



Maharaj: Hello, this is Aarti Maharaj with Ethisphere and thank you for tuning into the 10th episode of our Ethicast series. Joining us today is Tensie Whelan, clinical professor of business and society at NYU Stern School of Business and Director of the Center for Sustainable Business. Tensie, it's great that you could join us on our weekly podcast series. To begin, could you tell us a bit more about your work at the Center for Sustainable Business?

Whelan: Yes, at the Center for Sustainable Business we're aiming to make the world a better place to do better business and we're doing that through working with current and future business leaders to help them develop the skills and experience to manage and lead organizations in a resource constrained world and to bring value to society, to embed sustainability in their core business strategy. We're doing that through education. We have undergraduate and graduate and executive courses, we're also providing internships and fellowships for students so they get practical hands on experience. We're developing a research agenda, we just had an article in Harvard Business Review around the comprehensive business case for sustainability and we're also doing special events with people like Paul Polmon, CEO of Unilever, to help expose students and alumni to the forward thinking of business leaders who are active on sustainability.

Maharaj: How would you define sustainable business?

Whelan: Sustainability for business is a journey so we are all learning along the way this is about redesign. Its hare to say that any business is fully sustainable right now. But the way that I would define it is a sustainable business at minimum is having no negative impact on material, environmental, social and governance factors in it's business. By material I mean something that is relevant to that company like if you're an oil and gas company how you're doing in your exploration for example would be material. If you're a service company how you're treating your employees would be material. Then moving from there most importantly that you evolve to actually have make a positive contribution to society through for example driving your business to create business opportunities out of helping meet the sustainable development goals or to address climate change or to deal with water scarcity for example.

Maharaj: Why do you think now we're at a critical time where sustainability matters? Why do you think it matters right now?

Whelan: It's fascinating when Milton Friedman wrote the Business of Businesses Profit he was writing at a very different time. Today we have a time when environmental issues like climate change and water scarcity are already disrupting



business never matter our own personal lives, right? We also see that growing in equity – and we see that in this country – creating major questions about corporate license to operate scrutiny of things like tax inversions, etc. There’s really growing frustration with certain ways of doing business that’s creating real scrutiny. In addition, there’s radical transparency any body can see a supply change, any part of what’s going on in a company and communicate it any one person. I would say finally there’s rising expectations of business if you look at the trust barometer by Edelman they’re demonstrating that people actually thinking that CEO’s should pay more attention to societal value than financial value. Fascinating trends in that area, along with that what we’re seeing as well is that it’s becoming clear that sustainable businesses are managing risk better and crating more opportunities and better financial performance for themselves as well.

Maharaj: So we recently covered an event at Bloomberg and we increasingly see CEO’s want to create sustainable businesses. In your view, you touched on this in your previous answer you mentioned trends, do you think you could expand on that? For example, overall what kind of trends are you seeing and can you provide some best practice?

Whelan: In addition to the external trends that I mentioned, I think there are others. One is that there’s been increasing commodification of brands as companies have competed solely on the basis of price and functional attributes of a product. More and more people don’t really care about the brand they buy, one toothbrush is like another toothbrush you just go for the cheapest one. That’s a problem for business. As brands have become commodified by focusing on price, the smart companies are looking at how do we differentiate ourselves, how do we provide more value and that’s evolving into a whole focus on brands with purpose and how a brand can provide value to society so that’s one really interesting trend that we’re seeing. Another is that companies are starting to embed sustainability in their core business strategy. Rather than having a little CSR division to the left that does some nice community relation stuff and some employee engagement things maybe change some light bulbs you actually have some core business strategies. A best practice of that would be Unilever making their sustainable living plan their business strategy, making a commitment to double their business while making an environmental footprint, committing to 100% sustainable sourcing and so on. Another interesting example would be Nespresso making commitment to work with all 70,000 of it’s farmers to ensure that they are producing high quality, sustainable coffee in a way that enables them to make a good living and protect the environment because that’s good business for Nespresso.

Maharaj: What you’re saying in a nutshell is that CSR and sustainability are somewhat separate nowadays, it’ not together?



Whelan: In this whole field because it's new the terminology get's mixed up. Some people are using CSR to do what I'm talking about. Originally CSR just meant, 20-30 years ago when Milton Friedman was writing about it, it was basically employee relations and community relations. Today, some people talk about CSR that way and some people talk about it as embedding the core tenants of a sustainable business which are environmental, social and governance into their core business strategy. I don't use the word CSR because I think it's too confusing because of what it has meant. It's hard to tell until you start to look at it what version the company is using.

We have the same problem on the investment side but we can go into that later. You wanted more examples of companies, CEO's doing interesting things? Because I thought one interesting – just to sort of walk you through an entire process with a company when you embed sustainability in company strategy you start to create all these mediating factors that the result in better financial performance so you start to drive, if you've set strong GHG emission targets and water targets because of that you start to innovate about your products and services and processes, you start to reduce risk, you start to work with your suppliers in a more proactive way to solve the challenge, you start to engage with NGO's who might have some ideas on how to manage that and also help you bring credibility to what you're doing, you start to engage your employees because you want them to feel good about and be part of this. You start to really shift and create a whole lot of positive benefits that then result in positive financial performance. To be specific, and I'll take a company that is not a brand name so you can see that this is happening across all different areas. There's a products company called Domtar that is a big products company that sells their Earth choice line to Staples and else where, they work with all the big brands. They make these really extensive sets of targets embedded sustainably, and of course strategy.

Here are the kinds of things that it's been driving: first of all, they have effluent from their mills that was expensive to dispose of and they figured out that they could combine – this comes from the pulp right – they found that they could combine two different waste streams into a fertilizer that they could then provide to the farmers, which was not a petroleum fertilizer which is what most are and it would cost less for the farmers, would reduce landfill costs for Domtar. It's called the Kline for Life and they won an environmental prize for it. It reduces their cost, it's a positive thing for the community. Another example is they make diapers, so the traditional way to make diapers is you stamp our holes in the diaper legs and in doing that you create a waste and they were thinking about how do you reduce that? So they came up with this sonic melding process that basically takes all waste out of the system and enables them to use different size rolls so it ends up being more efficient in all types of ways. They end up saving money and reduce waste. Then they said we've got all



these diapers that we have to transport in these trucks and they're very light and you can put much more in a truck because of weight and because they're so light you're kind of wasting all these 18-wheel trucks and the emissions so they figured out how to reduce the size of the packaging by a third so they had a third less trucks out there. They saved money and GHG emissions. Another example they were using diesel run forklifts and that's bad from a health point of view and also GHG emissions so then they shifted over to electric. I can tell you other examples of the types of things they're doing. What's fascinating is this is about redesign; let me look at this from a different lens.

Nike is another really good example, they've embedded sustainability in their innovation program and in doing that everything that they do they're looking at it through a sustainability lens. They looked at the process of making sneakers and the regular process, like the diaper thing, you make different pieces all around the world. Because you have a lot of small pieces you have a lot of waste then you fly all the pieces together to make the sneakers. At all levels this is not a good thing so they came up with over 10 years this idea of having a recycled yarn that's one piece that is basically woven into the other. They reduced materials by 80%, they have a really high performance, really cool shoe and it's a billion dollar business for them now. They wouldn't have come up with that had they not applied that sustainability lens into their innovation strategy. Those are the kinds of things I think are fascinating, they're happening everywhere.

Maharaj: I think at the end of the day it comes full circle to ESG, to protect the environment helps with social factors, etcetera. Moving ahead we have one more month until the year ends, can you share some predictions as it relates to sustainable business in 2017?

Whelan: I think in 2017 we're going to continue to see more pressure and questioning about the quarterly reporting model and how that's driving bad decision making and how short term investors are the ones controlling all investment strategy and we'll see more and more commitments by leaders like Larry Fink who will say this quarterly reporting approach is detrimental to business. I think that we'll see more and more money going into ESG investing, we already have one out of every six dollars in this country going into ESG investing and I think that's going to continue to grow.

I think we'll continue to see more cases that demonstrate the relationship between unsustainable practices and higher levels of risk and sustainable practices and higher-level financial performance. We currently are suffering the, still, impression that pro-social corporate behavior is accompanied by lower returns and it comes out of a couple things, I think. One is the original social responsible investing funds



basically just used negative filters and did not perform all that well and we're seeing more sophisticated approaches to that these days and also a lot of the green products that came out in the 70's were actually poor quality products for high price. There was just a lot of hangover from those days, I think people are beginning to see that there actually is a huge benefit here. I think that trend will continue.

Also we've got a real challenge around reporting because everyone is reporting different things around environmental, social and governance metrics and we've got a number of different data providers who are looking at that and now we have the Sustainability Accounting Standards Board, SASB, that's trying to come up with one standard for investors and trying to get the FCC to support it.

Maharaj: So there are more regulations in the future.

Whelan: I think so, I think we will have more standardization and regulation and as we're seeing more risk here there needs to be more standardization.

Maharaj: As one follow up question, I feel NYU Center for Sustainable Business is at a very critical point right now, you have the opportunity to mold future leaders and millennials. Millennials I've noticed based on research and conferences I've attended, they are now choosing companies that have very good sustainable practices. With that in mind, I'm curious to know what are you hearing from students, what are the concerns of those who are going into the corporate world?

Whelan: I think that this generation is less likely to see that there's trade offs they don't believe it's either the environment or jobs or either sustainability and no profit, they're really seeing that the world needs both to work together and are interested A, finding opportunities to be part of that and B, having meaning and purpose in what they're doing.

Thank you Tensie for joining us on the series about sustainable business. Once again that was Tensie Whelan, clinical professor of business and society at NYU Stern School of Business and Director of the Center for Sustainable Business. We hope you enjoyed today's Ethicast series and for updates follow us on Twitter, @Ethisphere