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Why should business embrace sustainability? Lessons from the world's most sustainable energy companies

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Abstract

Sustainability is on the cusp of an evolutionary leap. Companies all over the world are beginning to explore more sustainable ways of doing business, primarily due to the global climate emergency. They consider their long-term impact on the local environment, society, and the economy and ask whether their business makes a positive contribution. Becoming more sustainable may not be easy at first, but business sustainability is more an opportunity than a threat. The challenge is well worth the reward since there is no long-term trade-off between sustainability and financial value creation. Sustainable companies will be more resilient and create an enduring impact.

This impact paper looks at the value of sustainability to business. First, it discusses the benefits as well as key strategies and challenges to increasing sustainability in business. Second, the link between energy efficiency and sustainability is examined. The business plan of the world's most sustainable energy companies is analysed, focusing on the lessons energy businesses can learn to become more sustainable.

Keywords: Sustainability, Business, Financial Value Creation, Energy Efficiency

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Why is sustainability important in business?

One of the biggest challenges of our time, even at the peak of the COVID-19 pandemic, is the climate crisis. The call for sustainability to combat climate change and its impacts is now louder than ever. However, sustainability is not just environmentalism. It is a business approach to creating long-term value by considering how a given organisation operates in the ecological, social and economic environment. From a broader perspective, a sustainable business is one whose purpose and actions are equally grounded in financial, environmental and social concerns.

In the past, businesses were trying to be good corporate citizens, focusing on energy conservation and offering green products. However, this was not central to the business strategy. More recently, many businesses have begun to embrace sustainability and view it as a more integral component of their business strategy. There is no question that sustainability does not mean sacrificing profits or put success on the back burner. Instead, a business that does not integrate sustainability into its strategy is less successful in several ways. Companies are now proactive about sustainability as the benefits of being sustainable are becoming well-known. Some of the major advantages for taking up sustainability in business are:

1. **Reduce energy usage and waste.** Sustainability can shape how key resources like energy, carbon, water, materials and waste are used throughout the supply chain. Most businesses that start implementing sustainable practices almost immediately notice a reduction in their energy demand and the waste they generate. The development of sustainable business practices can help companies reduce their carbon footprint, become energy efficient, and save overhead costs. Reducing their environmental impact can not only be financially lucrative but can become a great selling point.
2. **Enhance brand image and build customer loyalty.** Sustainability can become a key component in buying decisions. In 2021, customers are more aware than ever of how their buying choices can affect businesses and the difference between climate action vs greenwashing. There are likely to buy from companies that are mindful of their impact on society and the environment. Thus, sustainability improves businesses brand image and gives them a competitive advantage over competitors.
3. **Increase revenues.** Sustainable strategies can boost revenues, cut operating costs and achieve better borrowing rates. The more sustainable a business becomes, the less it pays on its energy bill. Cost savings can be reinvested in additional sustainability efforts to expand a business's positive impact on the planet. The governments often offer tax credits, rebates, and savings to those companies going green. Based on Deutsche Bank's research, companies with high ratings for environmental, social, and governance (ESG) factors show a lower debt and equity cost. On the contrary, companies with high ESG ratings outperform the market in the medium (three to five years) and long (five to ten years) term. Indeed, more and more investors are interested in incorporating ESG into their investment analysis and decision-making. More than 2,000 studies concluded that companies with strong ESG practices produce better corporate financial performance (Friede et al., 2015).

4. **Attract investments and funds.** Many financial and investment experts have found that organisations with sustainability plans are likely to attract investors more than those who do not have one.
5. **Increase employee retention and recruitment.** Sustainable companies are more likely to treat employees as critical stakeholders, increasing employee retention and productivity. Employees want to work in companies that integrate ESG strategies in business processes and thus "do the right thing". A recent study on how climate change and Covid are transforming workplaces¹ showed that 65% of respondents were more likely to work for a company with a strong environmental policy, and 72% were concerned about environmental ethics.
6. **Increase business ability to comply with the regulation.** Incorporating sustainability into business practices allows companies to comply with regulations and avoid any non-compliance costs. A sustainable business can be qualified for reductions in environmental taxes such as the climate change levy.

How can a business become sustainable?

Businesses can be sustainable in several different ways. Reducing waste, preventing pollution, adopting clean energy, conserving water, using energy efficient materials and adopting sustainable business travel policies, caring for employees, collaborating with local suppliers and services, recycling and reuse of products are some of the main actions that should adopt to become sustainable. A sustainable business should look at the entire life cycle of goods or services and across the whole supply chain, especially if the source materials come from overseas. Best practices relate to technologies and innovative policies and projects that are advancing the combined use of renewable energy and energy efficiency practices. All of those measures speak for themselves. Even small businesses can easily scale these practices and implement them in their organisations through a small business sustainability plan.

An environmental management systems (EMS) could be used to manage, evaluate, monitor and report a business's sustainability performance. An effectively sustainable development strategy requires a top-level commitment. It needs to be in line with all stakeholders' requirements (e.g. employees, customers, investors, local community, etc.) and its policies and action plan. It is also vital to ensure finance and all resources that are needed in the decision-making processes. Decisions made at every level are likely to affect the business's overall sustainability performance significantly. Understanding and reflecting stakeholders' concerns can lead to a more effective business strategy. Employees, environmental regulators and other organisations can be a beneficial source of ideas and an essential part of executing sustainability plans. Offering training and incentives to employees can also encourage them to adopt the business's sustainability strategy. Implementing the elements of focus, motivation, commitment, support and communication linked to a stewardship orientation is also fundamental to achieving higher levels of sustainability performance.

Challenges to business sustainability

In the midst of a global pandemic, a global economic crisis, a global climate crisis and a global movement to end systemic racism, business needs to play a role in building a more inclusive and sustainable world. However, economic and financial, innovational, social,

¹ <https://www.unily.com/insights/guides/future-of-the-sustainable-workplace-in-the-age-of-covid-19-and-climate-change>

political, and trade barriers might pose significant challenges for companies and obstruct them from becoming sustainable. Some companies, especially the small ones, may experience a lack of resources, including budget and time. A company without an appropriate sustainability plan can overwhelm the business. Another possible barrier could be unengaged stakeholders.

To effectively manage those barriers, companies must place sustainability at the heart of their business strategy, set a clear strategic direction and identify developments that will influence current and future development. Companies should start with those changes that they can afford and, at the next step, proceed with the most expensive ones. After the risks and opportunities of sustainable change have been identified, the next step is implementing a targeted activity focused on energy efficiency, carbon neutrality, and capitalisation on sustainability. Companies need to convey corporate sustainability commitment into clear metrics, concrete action and measurable performance. Everyone's input and support can contribute to a sustainable strategy.

Sustainability and energy efficiency in the energy business

Sustainable development is consistent with and supportive of advancing energy efficiency. Therefore, energy efficiency is a top priority for energy companies that have sustainability as a key driver in their activities. Sustainable energy initiative projects include energy efficiency improvements in the corporate sector, agribusiness, manufacturing and service sectors and increasing the efficiency of energy production and networks. Energy companies that operate efficiency and sustainability initiatives in tandem improve productivity, maximise impact, and see a greater return on investment. Indeed, energy efficiency brings financial returns to stakeholders, creates public benefits in terms of lower greenhouse gas emissions, increased employment and reduced foreign energy import dependence. Therefore, energy efficiency addresses six of the SDGs (Goals 8, 9, 11, 13, 16 and 17) due to its strong links with all dimensions of sustainable development.

It is well documented in the literature that energy efficiency and sustainability significantly affect firms' profitability (Jaraite and Kažukauskas, 2013; Doumpos et al., 2017). In my research on the profitability of energy firms participating in the European Union Emissions Trading Scheme², it was found that profitable companies are those that reduce their environmental impact and invest in energy efficiency through their sustainability strategy (Makridou et al., 2019). Indeed, improving industrial energy efficiency can be an effective way to promote economic growth, energy security, and sustainability (Makridou et al., 2016). For example, Signify, the world leader in lighting, managed to be a carbon-neutral company and increase its revenues by 84.1% through energy efficiency.

Lessons from the world's most sustainable energy companies

It would be interesting to examine the business plan of the top sustainable companies in the energy industry. Understanding those companies sustainability plans would help other energy companies to enable sustainable change in their business.

Ørsted³ is the energy company that was once one of the most coal-intensive energy companies in Europe. Today, it is ranked the world's most sustainable energy company in

² The European Union Emissions Trading Scheme (EU ETS) launched in 2005, is by far the largest environmental market in the world. Its objective is to "promote GHG reductions in a cost-effective and economically efficient manner".

³ Ørsted develops, constructs, and operates offshore and onshore wind farms, solar farms, energy storage facilities, and bioenergy plants, and provides energy products to its customers.

the Corporate Knights Global 100 Index⁴. It is worth mentioning that this transition was made in just 10 years, and the company holds the top position in the rankings for three years in a row starting from 2019. In 2021, Ørsted again named the most sustainable energy company globally and the second most sustainable of all companies worldwide. The company's robust sustainability performance is due to its high percentage of revenues earned from renewable energy, sustainable growth programmes, deployment of renewable energy resources, shared value with local communities, the rise in its carbon and water productivity, biodiversity protection, recyclability, investments in green energy and good performance in terms of rate of taxes paid, broad gender diversity, and paid sick leave for employees. Thus, it is clear that Ørsted has incorporated the ESG issues into its business plan, focusing on all aspects of ESG. Its performance also shows that a company can undergo a sustainable business transformation while creating value for both stakeholders and shareholders.

In 2021, a Paris-based tech company has seen off competition from the world's best-known green businesses to be named the most sustainable corporation on the planet according to the Global 100 index. Ørsted dropped one spot to No. 2 while Schneider Electric rose from 29th spot last year to No.1. Schneider's purpose is to empower all to make the most of our energy and resources, bridging progress and sustainability for all. With the global community, Schneider is working to alleviate poverty, protect the planet, and bring about worldwide peace and prosperity. It also performs strongly in racial and gender diversity and resource productivity, and safety. Corporate Knight found that 70% of Schneider's revenue comes from sustainable solutions, with almost three-quarters of its investment focused on green innovation. Schneider uses the circular economy approach to achieve climate-positive impact as part of the United Nations Sustainable Development Goals. To help fuel its ambitious sustainability progress, the company relies heavily on digital innovation and energy efficiency. It reiterates its commitments to accelerate its sustainability efforts while ensuring no one is left behind. It pledges to become carbon neutral in its operations by offsetting remaining emissions no later than 2025, delivering more CO₂ savings than its carbon footprint, achieving net-zero operational emissions and engaging with suppliers toward a net-zero supply chain by 2050. Schneider has also committed to doubling the quantity of recycled plastics in its products by 2025 and banning single-use plastics in its facilities worldwide.

Businesses, not only the energy ones, could take lessons from those companies and implement the following pillars across their business strategy to become more sustainable:

1. Decarbonise your operations working toward 100% renewable energy. Ørsted dismantled its fossil fuel business and now focus entirely on renewables. It will completely phase out the use of coal in 2023 and generate nearly 100 % green energy by 2025.
2. Create CO₂ neutrality in the extended supply chain by reducing carbon footprint. For example, Schneider's Building Management Systems (BMS) sales enabled customers to save 2.7 million tons of CO₂ emissions in 2018 and 2019.
3. Reduce resource consumption, ensuring a resource-efficient supply chain.
4. Apply the circular economy principles across the global value chain, from energy management to research and development to end-of-life recycling programs.

⁴ Corporate Knights ranks the 100 most sustainable corporations in the world on over 8,000 publicly listed companies which generate annual revenues of over \$1bn. These represent the top 1 % in the world of corporate sustainability performance. Since 2005, Corporate Knights has produced the annual Global 100 index of the world's most sustainable companies – an authoritative and widely-respected index of corporate sustainability performance. The Global 100 index is published every year on the sidelines of the World Economic Forum in Davos.

5. Invest in and develop innovative solutions that deliver immediate and lasting decarbonisation in line with your carbon pledge. Schneider installed more than 1,300 decentralised electrification systems and solar microgrids from 2015 to 2019.
6. Design, implement and track successful energy management strategies, including renewables transactions and energy efficiency improvements.
7. Study the processes through which companies can solve global sustainability challenges in urban areas, focusing mainly on water conservation, energy management and sustainable mobility.
8. Enhance corporate reputation by cultivating a green-conscious workforce, promoting brand integrity and engaging with your stakeholder community. Corporate Knight found that 70% of Schneider's revenue comes from sustainable solutions, and almost three-quarters of its investment is focused on green innovation.
9. Create equal opportunities by ensuring all employees are uniquely valued and work in an inclusive environment to develop and contribute their best with their wellness, equity and education being prioritised. In 2009, Schneider trained more than 246,000 underprivileged people and supported more than 800 entrepreneurs.
10. Empower local communities by promoting local initiatives and enabling individuals and partners to make sustainability a reality for all. For example, Schneider will provide 4,650 female entrepreneurs in Mali, Senegal, and Niger with technical training in renewable energy for the EU's "Women's Entrepreneurship in Renewable Energy" project.
11. Comply with laws and do not tolerate any violations of applicable laws.

The pillars cited are the main sustainability strategies implemented by the energy companies examined above. Thus, any business could follow similar approaches to become more sustainable.

Conclusion

Despite the coronavirus pandemic and the lack of market competition, companies have considerable pressure to act on climate change and think about sustainability. Indeed, the necessity for sustainable businesses has never been higher. Sustainable companies are becoming the new norm as those that have a well-rounded approach to sustainability can see wide-ranging growth opportunities.

The shift to a sustainable energy system is a long-term undertaking and must embrace all sustainable development pillars. The practices required for sustainable energy pathways cover immediate action to improving energy efficiency, reducing fossil fuels, while implementing carbon capture technologies, investing in renewable and embracing circular economy principles at the forefront of businesses' strategies.

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