



ON THE PATH TO SUSTAINABILITY THE JOURNEY OF VAUDE

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BASICS OF SUSTAINABLE BUSINESS

Terminology: Sustainability and Nachhaltigkeit

- Word origin Sustainability: Latin 'sustinere', to sustain = "maintain", "support", "endure"
- "Nachhaltigkeit" = responsible and long-term oriented management of natural resources, first introduced by Hans Carl von Carlowitz (1713) in his work „Silvicultura oeconomica", his concern: establish a sustainable management of the natural resource wood.

Sustainability & "Limits to Growth" by Club of Rome

- basic idea behind sustainability: We live in a world of limited resources!
- "The Limits to Growth" by Club of Rome: model simulating the consequences of interactions between the Earth and society; 5 Variables used in the prediction:
 - 1) The World Population
 - 2) Industrialization
 - 3) Pollution
 - 4) Food Production
 - 5) Resource Depletion

Central result: Assuming that the growth in human population, industrialization, environmental pollution, food production, and use of natural resources is continuing at the same rate, **the Earth's limits would be reached within the next 100 years.**

Terminology: Sustainable Development – “Our Common Future”

- The first widely accepted definition of the term “sustainable development” was brought forward in 1987 in the Brundtland Report “Our Common Future”
- Sustainable Development according to the Brundtland Report: “Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”

BUT: The current lifestyle of a large part of humanity is not sustainable.

Challenges of Sustainable Development

- Currently: across the world the average consumption of resources is so large that we would need multiple planets to cover this need
- problematic from an *intergenerational perspective*: destruction of the basis of living of future generations.
- problematic from an *intragenerational perspective*: some people are using a lot more resources than others.
- Problem of inequality concerning allocation of resources: causing ecological & social issues, endangering stability of democratic societies.

The Four Biggest Sustainability Problems:

- 1) **Climate crisis:** threatening reality in many parts of the world, global warming is an empirical fact
- 2) **Rapid species extinction:** species crucial for human survival (honeybees) are going extinct, can ultimately lead to human extinction
- 3) **Environmental impacts & occurrence of pandemics:** deforestation or mass animal farming and other anthropocentric practices make the occurrences of pandemics more likely, can in turn greatly affect social issues like education, poverty, and inequality, the polarization of our societies is threatening the stability of our political systems
- 4) **Danger of Economic collapse:** fragilities in current global economy could tip world into conditions not seen since the 1920s

How are we reacting in the face of these disturbing realities?

Many steps in the right direction have been taken:

- e.g. large investments in research and development in the realm of renewable energies, development and introduction of great innovations to the market
- Food production moving away from mass production and GMO products, more local production of green, vegetarian or vegan products

The Problem of Plastic Pollution

- Accumulation of huge plastic in the oceans → threat to marine life and human health as it returns in the fish we consume
- Study published in Science in 2015: in the year 2010 alone 8 million tons disposed in the world's oceans
- Great Pacific Garbage Patch: large accumulation of plastic waste in the Northern Pacific

What is Needed:

- *Technological innovations* can reduce negative impacts and tackle these problems

UN Sustainable Development Goals

- Set in 2015 by the United Nations General Assembly
- Purpose: achieved by the year 2030, included in the UN Resolution 'Agenda 2030'

The 17 SDGs:

- (1) No Poverty, (2) Zero Hunger, (3) Good Health and Well-being, (4) Quality Education
- (5) Gender Equality, (6) Clean Water and Sanitation, (7) Affordable and Clean Energy, (8) Decent Work and Economic Growth
- (9) Industry, Innovation and Infrastructure, (10) Reducing Inequality, (11) Sustainable Cities and Communities, (12) Responsible Consumption and Production
- (13) Climate Action, (14) Life Below Water, (15) Life On Land, (16) Peace, Justice, and Strong Institutions, and (17) Partnerships for the Goals.

→ They are economic, ecological and social goals: often interlinked, thus important to keep these interactions in mind when measuring and tracking progress towards the goals.

Further developments of SDGs: e.g. the „Wedding Cake Model“

- our economy is embedded in our societies which, in turn, are embedded in our biosphere which we critically depend on to survive as humanity
- proposes a hierarchical structure of goals, cautioning us to be mindful of the relative importance of sustainability goals and prioritize those that are essential for the fulfilment of others.

Businesses can **cause massive negative sustainability problems** but also **find solutions to reach the sustainable development goals because they have a strong lever**

This due to the fact, that:

- many companies are very powerful and with great power comes great responsibility
- some multinational companies have more resources than small countries and are free to move them around the globe as they wish, thereby being able to choose the regulatory frameworks that they want to do business in.

Consequences:

- Governments are under pressure, fear of businesses leaving when governments introduce stricter sustainability regulation → a „race to the bottom“ may occur, in which countries reduce regulation to attract businesses, allowing them to have detrimental impacts on people and planet.

On the Company Side:

- increasing awareness of this new role and responsibility
- engagement in effective sustainability management
- corporate activism by attempting to raise awareness and drive stricter sustainability regulation

Definition Business Models:

- fundamental structures for how companies create, deliver, and capture value.

Although there is still a lot of disagreement about the definition of a sustainable business model, research on sustainable business models has pointed out that on the road to sustainability we need:

- systems **that encourage the minimization of consumption**, or impose personal and institutional caps or quotas on energy, goods, water, etc.;
- systems designed to **maximize societal and environmental benefit**, rather than prioritizing economic growth;
- **closed-loop systems** where **nothing is allowed to be wasted or discarded into the environment**, which reuse, repair, and remake in preference to recycling;
- systems that **emphasize delivery of functionality and experience**, rather than *product ownership*;
- systems designed to provide **fulfilling, rewarding work experiences for all and that enhance human creativity and skills**;
- systems built on **collaboration and sharing**, rather than aggressive competition.

New ways of thinking → Circular Economy

- implementing a circular economy instead of a linear economy approach

Definition Circular Economy

- an economy which is regenerative by design and aims to decouple growth from the consumption of finite resources.

Circular Economy and Product Design

- Current Product Design: designed on the basis of the assumption that there is a limitless supply of resources, further ignoring repercussions including product disposals and environmental impacts
- Circular Economy Logic: products are designed with *the whole product life cycle* in mind, e.g. materials are chosen and combined in ways that not only make them durable but also *easily recyclable*.
- Implications for companies: investment of significant resources into research & development, setting new standards for whole industries

Previously

- organizations could be divided into government bodies, non-profit organizations, and for-profit businesses, dichotomy between for-profit and non-profit organizations

New developments

- the boundaries between these organizational types are increasingly blurring, dichotomy has been replaced by a continuum of hybrid organizations

Examples of Hybrid Organizations

- Social Business: aim to solve a social or environmental issue and are financially self-sustainable but which reinvest all profits into the organization.
- Social enterprises: similarly pursue a social or environmental mission but only reinvest a certain amount of their profits.

The Process of Hybridization

- takes place on both sides of the continuum: non-profit organizations increasingly adopt market tactics to improve their access to resources, for-profit companies have recently started to define and proclaim their higher purpose beyond making profits
- many smaller and medium-sized family-owned firms have traditionally pursued a values-driven approach to business without explicitly formulating a sustainability or Corporate Social Responsibility strategy

Substantive, Embedded Sustainability versus Greenwashing

In the context of sustainability management, it is important to distinguish between substantive sustainability action, which is transforming the own value chain activities and leading to a real reduction in negative impacts, and mere greenwashing.

Definition 'Greenwashing'

- practice of falsely promoting an organization's environmental efforts or spending more resources to promote the organization as green than are spent to actually engage in environmentally sound practices
- the dissemination of false or deceptive information regarding an organization's environmental strategies, goals, motivations, and actions
- Increase due to proliferation of sustainability communication, corporate scandals & stakeholders' skepticism concerning sustainability communications
- hard to tell which companies are really „walking the talk“ because we are still lacking comparable standards and measures for reporting

Sustainable Supply Chains & Human Rights

Due Diligence

What are Supply Chains?

- the whole process of making and selling commercial goods, including various upstream and downstream stages from the purchasing of materials via the production of goods to their distribution and sales.
- can be complex systems of organizations, people, and activities and for a lot of our consumer products

Supply Chain Management

- there are various potential negative impacts and risks along the way & it is very complicated to understand and keep track of all these impacts
- ensuring a sustainable and socially responsible supply chain is a challenging task
- companies that make the effort to achieve transparency about their supply chain impacts are not only facing extra costs but are also rewarded by a better overview of risks, e.g., regarding product quality and supply.

Supply Chains & Human Rights

- intensive political debates are ongoing about a potential introduction of a supply-chain law, mandating businesses to implement human rights due diligence processes in their supply chains
- *opponents of the law*: claim that in these difficult times it would be unacceptable to impose further duties on companies.
- *proponents of the law*: argue that it is indispensable to create a level playing field and that basic human rights should be non-negotiable
- companies that ensure human rights in their supply chains have a competitive disadvantage compared to those who do not because this incurs extra costs on them → creates a situation in which companies are rewarded for disregarding basic human rights infringements amongst their suppliers

Textile Industry

- creates around 60 million jobs worldwide and therefore the chance to accelerate the process of development for many countries
- manufacturing (cutting, sewing and packaging) is very work intensive and the biggest part of the global production is situated in low wage countries (e.g., China, Bangladesh, India, Cambodia, Vietnam but also more and more in African countries like Ethiopia).

Issues

- companies often *lack consciousness for environmental and societal standards*, state authorities in producing countries are unable to implement and control standards
- complex supply chains and international interdependence make audits along the value chains difficult.
- Manufacturing in the textile industry (cutting, sewing and packaging) is very work intensive and the biggest part of the global production is situated in low wage countries (e.g., China, Bangladesh, India, Cambodia, Vietnam but also more and more in African countries like Ethiopia).

Social Issues

- In these regions, wages often do not secure the workers' existence, many of them work overtime and under massive health risks. In a lot of cases, workers neither have written nor legally binding working contracts and forced labour, child labour, as well as sexual assaults are common.

Negative Environmental Impacts

- *high usage of water and chemical contamination of surface and ground water* due to wet manufacturing processes like bleaching, dyeing and chemical treatment
- severe consequences for the health of citizens (allergies & cancer) due to the insufficiently filtered sewage systems.
- *pollution of agricultural soil* and thus destruction of the basis of food and income of the population due to sewage of textiles
- creation of textile waste and insufficient recycling due to fast fashion and consumerism

Issues with Engagement in Sustainable Business Practices

- improving products and production processes to be more sustainable often means facing extra costs and thus having to charge higher product prices.

Consumer Paradox/Attitude Behavior Gap

- despite increased market pressure to engage in more sustainable business practices, a lack in real sustainable purchase behavior and willingness to pay amongst consumers can still be observed
- Typically, although in surveys most consumers report to be willing to purchase sustainable products and be willing to pay more for sustainability attributes, the market share for sustainable product alternatives remains low in many categories.
→ „attitude-behavior-gap“ or the „consumer paradox“.

Thus:

- it is an important question for purpose-driven enterprises that care about sustainability how they can inform and inspire consumers to enhance sustainable consumption practices

Companies have recently begun to engage in *proactive corporate activism*

Definition “Corporate Socio-Political Activism”

- expression by a corporation or its representatives of a stance on some matter of current social or political debate, with the primary aims of visibly weighing in on the issue and influencing opinions in the espoused direction
- being aware of their own values and their higher purpose, many companies and business leaders have the feeling that they should publicly speak up about controversial societal issues like #BlackLivesMatter or #ClimateActivism.

New Developments

- **earlier:** businesses followed the rule „Don't mix business with politics“ but many companies did and still do try to lobby for their interests behind closed curtains
- **Lobbying vs. Corporate Socio-Political Activism:** activism takes place transparently in the public space
- the role of businesses in our societies is changing substantively → companies are becoming political actors through their economic power, their sustainability impacts and socio-political engagement
- on the one hand: we might argue that political activism of the business world is needed in times like these
- on the other hand: careful scrutiny is warranted as well because businesses and their leaders are not democratically elected and thus can be argued to lack the legitimacy to exert political influence

Recent Research on Employee-Engagement

- emphasizes importance of employee-engagement in sustainability transformation of company
- potential positive and negative sustainability impact may occur in *all* parts of company, various activities need to be managed and transformed on the path to sustainability
- individual skills and knowledge of employees can lead to great ideas for product and process improvement

Employee Dissatisfaction and Lack of Feeling of Meaningfulness

- despite implementation of higher purposes, employees experience *dissatisfaction with jobs and lack of feeling of meaningfulness and purpose* → Research reveals the following problems:
- the purpose of many companies is communicated from the top, but is not consistently actively lived
- despite a strong motivation to get involved in sustainability, many employees do not feel empowered to become part of the transformation toward sustainability

Possible Solutions

- giving employees a voice, inspiring them to take ownership of sustainability → creates a *culture of sustainability* and brings the *organization's purpose to life*
- companies thus face the task of actively engaging and empowering employees in all areas
- Some frontrunner companies have understood this very well and actively try to enhance employees' feeling of self-efficacy and their entrepreneurial thinking as „social intrapreneurs

The financial sector plays an important role in overcoming ongoing sustainability challenges:

- **In Europe:** an estimated €70 billion investment volume is needed to achieve the sustainability goals of the international community of states
- **Current Initiatives in Europe:** European Action Plan for Financing Sustainable Growth or Sustainable Finance Action Plan focuses on the Environment, Social and Governance (ESG) to achieve sustainability goals together with the financial sector → accompanied by binding legal requirements for companies e.g. EU taxonomy & Disclosure Regulation
- **EU Taxonomy:** classification system for sustainable economic activities and investments for six defined environmental goals
- **Disclosure Regulation:** requirement for companies in the financial sector to be transparent in dealing with environmental risks and to disclose their sustainability strategy at company and product level
- **Impacts of these Developments:** for investors, they create a situation in which the risk-return profile of investments must be evaluated according to new criteria
- **BUT:** considerable disagreement about the exact definition of ESG and the relative importance of the dimensions, especially with regard to the measurement of ESG criteria, there is currently a confusing variety of data sources and data sets and a lack of integration and standardization.
- **Sustainable Finance for Companies:** includes reflecting upon *which financial service providers to work with, where and how to invest the financial resources of the company, and how to responsibly deal with financial statements and tax loopholes.*

- **Sustainability's Three Pillars:** “People, Planet, and Profit” → Triple Bottom Line
- **Triple Bottom Line:** accounting framework that encompasses *social*, *environmental* (or ecological), and *financial performance*

The three P's:

- **“People”-Pillar (social sustainability):** pertains to fair and beneficial business practices toward labor and the community and region in which a corporation conducts its business.
- **“Planet”-Pillar (environmental sustainability):** refers to sustainable environmental practices, a sustainable company endeavors to benefit the natural order as much as possible or at the least do no harm and minimize environmental impact.
- **“Profit”-Pillar (economic sustainability):** the economic value created by the organization, the real economic impact that the organization has on its environment

- the EU requires large companies to disclose certain information on the way they operate and manage social and environmental challenges → help for stakeholders to evaluate the non-financial performance of these companies and encourages companies to become more sustainable
- the non-financial reporting directive includes rules on disclosure of non-financial and diversity information by large companies
- since 2018: companies are required to include non-financial statements in their annual reports
- rules apply to large public-interest companies with *more than 500 employees* → concerns approx. 6,000 European companies and groups
- companies must publish reports on policies with respect to *environmental protection, social responsibility, treatment of employees, respect for human rights, anti-corruption and bribery and diversity on company boards* (age, gender, educational and professional background)

Guidelines:

- companies may use international, European or national guidelines to produce their statements
- guidelines that can be used: UN Global Compact, the GRI guidelines, the OECD guidelines for multinational enterprises, ISO 26000, or in Germany the Deutsche Nachhaltigkeitskodex.
- whereas some companies choose to publish reports on financial and non-financial performance separately, some companies choose to merge both in the form of an integrated report.

Why do we need Impact Measurement and Valuation?

- information of reporting about policies related to social responsibility and sustainability is a good first step but often not useful to judge true corporate sustainability performance → effectiveness?

Impact Measurement

- companies have begun investigating methods to measure real impacts of their activities
- first steps: to identify suitable KPIs, important to identify the own impact logic → chain of impacts of the company
- possibilities to structure impact logic → IOOI logic: Input – Output – Outcome – Impact

Current Impact Measurement

- many organizations only report about inputs (e.g. financial input) and outputs (number of employees that joined a certain training program) → BUT: measurement of outcomes are also indispensable to judge the quality of such a program
- scientific methods of impact measurement can be adopted to enhance the reliability and validity of measurement.
- larger societal impacts often hard to trace → BUT: still important to define them as a guidepost to work towards.

Impact Measurement and Valuation

- some organizations have started to not only measure but monetize their impacts → referred to as Impact Measurement and Valuation
- Examples: Impact Management Project; Value Balancing Alliance

BUT: the monetization of impacts is a topic which is still *controversial* and *not yet widely adopted*

In summary, the topic of sustainability is relevant for all parts of the business model and the organization. The topics can be grouped into *environmental, social, and governance topics*. Further, they can be mapped along the company's value chain – creating a framework for a „sustainability value chain“.

Drivers causing companies to transform their activities to be more sustainable:

- 1) Environmental Dimension:** urgent sustainability issues humanity is facing require transformation of our economies
- 2) Social Dimension:** companies can be inspired by their purpose, leaders can drive the transformation, or stakeholder pressures, e.g., from customers or NGOs can cause companies to embark on the sustainability journey.
- 3) Governance and Profits Dimension:** companies can seek legitimacy and reputation or may merely want to fulfil reporting duties.

→ can lead to a transformation of a company's value chain from upstream activities like sourcing of materials, via the own internal business processes to downstream activities like distribution or sales.

Upstream Business Activities on the Path to Sustainability and Social Responsibility

- Companies must consider not only *environmental impacts* of their sourcing e.g. pollution and emission but also the *social impacts* e.g. human rights infringements including child labor or modern slavery
- Companies often need other input like financing from investors or strategic partnerships. For both topics, seeing them through the lens of the organization's impact logic will help the company to reach its sustainability goals.

Internal Business Processes

- **First Steps:** reducing the environmental impacts on a company's own operations.
- **Next Steps:** actively engaging in research, development and innovation for sustainability → transforms industries and allows companies to become leaders in sustainability
- **THUS:** employee engagement crucial to create sustainability culture in the organization → responsible people management and career development as a basis
- **Best practice companies:** do more and provide space for the employees to grow on a personal level and become mindful and empowered individuals who dare to redesign their organizations from within.
- **Governance and Profits:** companies should reflect upon their status quo in terms of finance, accounting, controlling, and reporting.

→ in all of these areas, companies can redefine their business model by taking up ideas from companies leading in responsible governance for sustainability.

Downstream Business Activities Implementing Sustainability

Redefining Business Model with respect to Environmental Goals

- adopting the *idea of circularity* and designing products with the whole life cycle, including *disposal and recycling*, in mind, providing consumers with *repair services*, easy access to parts that can be replaced when broken, or repair tutorials online

Marketing:

- adopting more *sustainable and socially responsible product design*, *ecologically friendly distribution*, *socially responsible pricing*, as well as *transparent communications*
- deciding to not engage in *persuasive product advertisement* at all and instead use *communication budgets for sustainability campaigning and consumer education* about product impacts as some leading companies have done
- the largest negative impacts of products are caused by consumers while using the product → small changes in habits can make a big change

Ongoing Stakeholder Dialogue:

- proactively providing formats and platforms for stakeholder engagement → crucial to learn and grow together and to provide the greatest amount of transparency possible.
- developing an impact logic for the organization, measuring these outcomes and impacts, and reporting about them so that stakeholders interested in this information can judge the sustainability of the various activities of the company are not only supporting organizations themselves on the journey to sustainability, but also ensure positive impacts on all dimensions, people, planet, and profit