

# 2014 Corporate Sustainability Trends

In the last two years, sustainability has emerged to a prominent position in corporate and consumer consciences. Precursory attempts by companies to “greenwash” their marketing have faded and been replaced by vigilance for long-term stakeholder value focusing on people, planet and profit. Waving the banners of supply chain efficiencies, employee engagement and productivity, and brand differentiation, corporate leaders paint a future of sustainable performance. In 2013, consumer demands, regulatory influence and reporting practices collided to spawn new best practices for how companies can execute and report on their missions, integrating their financial and sustainability metrics.

This report discusses four emerging trends in corporate sustainability and provides insights on how organizations can further their brand leadership among consumers.



## **Sustainability Demonstrates Tangible Value Creation**

More companies will realize and appreciate identifiable and reportable value creation from sustainable behaviors.



## **External Demands Align and Drive Change**

Consumers will expect greater choice in green and socially responsible solutions, driving more governmental (and NGO) action to impart market-wide behavioral change.



## **Employees Elevate Sustainable Thinking**

Sustainability is cool! It will attract new generations of talent who will further innovate ways companies can be mindful in all that they do.



## **Sustainability Inspires Business Innovation**

As leaders discover ways to maximize innovation and efficiency, they will develop and enter new markets adjacent to their core products and services.

# Sustainability Demonstrates Tangible Value Creation



While many companies have marketed sustainable messaging, how many have truly adopted universal sustainable behaviors? Faulty marketing leaves consumers wondering whether or not the products they consume are truly sustainable; meanwhile, manufacturers seek to improve the sustainability of their products to erase this question from the consumers' minds. One roadblock to the manufacturers' goal is that sustainability initiatives must prove they create value before receiving investment. In 2014, companies will overcome this roadblock by building Integrated Reports that demonstrate how sustainability investments will create value for their businesses. With this, they will then begin to embed sustainability into their long term strategy.

## Companies will learn that Integrated Reporting isn't as hard or evasive as it seems.

Key industry players such as SAP, Coca Cola, and Clorox have been building the hype around Integrated Reporting for over two years now. Nonetheless, many naysayers continue to whine that "it's too hard," "it takes too long," or "nobody really cares enough to read it." But it is not as hard or evasive as it seems, and emerging best practices and methodologies are making it even easier. And with the release of the IIRC official Integrated Reporting framework and new GRI G4 reporting standards, companies now have a guideline of the context on which to report with the caveat that they are able to choose the level of information they publicly disclose. Furthermore, advanced reporting technologies (i.e., SAP Sustainability, OneReport) are allowing for companies to more easily track and integrate their financial, environmental and social reporting. Investments in tracking and reporting this type of information will allow companies to more readily support sustainability claims in the coming year.

## Sustainability will be increasingly embedded in long term corporate strategies.

As companies track and report on people-planet-profit metrics through portfolio management techniques, they are able to better understand how to leverage sustainability initiatives that improve their triple bottom line. Sustainability reporting experts, BrownFlynn, told us that they have seen advanced companies start to include this information in their reporting to better illustrate long-term ROI. Additionally, stakeholders and shareholders are asking that companies report on their actions upfront and continue to embrace sustainability opportunities. Of the Consumer Products companies we researched, 72% have already made claims about how sustainability drives value for them. In the coming year, we expect to see buy-in from additional players in the consumer products market.

## Be Proactive

- Assign a team to build a comprehensive report that ties together people-planet-profit data
- Identify gaps between CSR information collected annually and GRI G4 sustainability reporting standards
- Invest in systems that will allow you to more readily collect CSR information
- Understand which sustainability values are most significant to your stakeholders



# External Demands Align and Drive Change



It's not an exaggeration to say that the government has been slow to adopt meaningful legislation that enforces sustainability. If anything, the government's lack of responsiveness has ignited the conscious consumer. As this disgusted consumer buzz continues to awaken executives and government officials, we feel that green products will start to overtake their irresponsible competitors in SKU categories this year. According to a survey by Globescan, 65% of consumers believe they have a responsibility to purchase sustainable and environmentally friendly products.<sup>1</sup> As the consumer pull gains traction, a broad manufacturer push places greener products on shelves to compete with mainstay products at premium price points.

## Consumers will pull corporations in the right direction

According to Globescan's report, Re:Thinking Consumption – Consumers and the Future of Sustainability, two-thirds of consumers want to vocalize their opinions and experiences in order to shape corporate product line-ups.<sup>1</sup> For proactive consumers, harnessing the power of social media has been a key catalyst for receiving attention and prompting corporations to have better social corporate responsibility. Not only are outlets like Facebook, Instagram, blogs, and Twitter shaping corporations, NGO's are also playing a key role. Non-governmental organizations continue to create a groundswell of consumer interest and demand for sustainable products and companies. NGO's are igniting the uproar amongst the public. Consumers' strength is growing and will continue to pull corporations into pushing out greener products and adopting better corporate social responsibility.

## Stakeholder Investment will continue to coerce change

Not only are consumers demanding more sustainable measures, we can predict to see an increase in stakeholder investment. Once momentum builds around the Sustainable Stock Exchanges Initiative we believe more and more stakeholders will jump on board. As of now there are 8 Sustainable Stock Exchanges in the world, with NASDAQ OMX the only one located in North America. Sustainable Stock Exchanges encourage cooperation amongst investors, regulators, and companies. They also encourage them to have better corporate transparency, improve long term investments, and tackle ESG issues (Environment, Social and Corporate Governance).<sup>2</sup> Stakeholders are a valuable piece of the puzzle because, among other things, they encourage responsible governance and direction for corporations. We believe that in the foreseeable future, stakeholders will be more involved in initiating practices that are right for people, planet and profits.

## Be Proactive

- Closely monitor current and evolving EPA regulations
- Participate and encourage the Sustainable Stock Exchanges Initiative
- Encourage, participate and administer surveys in order to engage consumers. The voice of the consumer is gaining command!
- Use Life Cycle Assessments (LCAs) to determine the economic and environmental impact of your products' end-to-end processes



# Employees Elevate Sustainable Thinking



To predict how the focus of global business will continue to shift in 2014, one must look no further than to the new generation of talent driving this shift: millennials. Millennials comprise roughly 50% of the global workforce today and will comprise 75% of the workforce by 2025.<sup>3</sup> Like generations before them, millennials are drawn to careers that offer stability, competitive salaries, and autonomy. However, they demand that their work is tied to a greater purpose. To attract and retain this generation of talent, companies must evolve to accommodate these new demands, including elevating their sustainable thinking.

## Sustainable business models will be leveraged to attract and retain talent

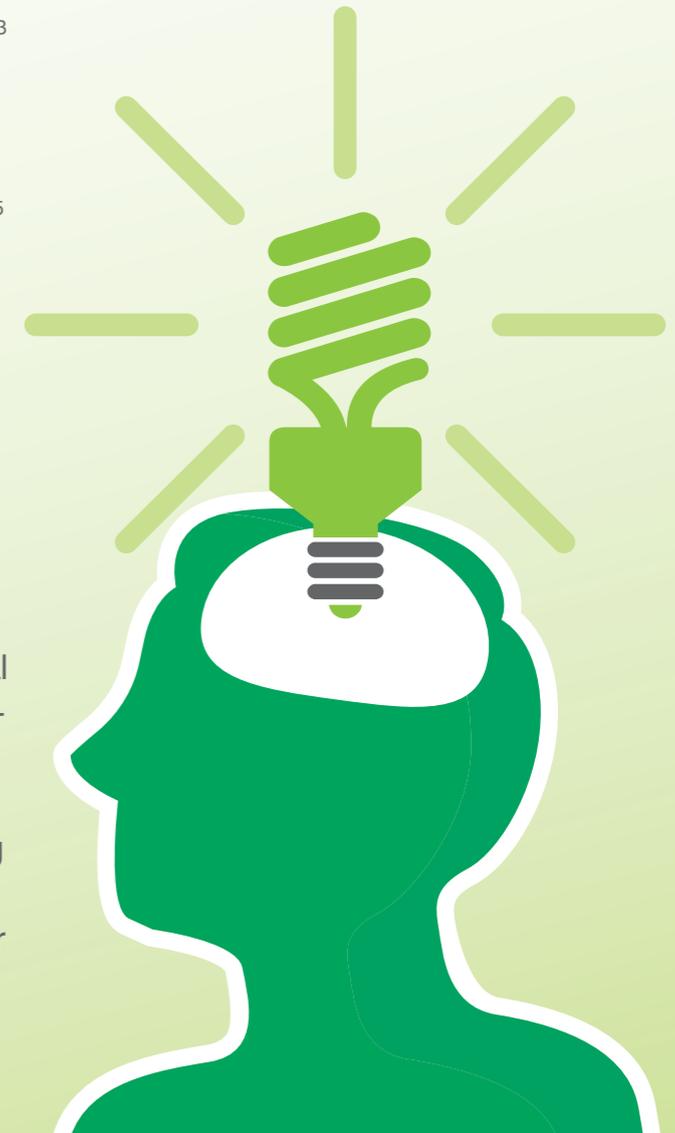
Strategies for attracting and retaining talent will continue to evolve in 2014 with the new demands and priorities of the millennial workforce. An impersonal hiring process and a corporate mission with profit as the only priority will no longer be sufficient. In an online survey of 1,000 college-educated millennial adults, ~34% responded that the following statement applied to them “very well” - “Knowing I am helping to make a positive difference in the world is more important to me than professional recognition.”<sup>4</sup> These job seekers are driven by their own definition of success, in an environment that allows them a flexible schedule. For many millennials, this means that making positive difference to all stakeholders takes precedence over a higher salary. In order to attract and retain key talent, businesses will continue to reflect on their core mission, and act accordingly to give their business a greater, broader purpose for new talent.

## Companies will harness their passions to increase employee engagement

As millennials continue to occupy a greater portion of the workforce in 2014, we will see companies working harder to understand how to engage millennials who are departing their jobs every 2.3 years on average in pursuit of a more fulfilling career path.<sup>3</sup> In a study by Hewitt Associates this year, those companies with a higher level of employee engagement outperformed the market by nearly 20%.<sup>5</sup> Engaged employees are emotionally invested in their work and have a passion for the company’s mission. Employee passion will help further companies’ goals through innovative thinking and creativity. Driving and measuring employee engagement is a key challenge that companies will need to navigate, as drivers can be personal and are tied closely to social connections. This coming year, businesses will continue to better understand the mindset and motivation of their millennial workforce, measuring engagement instead of satisfaction, and harness their passions to further their organizations’ missions.

## Be Proactive

- Reflect on your core mission through a lens of sustainability
- Dissect your current hiring process to communicate the right messages to millennial job seekers
- Measure employee engagement to inspire passion in employees



# Sustainability Inspires Business Innovation



As millennials continue to enter the workforce, so will their opinion on the role of business in society. The disruption of focusing solely on shareholders to focusing on all stakeholders will lead to new innovations and strategic advantages. Corporate leaders have slowly taken ownership to invest in sustainability. 3M had an early start and has now saved billions of dollars over the past 36 years.<sup>6</sup> Millennials will disrupt and challenge current business practices as they begin to see compliance as an opportunity, social and environmental consciousness as a catalyst to innovation, and sustainable practices as action toward short and long-term profitability.

## Dedicated executive ownership will be responsible for sustainability initiatives.

In past years, companies have taken significant steps to invest in projects that demonstrate a clear dollar benefit, such as IT and supply chain efficiency projects. Though these projects improve the company's long-term strategy, the term sustainability is often left out of the conversation. Many projects defined by the verbiage "sustainability" are managed without full executive leadership support. In talking to our clients, we understand that there is still executive leadership hesitation to go all in on projects related to green R&D and corporate sustainability strategy - projects that have the potential to reap huge benefits. In fact, in 2010, Forrester Research Group estimated that only about one-fourth of companies had even put dedicated executive ownership in place for sustainability-related work.<sup>7</sup> To stay on pace with the growing sustainability trend, we expect that executive leadership will more seriously consider the need to play a role in their companies' sustainability agenda.

## Businesses will enter and create new markets

Buzz has been building for the past decade, and 2014 is the year that green products will start to overtake their irresponsible competitors in SKU categories. What started as consumer pull from a narrow slice of environmental and social activist consumers is turning into manufacturer push to get more green products on shelves and compete with mainstay products at premium price points. Walgreens is an example of a company whose first "green" product line, Earth Essentials, took off at the onset of 2013; the business now appeals to customers interested in a more sustainable product. Companies are discovering ways to create new markets through recycling and reuse. Smithfield, a company with \$361.3 million in net income, was able to realize a completely new revenue stream that generates \$13.7 million by selling bacon grease, a byproduct that had previously been discarded.<sup>8</sup> In 2014, companies will continue to explore how they can enter and create new markets via sustainable solutions. These solutions will not only increase profit, but they will strengthen companies' reputations.

## Be Proactive

- Bring sustainability to the conversation at executive leadership team meetings
- Analyze how you can make your products appeal to the growing Sustainable Consumer market
- Hold an innovation workshop



# Continue the Discussion



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Access Clarkston's People-Planet-Profit blog. 

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