

Sustainability in Business: A Millennials' Perspective

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The detrimental effect mankind has on the planet continues, with its ability to produce far more than it can be consumed, resulting in unmanageable effects to the earth. Achieving a performance advantage while not causing destructive effects is the new challenge. Consequently, considering the UN's sustainable development goals (SDGs), this study investigated how environmental, social, and governance (ESG) factors could contribute to a better financial performance for multinational companies. Due to the ecological, economic, and social consequences of business, it has never been more important for society to lean towards sustainable practices. As new challenges emerge, new concepts of how to deal with them evolve, including the concept of "sustainable development" as a foundation to management-thinking and decision-making. Private businesses are a key component in achieving the UN's desired sustainable view, as they can help to fill the \$3tn annual investment gap expected to be needed across the next 15 years. As a generation, millennials have a critical role to play in achieving a sustainable future. Millennials are the next group of business-thinkers and decision-makers. Based on research conducted by this study, eight out of 10 London-based millennials acknowledged the private sector has a critical role in helping to achieve a sustainable future for all. However, fewer than three in 10 millennials actually believe that private businesses will take action, instead continuing to place their short-term profitability mindset ahead of sustainability. With a world population of 50% under the age of 30, and with millennials continuing to become more conscious of trends which affect the planet and their future, the expectation of businesses to act sustainably seems to be rising. This study confirmed a multitude of ways to increase business performance sustainably, such as driving sales by targeting consumers' increasing willingness to pay a premium for sustainable goods. A questionnaire supported this approach by confirming that nine out of 10 millennial Londoners acknowledged that action on climate change should be the responsibility of both individuals and private businesses. However, a smaller amount, only four out of 10 millennials surveyed, were willing to contribute by shifting their purchasing-behaviour, to more sustainable products, if prices were higher. Further to this, if a product was found to be unethical, the data collected showed 75% of millennials would take action by looking for a competitor or leaning towards an alternative (30% of those surveyed). Consequently, the results suggest millennials expect the private sector to step up and deliver sustainable products at competitive prices in order to truly help.

Keywords: ESG factors, sustainability, millennials

Introduction

Humans have continued to expand and develop throughout the last 2.8 million years leaving a widespread, often damaging, footprint on the planet. The cost of this is now being realised with the continued harm of the earth's ecosystem and the extinction of entire species.

Threats to the Planet

Today, the detrimental effect of mankind on the planet continues, with its ability to produce far more than it can consume, resulting in unmanageable changes to the earth's ecosystem that humans are ill-equipped to deal with (Senge, 1990).

An example of this is fossil fuels, driving one of the largest, and most detrimental, global footprints on our planet (Before the Flood, 2016). Fossil fuel can undoubtedly be considered effective in how it supports transportation and electricity around the world. However, it is the excessive reliance on fossil fuels and related implications (e.g., emissions) that threaten our ecosystem. One of the most prominent examples of this is global warming, driven by the use of fossil fuels; it has been scientifically proven by National Aeronautics and Space Administration (NASA) to be a major threat to the human species (Jackson, 2019). The effects of global warming include more frequent wildfires, longer periods of droughts, and unpredictable floods. Previous research has shown the destructive effects that increased emissions and temperature rises have had in the last 150 years, one of which being the predicted rise in sea level by 1 to 4 feet by 2100. Additionally, as confirmed by the environmental performance index research (EDOI), air pollution is the top leading threat to public health, endangering 7 million lives every year (Gohd, 2018).

With the current and incoming ecological, economic, and social consequences (Mebratu, 1998), it has never been more important for our society to lean towards sustainable practices, such as zero-emissions (Brune, 2016). Encouragingly, technology and social pressure are helping the transition from a linear to a circular economy in multiple countries. Circular economy differs from linear by envisioning a form of material symbiosis between otherwise different companies and production processes directly supporting recycling and minimisation of waste (Andersen, 2007).

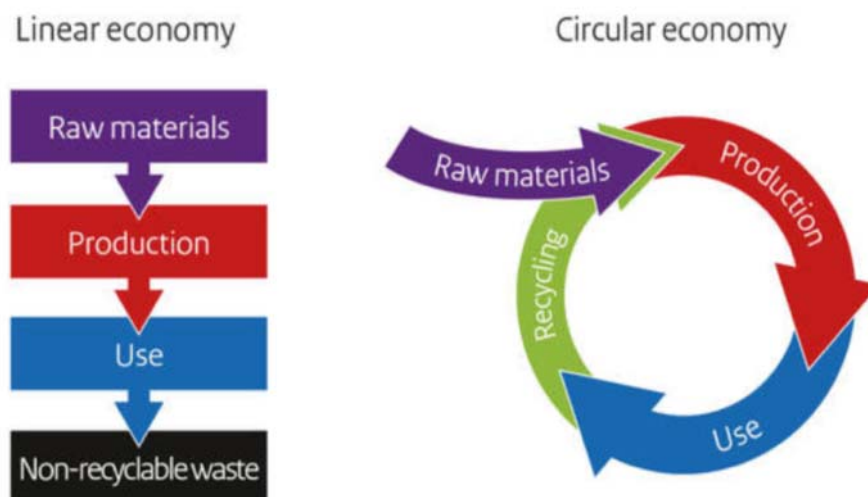


Figure 1. Linear to circular economy (Government of Netherlands, 2018).

Yet, despite this shift in approach to sustainable development, solid commitments by governments and businesses remain few. This is attributed to self-interested behaviour against the common good following the “Tragedy of the Commons” Theory (Llyod, 1833).

Sustainable Developments

As new challenges emerge, new concepts evolve, including that of sustainable development as a foundation to overcome environmental challenges.

Sustainable development found its foundation in 1987 following the publication of the “UN World Commission on Environment and Development Report (WCED)”. Despite the publication’s vagueness and tendency to generalize, it has been instrumental in nurturing sustainable view for our planet’s future (Mebratu, 1998). Since its introduction, thousands of initiatives have been conducted at various levels in order to tackle the growing number of environmental threats. Some of the most encouraging results from these initiatives have been registered in countries, like the UK and China (the first country with clear government policy support in green finance). Yet, the impact of these still seems minimal when compared to the enormity of the global challenges our planet is facing (Brune, 2016).

Another leap forward in fostering sustainable development on a global scale was established in 2015 with the creation of the Paris Agreement. This agreement provided a new understanding of the UN Sustainable Development Goals (SDGs). The Paris Agreement has laid out an ambitious vision to achieve zero-emission practices in countries and businesses around the world in little more than a generation, based on the World Business Council For Sustainable Development (WBCSD). However, recently countries are falling short on the promises set out in the Paris Agreement. For example, renewable energy investments have suffered their largest drop on record in developing countries in 2017 according to Bloomberg New Energy Finance reports. In addition, investments from financial institutions, such as the World Bank have also stagnated (BNEF, 2017).

The private sector is a key component for reaching the SDG development goals as it can help to fill the \$3tn yearly investment gap expected in the next 15 years (Earley, 2016). The importance of the private sector is recognised by eight in 10 millennials, who believe it has a critical role to play in achieving the UN SDGs. However, despite this, fewer than three in 10 millennials actually believe that businesses will take action, instead continuing to place their short-term profitability ahead of sustainability (Tuffrey, 2016). With a world population of 50% under the age of 30 (WEF, 2017), and with millennials continuing to become more conscious of trends which affect the planet and their future, the expectation for businesses to act sustainably is increasing.

The Triple-Bottom-Line Approach, a unique approach developed in the 1990s for businesses to increase sustainable practices, has supported sustainable business practices. However, nine out of 10 times, research found profitability was prioritised at the expense of people and planet (Eisenstein, 2014).

Governments and businesses continue to struggle to implement long-term effective plans for sustainability due to lack of resources, competing priorities and increasing pressure from oil lobbyist (Tuffrey, 2016).



Figure 2. Triple-Bottom-Line Approach (Tuffrey, 2016).

Sustainable Investment

Blackrock CEO and founder Laurence D. Fink recently called for companies that his firm invests in to take social action and make a positive impact on the planet. A failure to do so would result in a withdrawal of their investment. This represented the first public call for such change in the financial industry, putting Fink against many of the companies in which Blackrock has passively invested. These companies hold the view that their duty is to create profits for shareholders, following a theory espoused by economists like Morgan Friedman (Sorkin, 2018).

Impact investments, such as Blackrock's add a third dimension to evaluation techniques with the inclusion of non-financial criteria (such as Environmental, Social and Governance factors [ESG]) in opportunity analysis (UBS, 2018). For example, the Bank of America now uses ESG as one of the financial indicators to calculate bankruptcy possibility.

The research has outlined the current global socio-economic attitude to sustainability, focusing on some key events in the last decades. It will now move on to explore methods and public opinions regarding those issues.

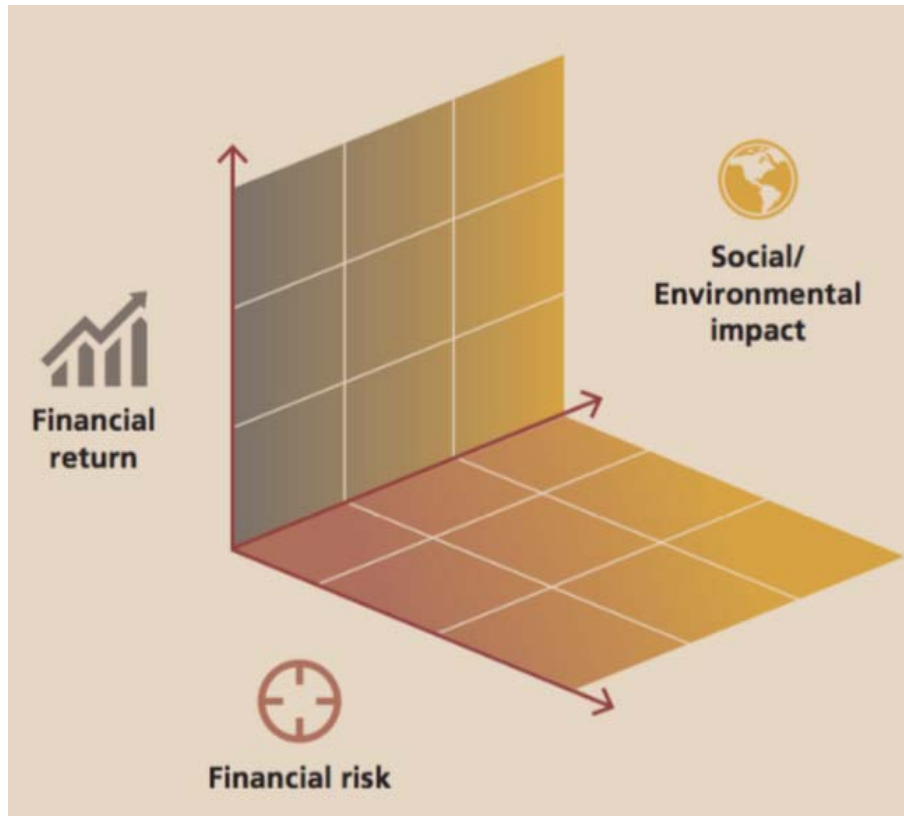


Figure 3. Three dimensional evaluation techniques (UBS, 2018).

Increasing Revenue Sustainably

There are multiple ways to increase business value and revenue-sustainably. The sustainable-oriented value tree in Figure 4 references to Slack et al. model:

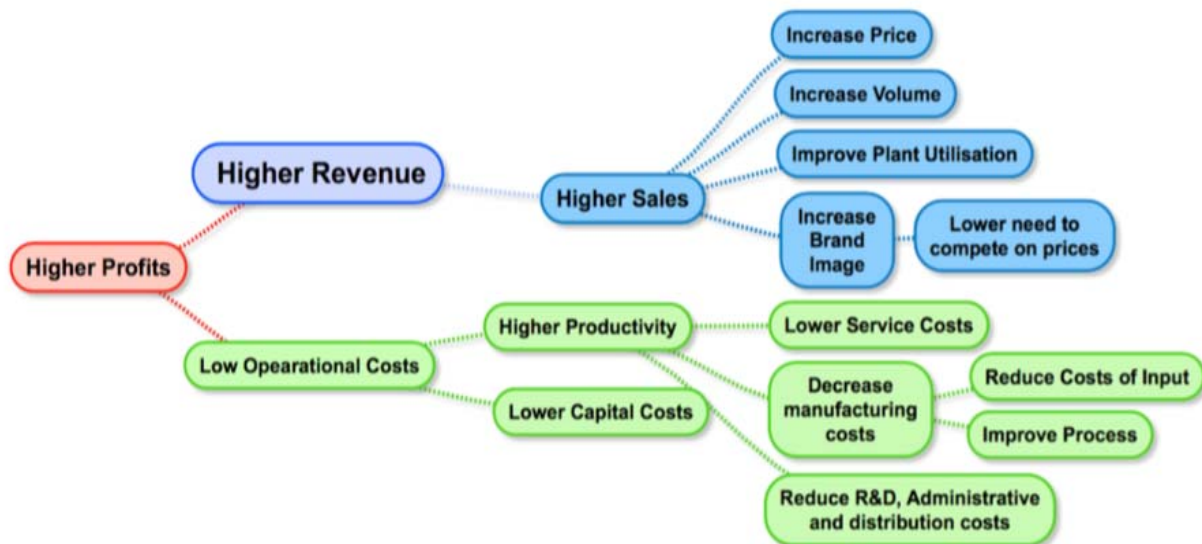


Figure 4. Available approaches to increase profits (Source: Slack et al., 2015).

Growth can be achieved by increasing sales and the consumer's willingness to pay a premium; for the environmental attribute of the product leveraging the satisfaction gain of having contributed to environmental improvement.

In order to understand consumers' behaviour towards increase in price and brand image of sustainable companies, an online-based survey was completed by interviewing 40 individuals (London-based).

The key questionnaire highlights relate to consumers' willingness to pay for more sustainable products, sentiment towards environmental threats, renewable energy adoption, and actions expected by governments/businesses.

Do you think global climate changes can be reduced by individuals making major lifestyle changes?

40 responses

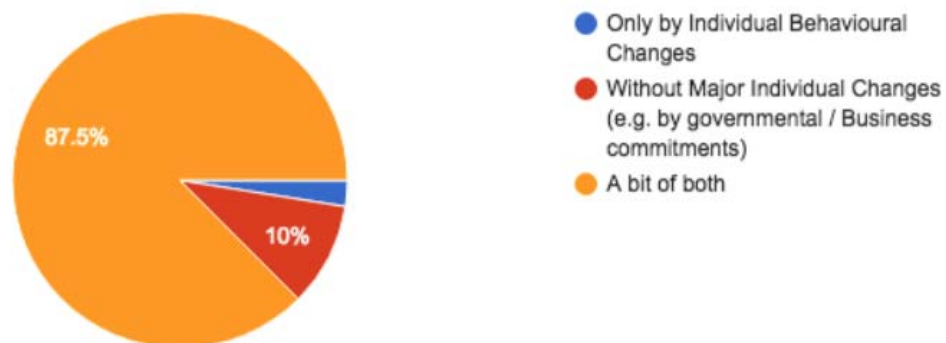


Figure 5. Self-constructed survey results.

While nearly 90% confirmed climate change should be reduced by actions both from individuals and businesses/governments, a smaller amount is really willing to contribute for those change by shifting their purchasing behaviour if prices would increase:

Would you change your purchasing behaviour if you knew the products you buy cause large carbon emissions?

40 responses

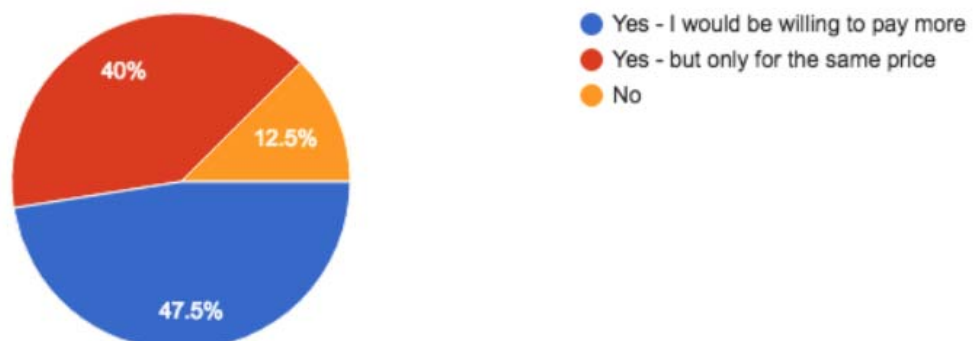


Figure 6. Self-constructed survey results.

The first key finding is the awareness of changes needed by both individuals and institutions. However, it is still unsure if consumers would implement sustainable actions, and if they say so, their actual behaviour would change.

Promising trends over grocery responsible consumption were found by BCG, measuring current sustainable products growth in the EU at +4.5% compared to conventional (Smits, Vismans, Zon, & Wood, 2015).

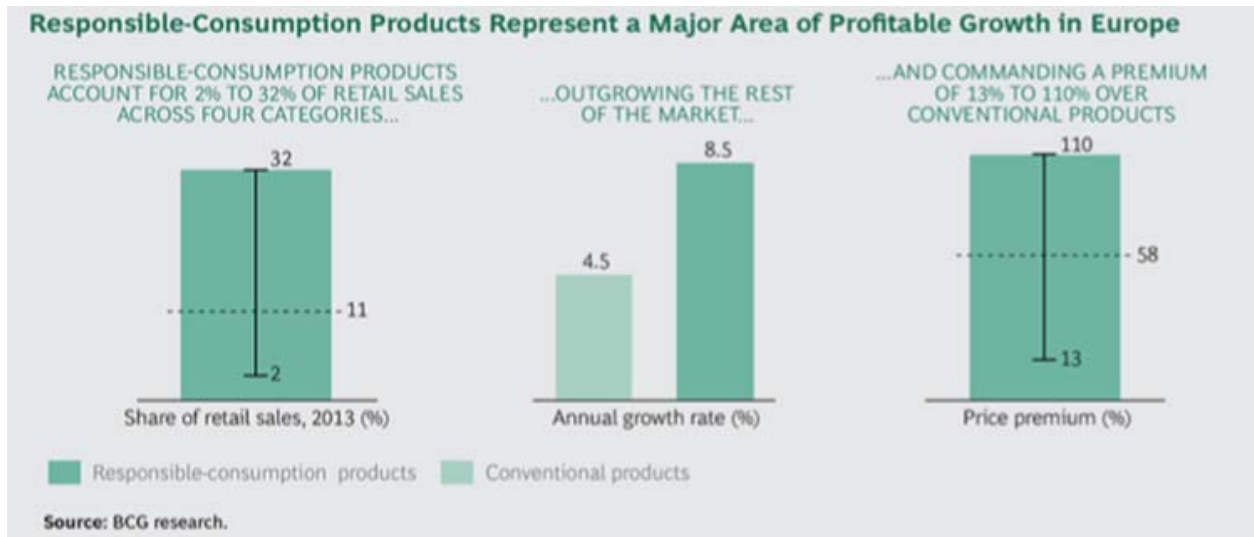


Figure 7. Responsible consumption products as a profitable growth area in EU (BCG, 2015).

Consumers' Reaction to Higher Prices

Related to the survey results, out of the 47.5% individuals are willing to pay more for responsible products; the Gaussian normal distribution of price increase sentiment was charted:

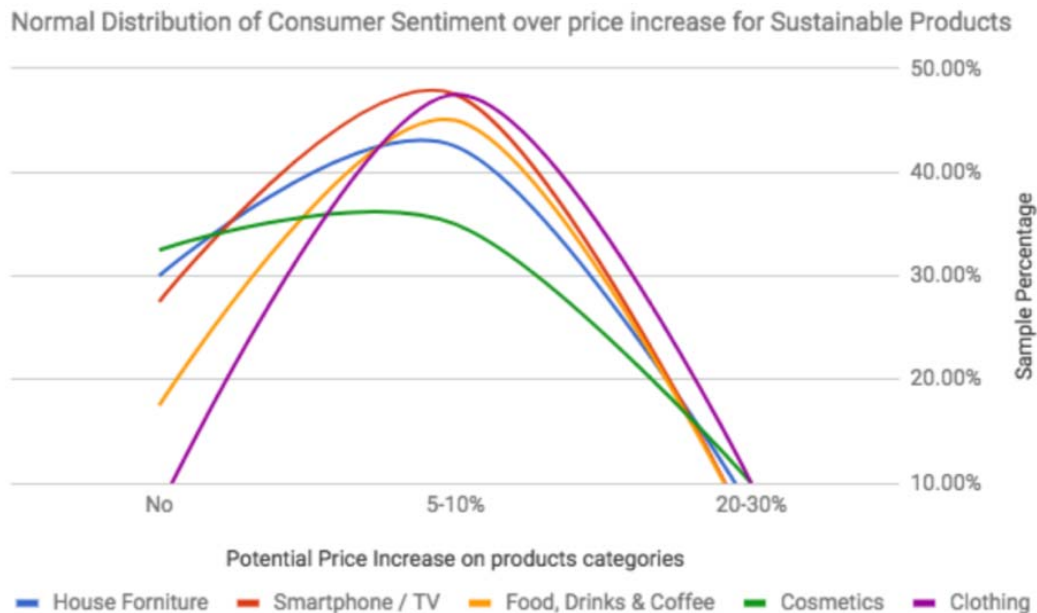


Figure 7. Self-constructed survey data.

The curves show the level of fair price increase related to the six companies analysed within five different industries. Almost 1-in-2 individuals would be comfortable paying a premium of 5-10% for their Smartphones and Clothing. Slightly less (42%) individuals would be willing to pay one-tenth more for Furniture and Foods & Drinks. Surprisingly, cosmetics were found to be the weakest category for sustainable price increases.

Vice versa, in the situation where a competitor would be found unethically-behaving in producing a “favourite” product (e.g., for high-emissions), 75% confirmed they would take actions in two-direction:

- 70% would look for a competitor;
- 30% would look for a completely different option (in order to mitigate risks of further emission from the same product range).

Overall however, 47.5% are pessimistic about current regulations to curb global warming and they expect business to take action as much as governments (8.5 vs. 8.72). However, when asked more responsibility-oriented questions, answers followed a social-science theory mentioned before:

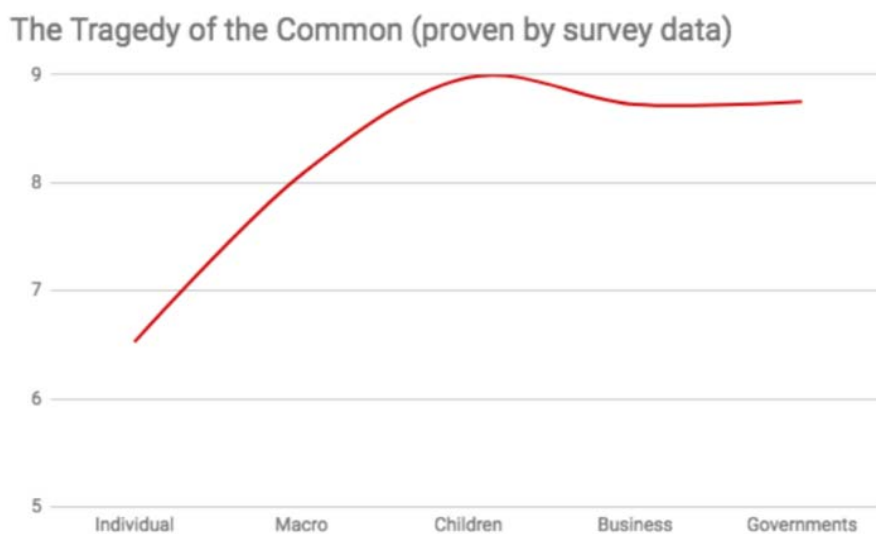


Figure 8. Self-constructed survey data.

William Forster Lloyd in 1833 referred to “The Tragedy of the Common” and this survey completed in 2018, 185 years later, confirms it is still relevant today. When asked about the importance of personal actions vs. the responsibility of business and governments, the gap was found to be relatively steep based on the sample opinion (Llyod, 1833).

Sentiment Segmentation

With more detail, the sentiment towards renewable energy involvement of business and governments and a 1-10 grade of related topic can be found in the radar-chart (see Figure 9):

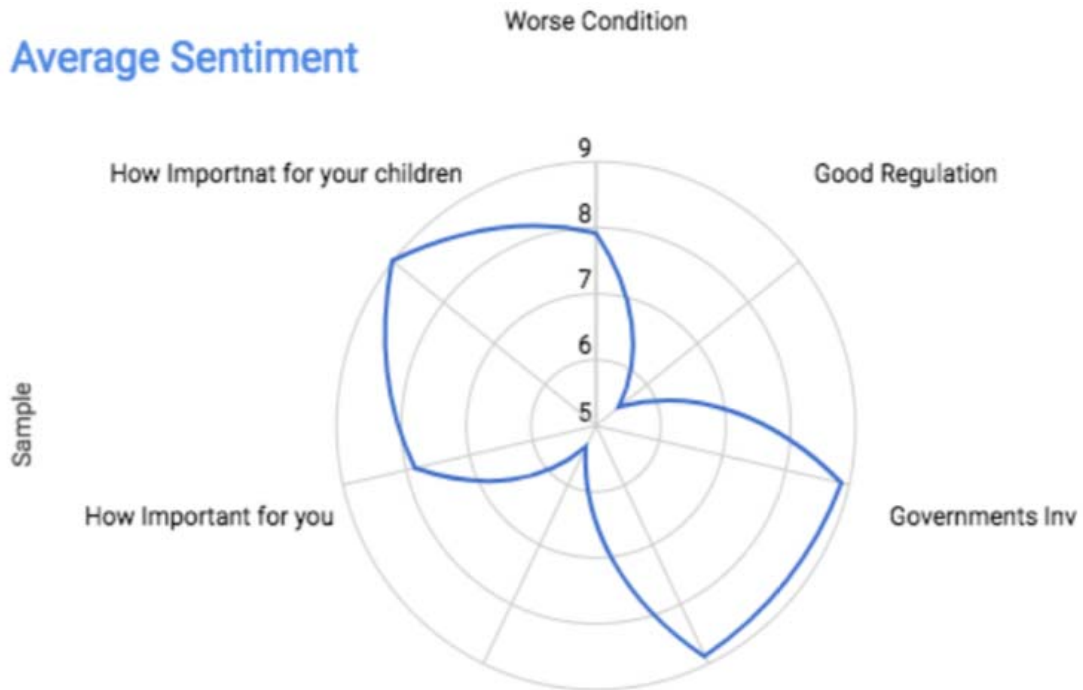


Figure 9. Self-constructed survey data.

Females, in particular were found to be very conscious of the importance of renewable energy for their children going hand-in-hand with their pessimistic view for the condition to worsen for the next generations compared to males.

Interestingly, older people feel more informed about renewable energy and need of actions, but very pessimistic about current-regulations compared to younger generations.

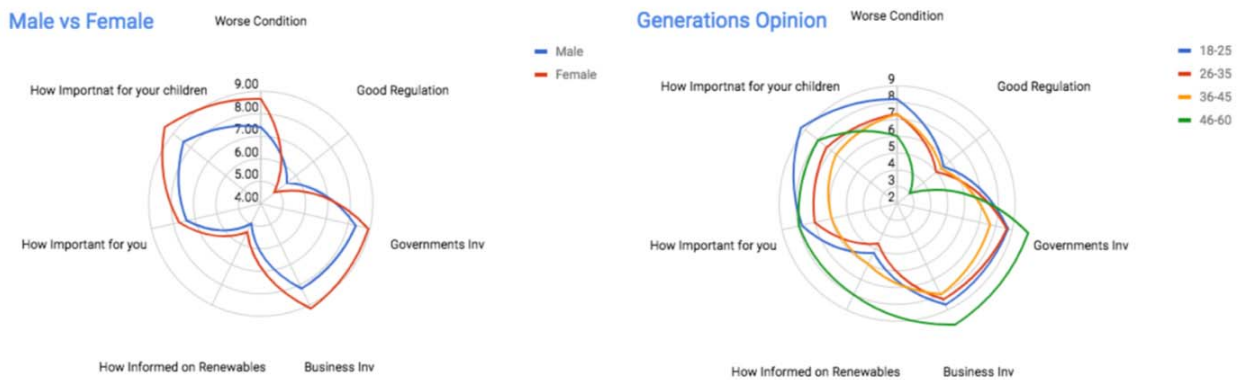


Figure 10. Self-constructed survey data.

Older generations were found to be feeling more informed and supportive for governmental and business actions on the environment. The data meet the findings of Oxfam (2018) which disclosed wealthier individuals as the main responsible for carbon emission. The report confirms how the richest one-percent of the world’s population uses 175-time more carbon on average than someone from the bottom 10 percent. With Gale and Scholz (1994) theory of accumulation of wealth and career ladder confirming older generation as the wealthiest, older people were found to be more optimistic about the future while less involved in self-changes.

Younger generations are vastly lacking sustainable knowledge: When asked to name sustainable-oriented companies, 38% was not able to mention one or referred to an unsustainable company.

The selfishness towards sustainability of older generations, despite their high-knowledge sentiment in this space versus the eagerness of better regulations for the prosperity of theirs and future generations by the young individuals, represents the conclusive key finding of the online questionnaire.

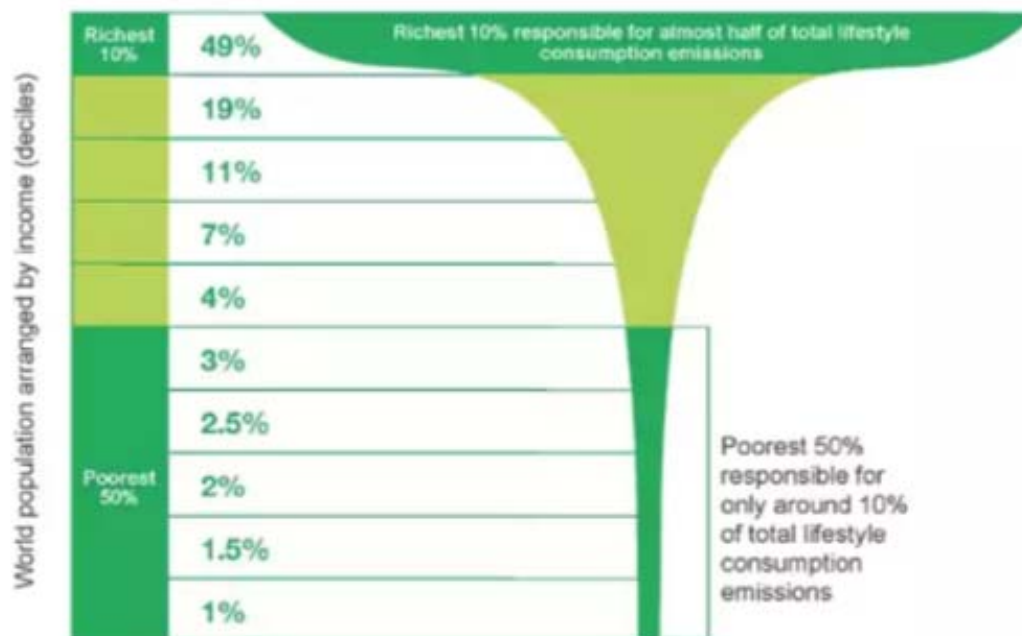


Figure 11. Percentage of CO2 emission by World Population.

Conclusion

The current literature review highlights existing work on the relevance of environmental issues. This research has provided up-to-date literature regarding consumers' maturity in acknowledging the need for renewable sources, promoting the expansion of sustainable actions needed by both governments and businesses. Every entity is expected to build blocks for adoption to a rapidly changing, but uncertain future.

Social learning, manageable experimentation, and flexibility in governance would facilitate these adaptations (Chapin et al., 2010). Soft approaches which were broadly recognised in the past are now fragile compared to the plans and implementations required to accomplish UN SDGs goals. A declared ownership of environmental issues is not currently consistently followed by concrete steps (Messenger, Effendi, & Peirce, 2018).

Every activity has potentials for transformation to alternative, possibly more long-sighted desirable trajectories compared to current business offerings. However, the lack of a cohesive theory for avoiding undesirable thresholds and for successfully managing transformations, increases the level of commitment required from businesses to overcome fear of failures (Chapin et al., 2010).

Various leaders have also realised that climate risks have related opportunities, which should not be considered in isolation, but instead as part of creating a long-term value creation business model. Main advantages being:

- Reducing risks—ESG factors were found positive by the current literature in reducing unnecessary risks;
- Higher profit—Socially responsible firms were found to be more lucrative and more desirable for revenue growth;
 - Retaining reputation, consumers & employees—Meaningfulness represents a top driver for employees, and consumers' perceptions were linked to CSR as high as 42%.
 - Lowering costs—Environmental operations and financial consciousness (also linked with innovation) were found being key pillars for internal optimisation in business (Tavares, 2018).

The general consensus is that firms' stewardship is sufficiently mature to make important contributions to the whole array of social-ecological systems. This will require, however, reconnecting people's perceptions, beliefs, actions, and governance mechanisms to the dynamics of earth; sometimes sacrificing part of profits by linking values with capital. A critical shift needed in our rapidly depleting planet.

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