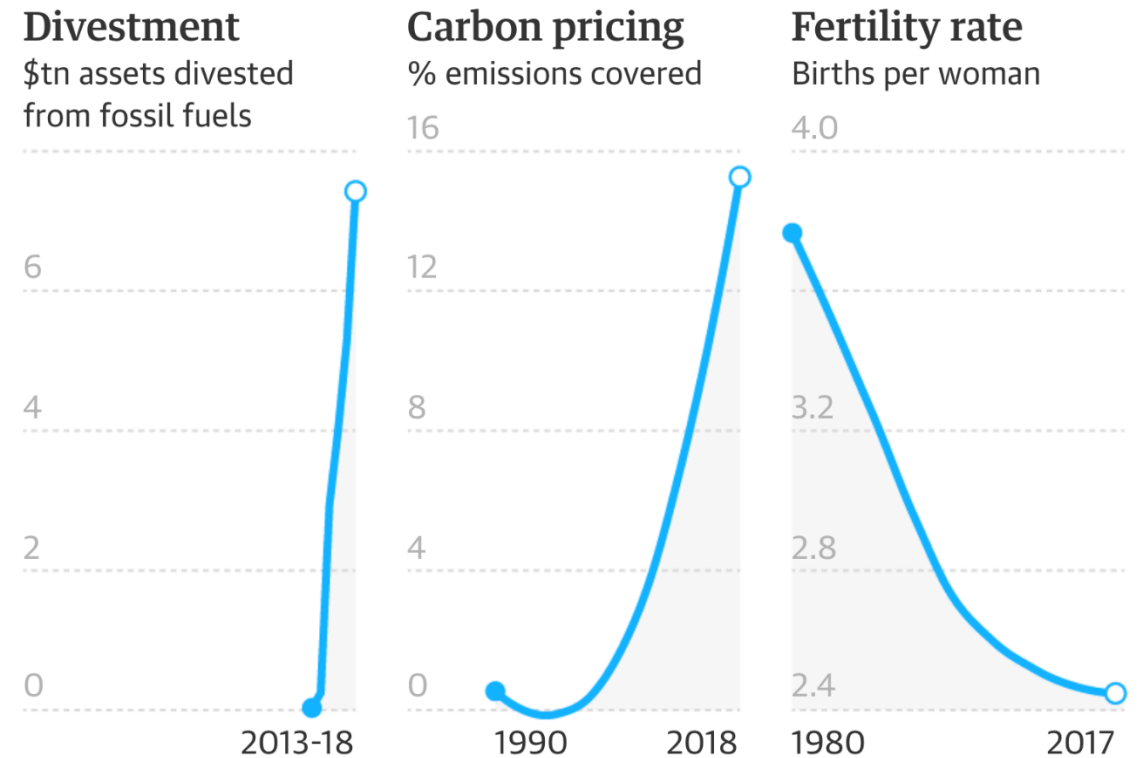
# A State of Emergency

But are we truly committed to a sustainable future?

## 'Profoundly troubling signs' - drivers of the climate emergency



## 'Encouraging signs' - trends tackling the climate emergency



Guardian graphic. Source: Ripple et al, BioScience, 2019



08.19.19

## America's top CEOs say they are no longer putting shareholders before everyone else

In a monumental step toward setting broader standards for corporate leadership, the lobbying group Business Roundtable is endorsing stakeholder capitalism. Is it achievable?



For the past two decades, the official stance of America's top corporate executives has been that the interests of shareholders came before the interests of all others—workers, consumers, the cities and towns in which their companies operated, and society as a whole.

Today, that changes.

The Business Roundtable, a lobbying group composed of the nation's leading CEOs, just announced that its members **"share a fundamental commitment to all of our stakeholders"**—each of whom "is essential"—while pledging "to deliver value to all of them, for the future success of our companies, our communities, and our country."

WITH GREAT  
POWER  
COMES GREAT  
RESPON-  
SIBILITY

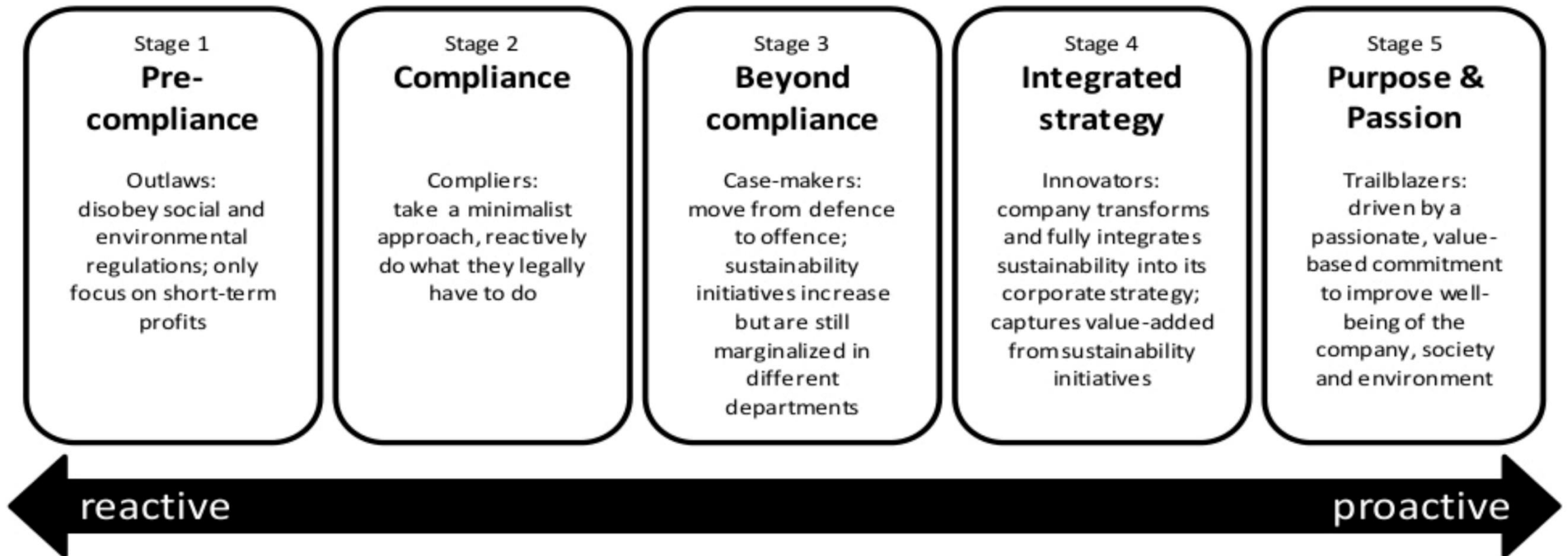


Country/Corporation	Revenue (US\$, bns)	Country/Corporation	Revenue (US\$, bns)	Country/Corporation	Revenue (US\$, bns)
1 United States	3,251	35 Austria	189	69 Ping An Insurance	110
2 China	2,426	36 Samsung Electronics	177	70 United Arab Emirates	110
3 Germany	1,515	37 Turkey	175	71 Kroger	110
4 Japan	1,439	38 Glencore	170	72 Société Générale	108
5 France	1,253	39 Industrial & Commercial Bank of China	167	73 Amazon.com	107
6 United Kingdom	1,101	40 Daimler	166	74 China Mobile Communications	107
7 Italy	876	41 Denmark	162	75 SAIC Motor	107
8 Brazil	631	42 UnitedHealth Group	157	76 Walgreens Boots Alliance	103
9 Canada	585	43 CVS Health	153	77 HP	103
10 Walmart	482	44 EXOR Group	153	78 Assicurazioni Generali	103
11 Spain	474	45 General Motors	152	79 Cardinal Health	103
12 Australia	426	46 Ford Motor	150	80 BMW	102
13 Netherlands	337	47 China Construction Bank	148	81 Express Scripts Holding	102
14 State Grid	330	48 AT&T	147	82 Nissan Motor	102
15 China National Petroleum	299	49 Total	143	83 China Life Insurance	101
16 Sinopec Group	294	50 Argentina	143	84 J.P. Morgan Chase	101
17 Korea, South	291	51 Hon Hai Precision Industry	141	85 Gazprom	99
18 Royal Dutch Shell	272	52 General Electric	140	86 China Railway Engineering	99
19 Mexico	260	53 China State Construction Engineering	140	87 Petrobras	97
20 Sweden	251	54 AmerisourceBergen	136	88 Trafigura Group	97
21 Exxon Mobil	246	55 Agricultural Bank of China	133	89 Nippon Telegraph & Telephone	96
22 Volkswagen	237	56 Verizon	132	90 Boeing	96
23 Toyota Motor	237	57 Finland	131	91 China Railway Construction	96
24 India	236	58 Chevron	131	92 Microsoft	94
25 Apple	234	59 E.ON	129	93 Bank of America Corp.	93
26 Belgium	227	60 AXA	129	94 ENI	93
27 BP	226	61 Indonesia	123	95 Nestlé	92
28 Switzerland	222	62 Allianz	123	96 Wells Fargo	90
29 Norway	220	63 Bank of China	122	97 Portugal	90
30 Russia	216	64 Honda Motor	122	98 HSBC Holdings	89
31 Berkshire Hathaway	211	65 Japan Post Holdings	119	99 Home Depot	89
32 Venezuela	203	66 Costco	116	100 Citigroup	88
33 Saudi Arabia	193	67 BNP Paribas	112		
34 McKesson	192	68 Fannie Mae	110		

The world's **top 10 corporations** – a list that includes Walmart, Shell and Apple – have a combined revenue of more than the 180 'poorest' countries combined in the list which include Ireland, Indonesia, Israel, Colombia, Greece, South Africa, Iraq and Vietnam.

# Sustainability as a Strategic Choice

Different Firms Make Different Choices



# What is Sustainability in a Business Context?

Sustainability as Strategy



# Four Crucial Questions on Sustainability Strategy

What we know based on current academic evidence

- I. What is the evidence regarding **a link** between Sustainability and value creation?
- II. What are the **mechanisms of value creation** through which a Sustainability commitment can translate into financial performance?
- III. How can we **structurally embed** Sustainability into the organizational DNA?



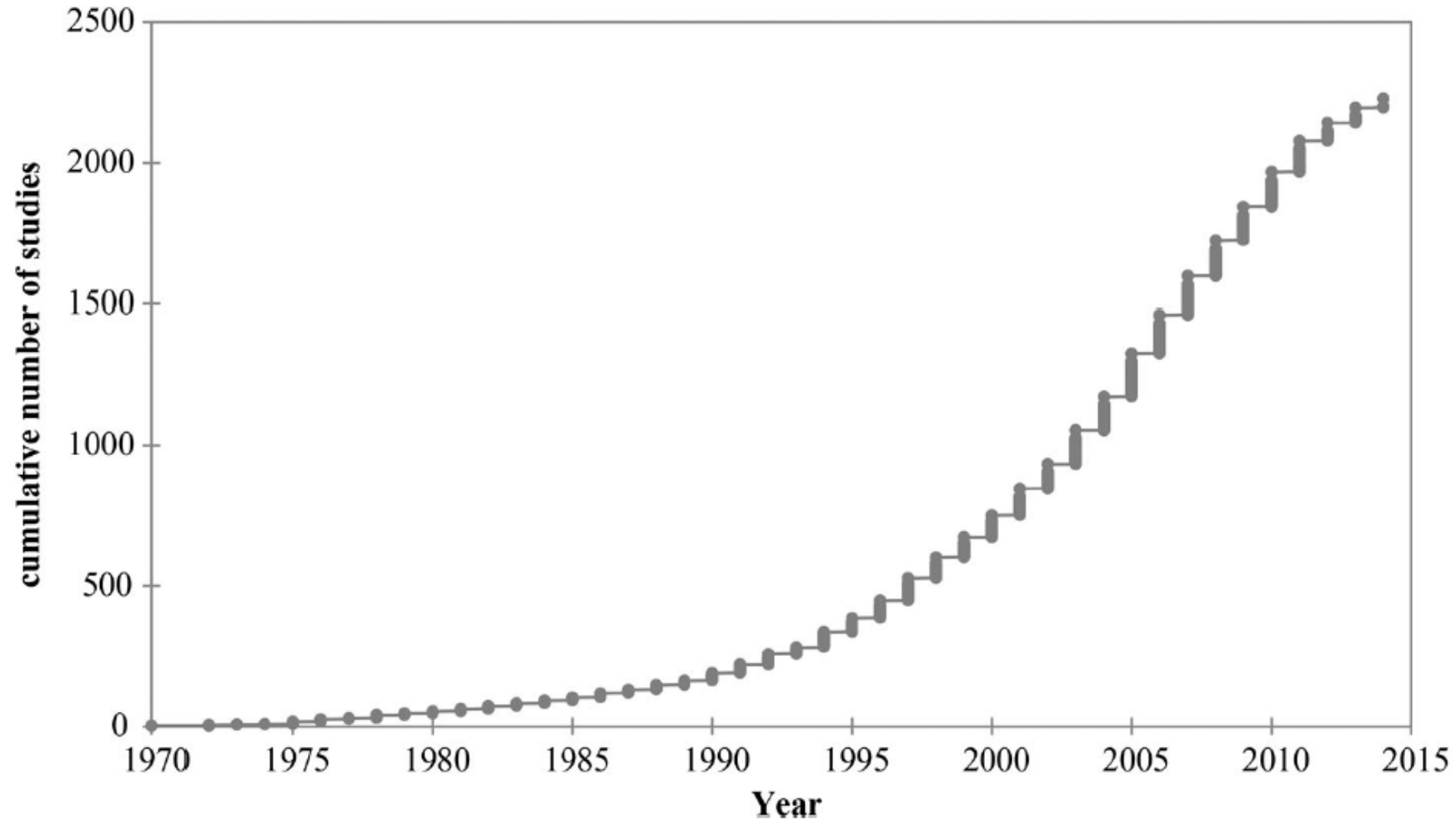
# Sustainability and Financial Performance





# Is Sustainability Creating Value for Companies?

Numerous Studies to Date; more of them in recent years



# The Link Between Sustainability and Value Creation

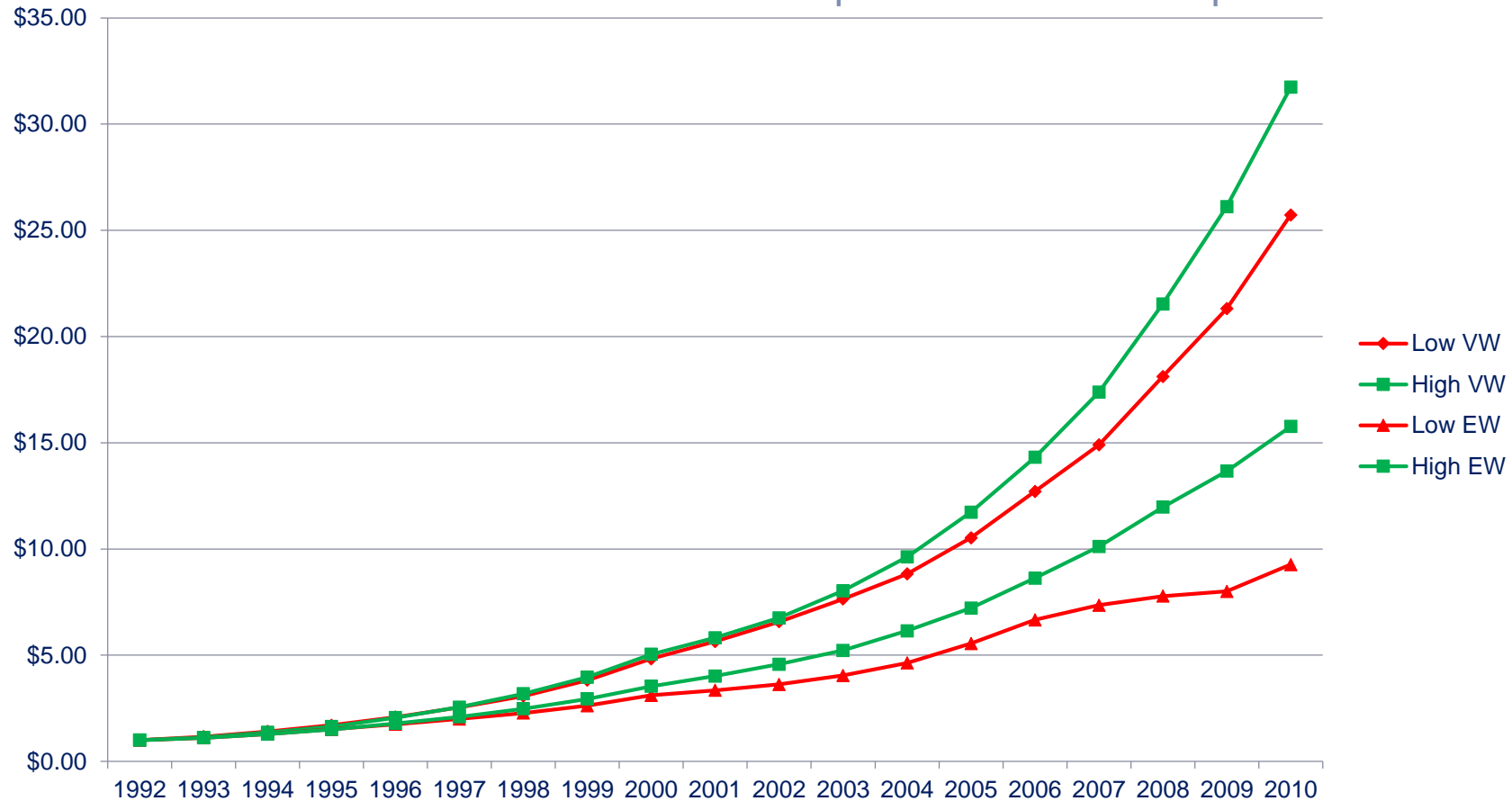
The State of the Art

“The current state of the art on the empirical academic evidence points to a **positive causal linkage** between the development of sustainability oriented practices, initiatives, structures and mind-sets and long-term financial performance”.

(Zollo et al. 2015; Laplume et al. 2008; Edmans, 2012; Eccles, Ioannou and Serafeim, 2014, Flammer 2014)

# High versus Low Sustainability Companies – Performance (ROE)

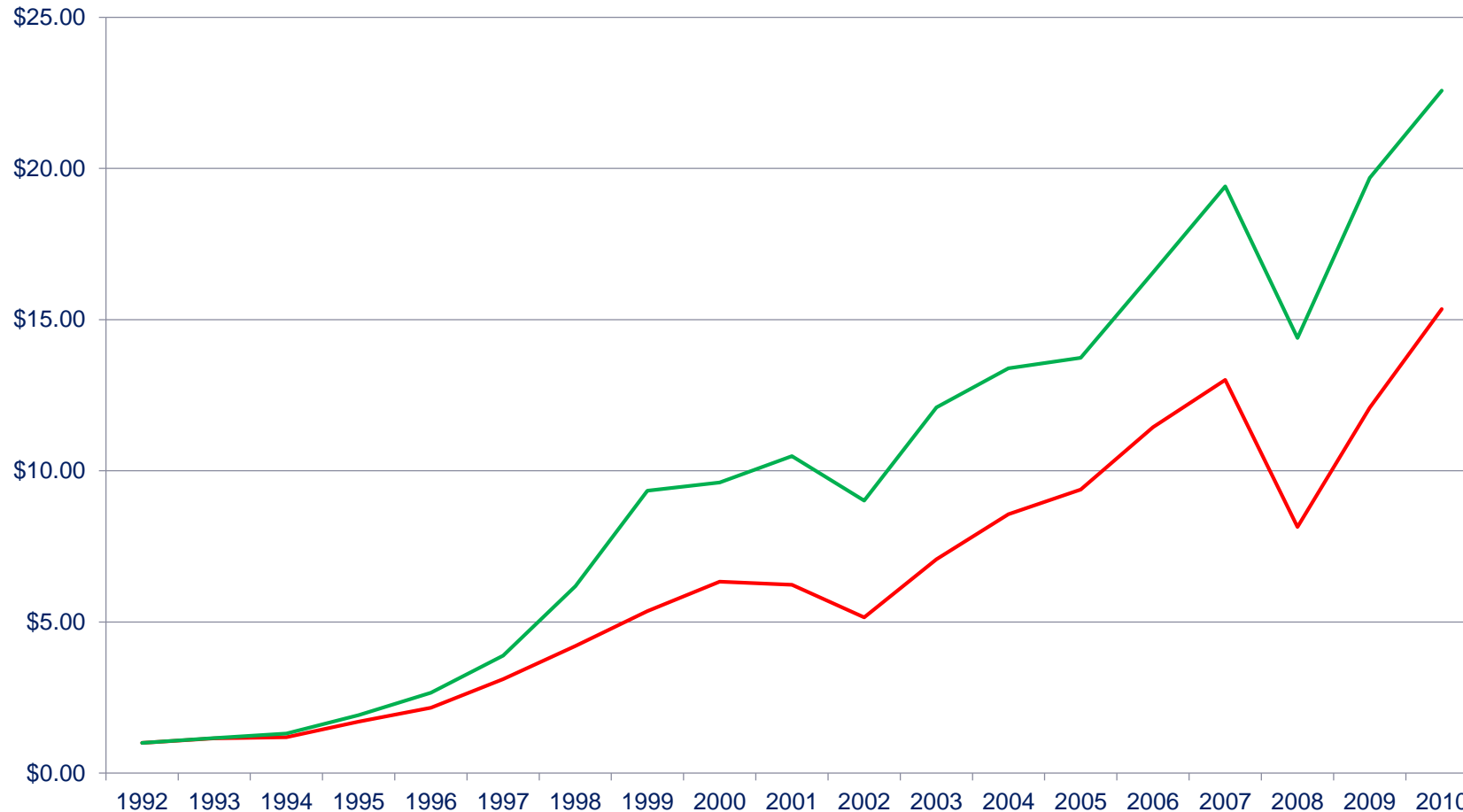
Sample: 90 x 2 U.S. Corporations – Matched in 1992



Investing \$1 in book value of equity in the beginning of 1993 in a value-weighted (equal-weighted) portfolio of *High Sustainability* firms would have grown to **\$31.7 (\$15.8)** by the end of 2010. In contrast, investing \$1 in book value of equity in the beginning of 1993 in a value-weighted (equal-weighted) portfolio of *Low Sustainability* firms would have grown to **\$25.7 (\$9.3)** by the end of 2010.

# High versus Low Sustainability Companies

Buy-and-Hold Stock Returns (Value Weighted); 2 x 90 U.S. Corporations matched in 1992



Investing \$1 in the beginning of 1993 in a value-weighted portfolio of *High Sustainability* companies would have grown to **\$22.6** by the end of 2010.

In contrast, investing \$1 in a value-weighted portfolio of *Low Sustainability* companies would have only grown to **\$15.4** over the same period.

# Four Crucial Questions on Sustainability Strategy

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# Value Creation Mechanisms Associated with Sustainability

Superior Access to Finance

Enhanced Innovation

Social license to Operate, Risk Mitigation

Enhanced employee engagement and retention

Increased Ability to Recruit of Talent

Avoid future adverse regulatory impacts

Build Long-term relationships with stakeholders

Enhanced Brand Loyalty and Corporate Reputation

# Sustainability and Access To Finance

Various new forms of Green Financing, across asset classes



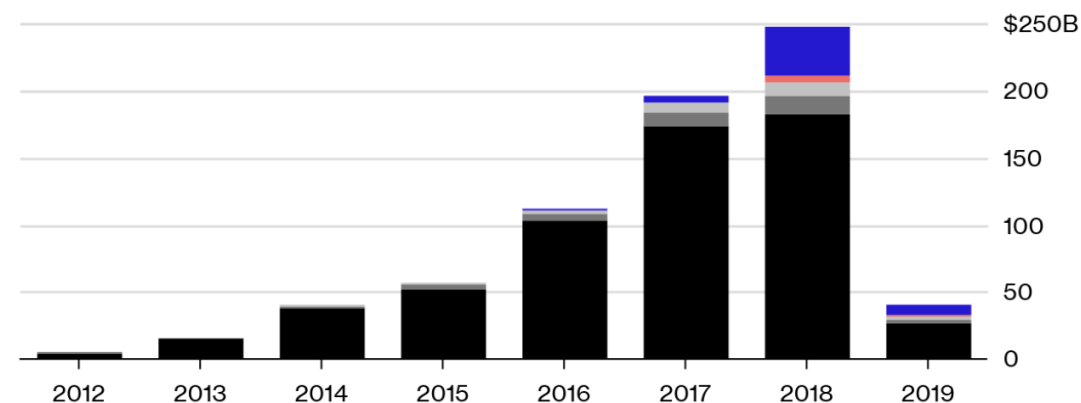
DEALFLOW

**The interest rate on a Philips loan will rise and fall with its sustainability rating**

## Friendly Debt Surge

New sustainable loans are taking off, but green bonds still king

Green bonds
  Sustainability bonds
  Social bonds
  Green loans
  Sustainability loans



Note: 2019 global data as of Feb. 25  
Source: BloombergNEF

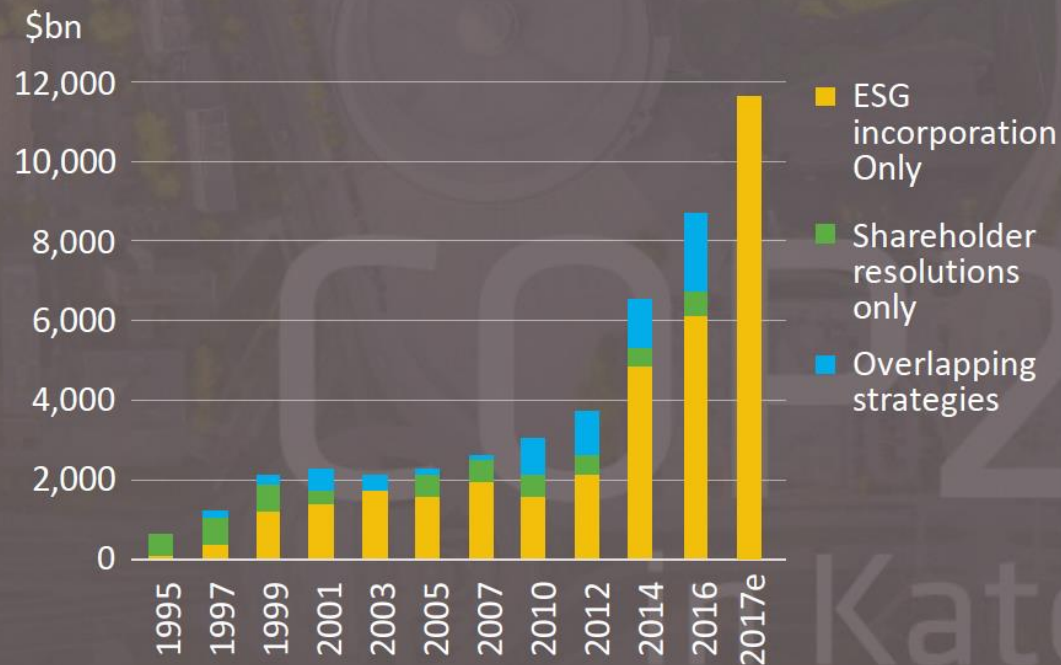
**Bloomberg**

# Sustainability and Access to Finance

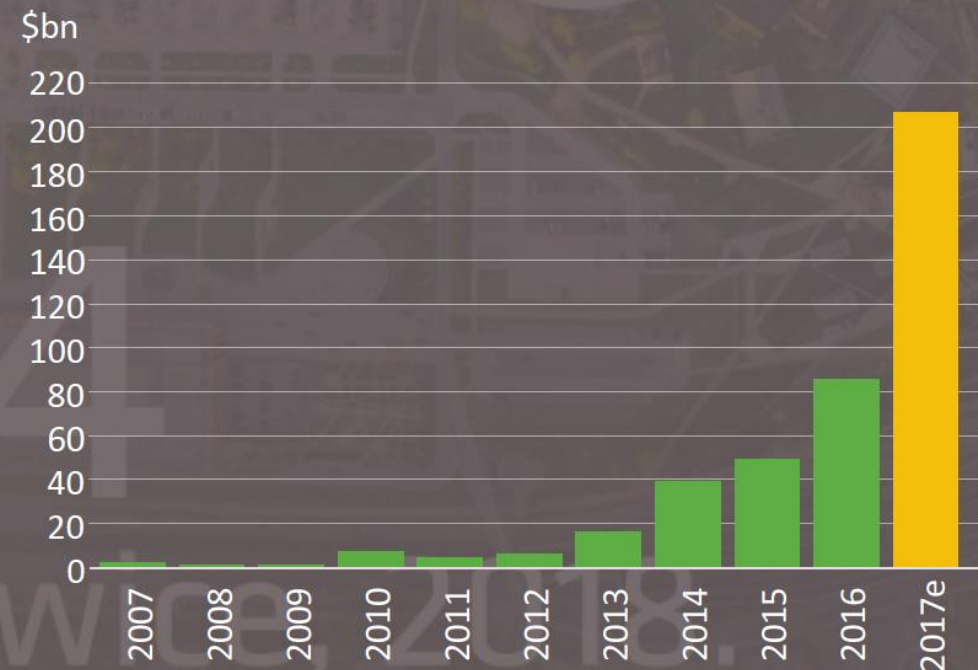
## Sustainable Investing, Green Bonds

### Sustainable investing appears to be increasing

Assets under sustainable-investment management have increased significantly

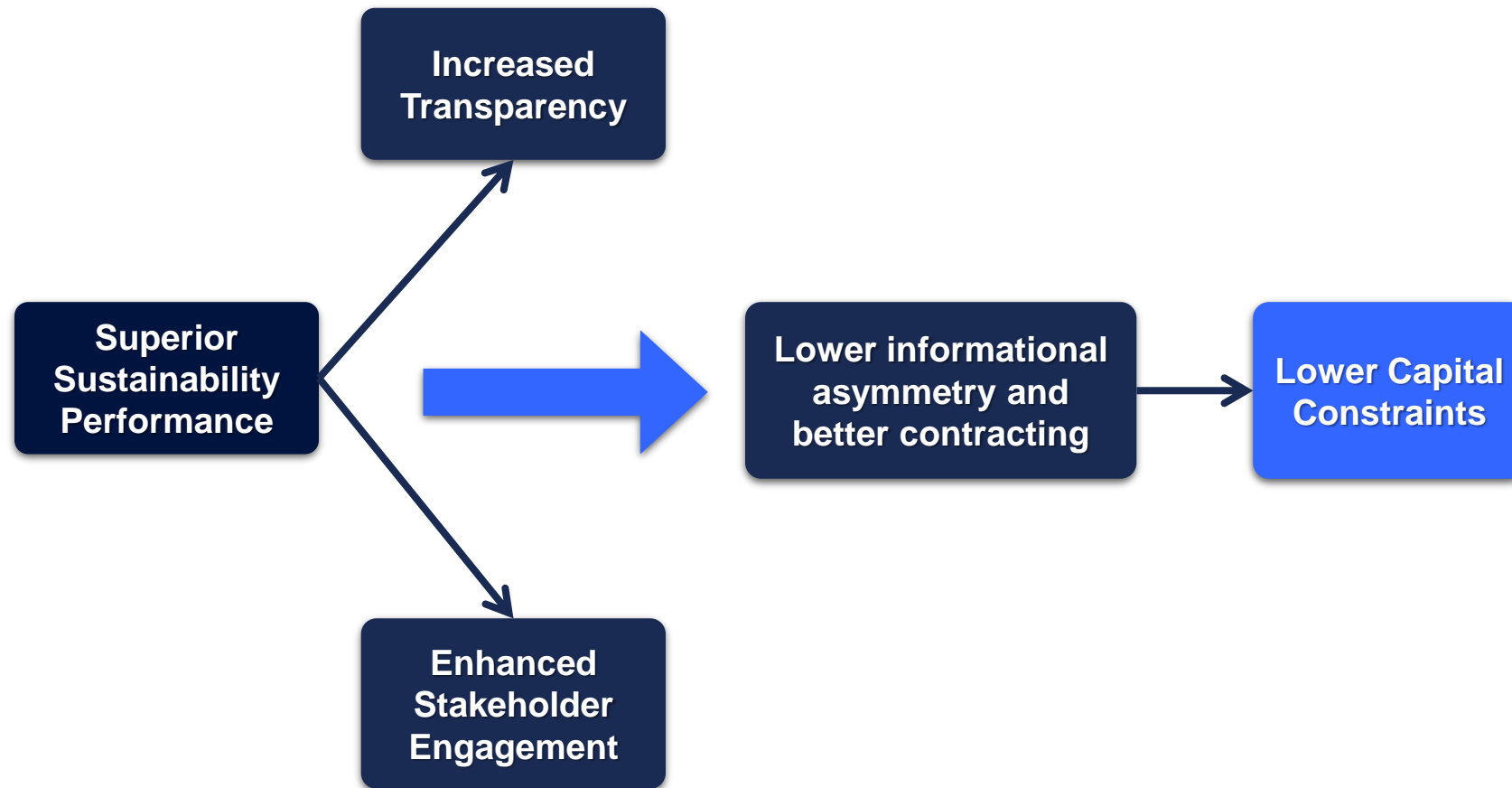


The global market for green bonds is gaining momentum



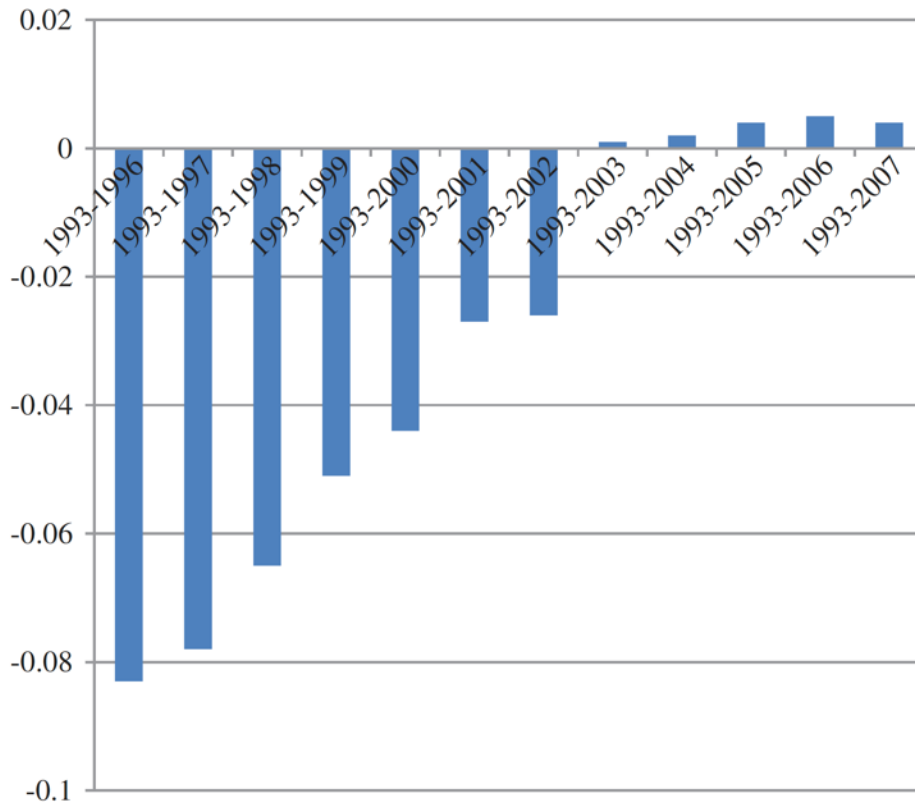
# Sustainability and Access To Finance

Global Sample – 2002-2009 – ASSET4 data



# Sustainability and Public Equity Markets

Shifting perceptions on Sustainability, away from an agency logic



- **Pessimistic** recommendations in earlier periods
- Neutral towards **optimistic** recommendations in later periods
- Analysts of **higher experience** first to shift their recommendations
- Analysts of **higher status** brokerage houses first to shift their recommendations



# Sustainability and Innovation

What are the links between Innovation and Sustainability Strategy?

**Two Steps Forward**  
How sustainability leadership drives innovation

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Joel Makower  
Monday, October 28, 2013 - 3:11am



Joel Makower  
Chairman & Executive Editor  
GreenBiz Group

The business case for sustainability is a well-worn litany of benefits, both tangible and intangible: cutting costs, improving quality, attracting and retaining talent and enhancing reputation, among others. Somewhere on that list is innovation — sustainability's potential to create opportunities for companies to tweak or radically improve their products and services in a way that reduces their environmental impacts, often while delivering new features and benefits.



Special Series ▾ E


## The 5 Stages for Achieving Innovation Through Sustainability

by Jim Witkin on Tuesday, Sep 8th, 2009

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Prahalad thumbnail "There's no alternative to sustainable development" begins the recent Harvard Business Review article, "Why Sustainability Is Now the Key Driver of Innovation." Sustainability and green initiatives are no longer optional contend the article's authors — Ram Nidumolu, C.K. Prahalad and M.R. Rangaswami. Not only is the business case getting stronger, but embracing a sustainability agenda can stimulate innovation, pushing companies to rethink their operations, products and business models.

ION BUREAU WHY COPENHAGEN OUR SERVICES PLANNING NEWS CALENDAR



**8 reasons why sustainability drives innovation**

Innovation is about 'doing something better.' — leading executives from organizations such as Oracle, Symantec, MCI and GMIC agree that incorporating sustainability as a design principle creates better and more innovative meetings. We list eight reasons that explain how sustainability drives innovation.

Tuesday, September 23, 2014

Harvard Business Review

DISRUPTIVE INNOVATION

## Why Sustainability Is Now the Key Driver of Innovation

by Ram Nidumolu, C.K. Prahalad, and M.R. Rangaswami

FROM THE SEPTEMBER 2009 ISSUE

SUMMARY SAVE SHARE COMMENT TEXT SIZE PRINT \$8.95 BUY COPIES

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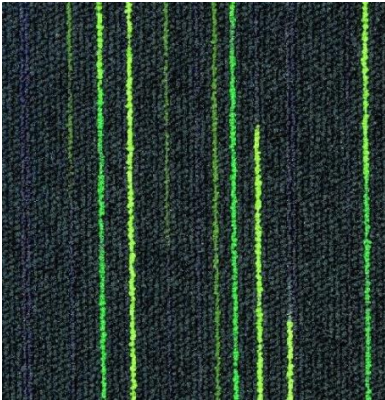


THE BLOG 08/14/2013 04:54 pm ET | Updated Aug 14, 2013

**Sustainability Is a Key Driver of Innovation**

By Anca Novacovici

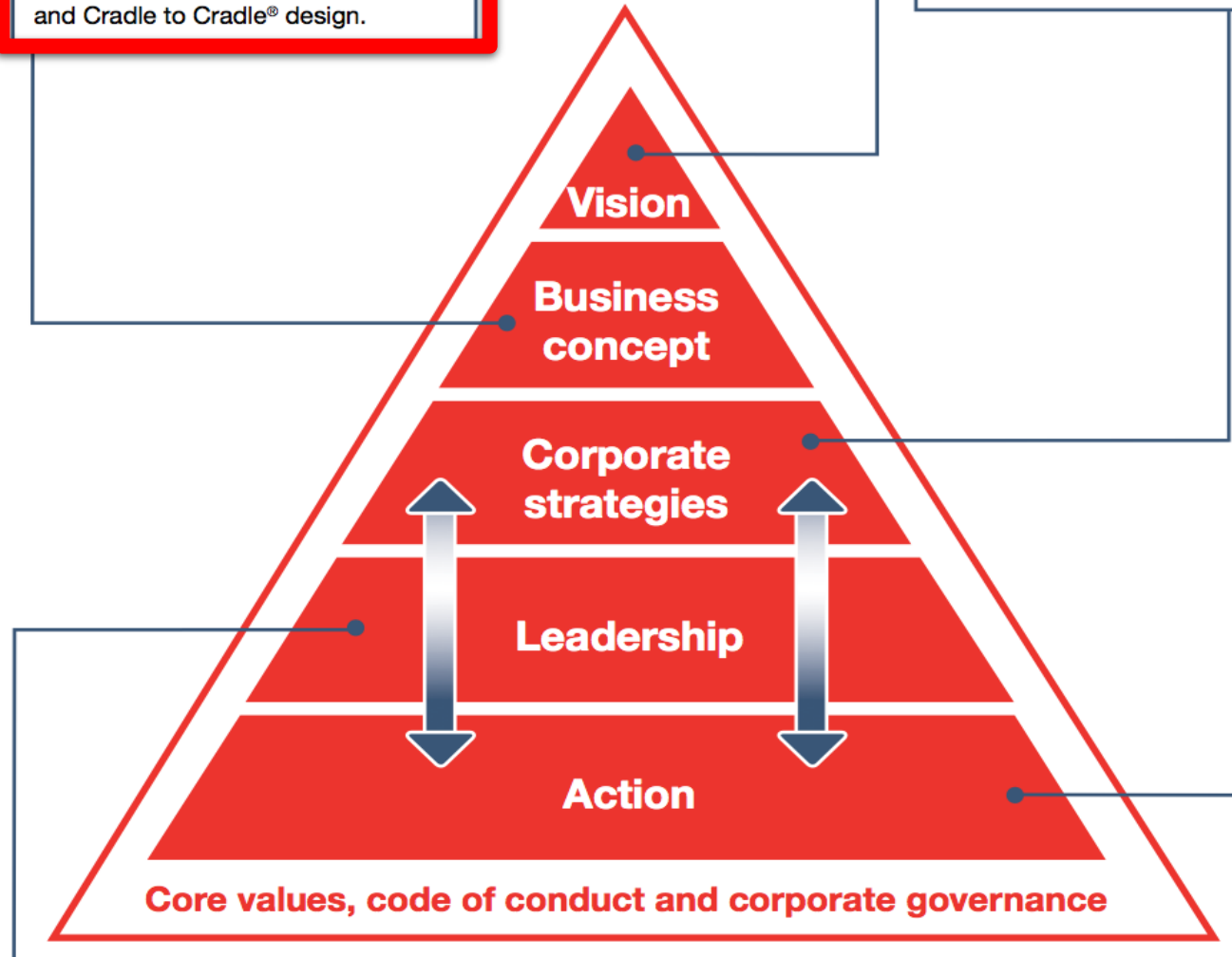
In the 1990s, new technology was the catalyst for business innovation. Today, sustainability is seen as a new way to innovate and gain or maintain competitive advantage. Some companies such as Patagonia and Toyota figured out a while back that sustainability and innovation go hand in hand. In the last few years, more and more companies are doing the same. As a result, we have been seeing sustainability move from realm of the facilities management, compliance and marketing departments to the C suite.



We don't see ourselves solely as a carpet and sport surfaces manufacturer; we see ourselves as a facilitator through our products of healthier and more productive lives. We achieve this through our innovation programme based on the three pillars of Creativity, Functionality and Cradle to Cradle® design.

We want to be the world leader in making environmentally responsible flooring products that deliver outstanding value in design and functionality and that contribute to people's health and wellbeing.

1. Operational excellence
2. Innovation
  - Creativity
  - Functionality
  - Cradle to Cradle®
3. Geographic/channel expansion
4. Communications



# Sustainability Commitment and the Innovation Process

- Human Capital
- Psychological safety to experiment *and* fail
- Long-term orientation and long-term decision-making
- Deep stakeholder engagement (i.e. innovation as an open system)
- Clear direction, inspirational objective: to have a positive impact on society at large!

# Sustainability Unleashed an Unprecedented Wave of Innovation

## Carpets that... clean the air!

Carpet Tiles

**AirMaster**

**DESSO**

DESSO AirMaster marries great innovation and performance with strong design to boost health and wellbeing in offices, schools, healthcare environments and other public buildings. Its patented technology has been proven to reduce the concentration of fine dust in the air four times more effectively than regular carpets and eight times more effectively than smooth floors. The structured loop pile carpet tile is available in 18 block and six combination colours as standard.

[View less](#)

## Carpets that are ... soundproof!



DESSO SoundMaster®  
backing



## A unique new way to make your floor design truly persuasive

This unique, patented flooring solution combines robust LED lighting from Philips with light transmissive carpet specially developed by Desso; represented by Tandus Centiva in North America and by Desso in Europe and Asia. It's an innovation that fundamentally transforms the way people interact with a space, turning flooring into a dynamic canvas that engages directly with our senses and our natural inclination to seek out light. It brings a new found design freedom to architects and interior designers too, with countless application possibilities.



### Luminous Carpets has four main applications



Information



Direction



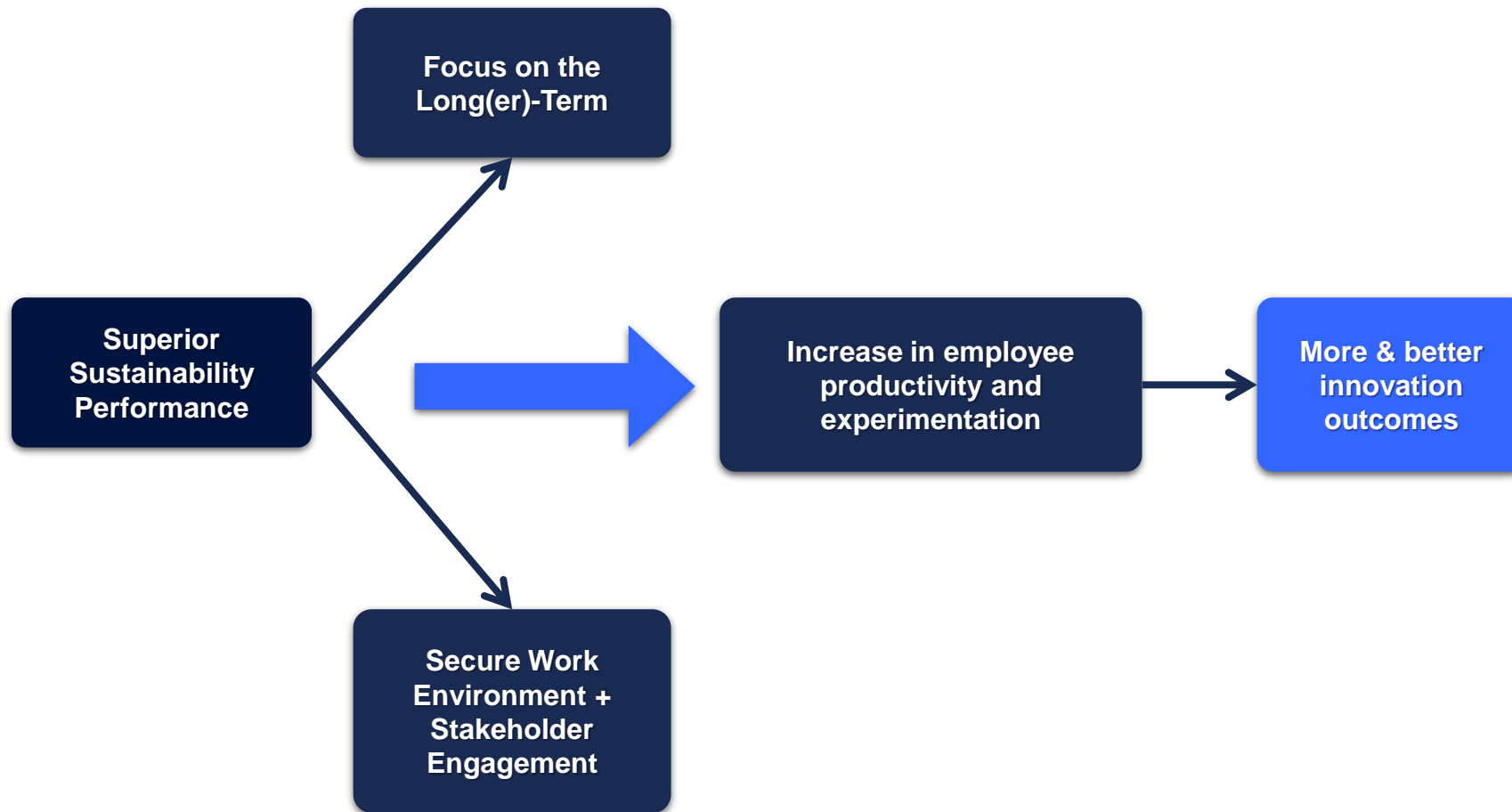
Inspiration



Safety

# Sustainability and Innovation

How can Sustainability can to more/better Innovation?



# Four Crucial Questions on Sustainability Strategy

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# Embedding Sustainability Into Corporate DNA

What are the structural organizational pillars to build a sustainable organization?



# Sustainability and Corporate Structure

The Four Critical Organizational Pillars for Embedding Sustainability



# Pillar I: Corporate Governance

## Embedding Sustainability into the corporate DNA





# Pillar II: Stakeholder Engagement

## Embedding Sustainability into the corporate DNA





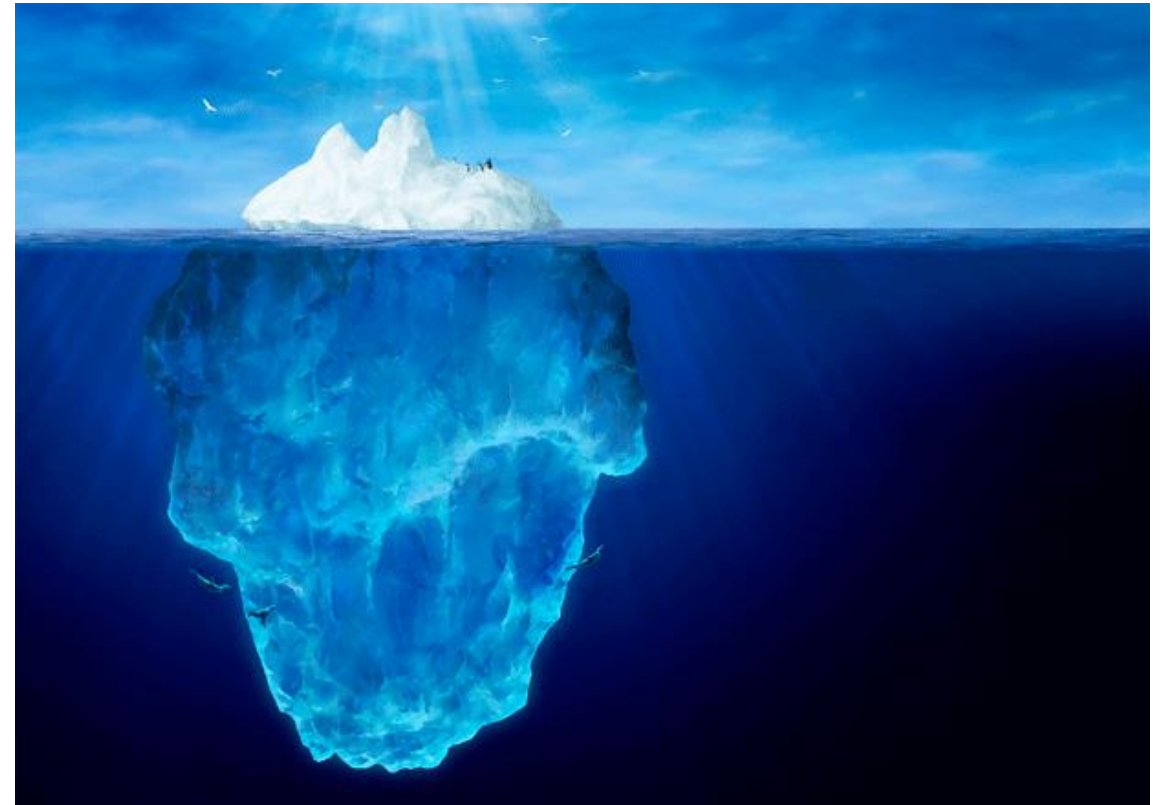
## Pillar III: Decision-making Time Horizon

Embedding Sustainability into the corporate DNA



## Pillar IV: Transparency & Accountability

Embedding Sustainability into the corporate DNA



# Sustainability and Corporate Structure

The Four Critical Organizational Pillars for Embedding Sustainability



# Sustainability Leadership & Responsible Organizations

## Concluding Remarks

- Organizations are faced with ever-increasing demands and expectations to become more responsible towards their multiple and diverse stakeholders (i.e. to integrate Sustainability).
- In the long-run, organizations that adopt (material, strategic) Sustainability practices outperform their competitors and thus, they become future-fit.
- This outperformance may result from a number of value creation mechanisms for organizations that are able to strategically establish these mechanisms based on the underlying material Sustainability issues.
- Integrating Sustainability into the corporate DNA involves changes in corporate governance, stakeholder engagement, the decision-making time horizon and the transparency & accountability of the company.

# How do we frame Sustainability going forward?

Are we truly committed?





# Sustainability as a Major Disruptive Force For Business

## ADAPTATION



## REPLACEMENT





**Thank you!**

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**Sustainability Leadership**  
**and Corporate**  
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