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Three steps to becoming more sustainable...and profitable

Executives & Entrepreneurs

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We present **three simple steps** to building a more sustainable business **through a practical, profit-oriented process** that has the potential to deliver **higher financial returns**:

1. Define sustainability business practices and identify why they're important.
2. Assess which sustainability factors matter most to your business.
3. Build practical ways to measure sustainability and learn through experience.

Environmental and social considerations are not new focus areas for private business owners. Indeed, established firms have survived and thrived across generations by following sustainable business practices. But today's scrutiny of businesses' environmental, social, and corporate governance programs—and the attendant demand for more transparency around those efforts—will intensify.

Companies increasingly have to manage scarce natural resources and more diverse workforces. And in a world of instant connectivity, a firm's positive or negative contributions to environmental and social welfare can quickly impact demand and profitability.

Business owners may argue that formal corporate infrastructures for establishing, controlling, and developing sustainability programs—such as dedicated employees or a separate layer of governance—are not right for them. There is no common definition of sustainability or corporate social responsibility, although numerous regulatory changes are attempting to reduce some of this uncertainty. Sustainable business practices can be complex to enforce in small firms, and are often too expensive to implement. So entrepreneurs may be tempted to focus personally on the sustainability issues they care most about and tackle them informally and intuitively through their businesses.

In this paper we present potential solutions to these sustainability challenges. And we aim to show that corporate sustainability not only targets environmental and societal well-being, but also can yield commercial benefits to stakeholders. Independent of personal values around social and environmental issues, building a more structured sustainable business plan in a profit-oriented way can generate higher returns. It can also help to unlock new opportunities and prepare businesses to meet shifting patterns of demand.

We offer three simple starting steps to building a more sustainable business:

1. Define sustainability business practices and identify why they're important.
2. Assess which sustainability factors matter most to your business.
3. Build practical ways to measure sustainability and learn through experience.

Step 1: Define sustainable business practices and identify why they're important

Why should a business become more sustainable?

It's worth considering what corporate social responsibility and business sustainability actually mean. While views differ (and this lack of consistency is a common obstacle to entrepreneurs and executives), corporate social responsibility programs can be defined as plans that aim to account for and improve the social and environmental impacts of a firm's core activities. Business sustainability, on the other hand, incorporates social and environmental factors into a firm's core activities—sustainability is not a byproduct of a business's core offering, but rather becomes an integral part of the firm's core offering.

The reasons for considering or improving a business's social or environmental impact typically vary. This variety means there is no one-size-fits-all sustainability business strategy, so identifying the primary motivations is critical to designing the right sustainability business plan. And the catalysts for sustainable business development also affect commercial or financial performance in different ways.

A simple starting point would be to ask the following question: Is sustainability a "must-do" or a "want-to-do" strategy for your business?

An obligation to become more sustainable will likely involve financial or reputational risks from non-compliance, making a more sustainable business strategy a form of risk management. Compliance, legal, or reporting requirements may be formal and cumbersome.

A number of developments could make sustainability a "must-do" business strategy:

- **Compliance or regulation –** Governments are increasingly passing stricter environmental regulations in order to limit adverse climate effects. In a January 2020 article, the World Economic Forum looked at a number of new initiatives set to pass this year, such as France's increased levies on higher-polluting motor vehicles and varying bans on single-use plastics in Thailand and several US states.[1] The costs of non-compliance are also rising. In 2019 the US Environmental Protection Agency opened 170 criminal cases and charged 137 people for environmental breaches (both figures rising from the prior year), and it collected USD 471.8mn in overall penalties and fines.[2]
- **Customer demand –** A survey of nearly 20,000 consumers across 28 countries found that close to 80% of people say sustainability is important to them, and 57% of shoppers would change their buying patterns to reduce their environmental impact.[3] Failure to meet this demand can hurt companies' profits. A 2019 survey of UK consumers discovered that 77% of them had switched, avoided, or boycotted (or would consider doing so) a business's products based on the firm's environmental or sustainability record.[4]
- **Stakeholder demand –** A 2019 survey across 10 countries found that 61% of office workers think sustainability is a need-to-have strategy for a corporation, and 58% said it is a critical tool to engage future workers.[5] Corporations and individuals increasingly consider a company's sustainability record when deciding to provide equity or debt capital. This trend has led to the creation and growth of sustainability capital market instruments like green bonds, green loans, and sustainability-linked debt. We expect that access to—and the cost of—capital will become ever more closely tied to environmental, social, and corporate governance factors in the future.

By contrast, a desire to become more sustainable—a "want-to-do" strategy—may involve adopting a sustainable business plan, operating model, or product offering to access new opportunities. In this instance, sustainability is more about expanding a firm's purpose to include environmental and social well-being as core to the offering. Doing so may:

- **Attract first-time customers through new products and services –** Becoming more sustainable opens up new markets by creating new products and services that align with customers' social and environmental values. A 2015 survey concluded that 66% of consumers (and 73% of millennials) would pay a price premium for a sustainable product, while companies that demonstrated a commitment to sustainability grew sales four times faster than non-sustainable peers. [6] Compliance, legal, or reporting requirements may be less onerous—but the business opportunity to communicate social and environmental impact may be greater.

- **Help manage costs over the long term –** Although investing in more sustainable solutions like renewable energy or waste treatment facilities may incur upfront investment, there is also the potential to generate long-term improvements in operating costs, reliability, and self-sufficiency. Rising cost pressures are likely to be exacerbated by increased regulation, stricter public scrutiny, and structural developments such as carbon pricing.

But for all the potential benefits, a sustainable business strategy is not necessarily easy to implement.

What are the obstacles to becoming more sustainable?

One obstacle to sustainability is complexity. Splitting the drivers of sustainability into a mixture of compulsory and discretionary elements can simplify the process. Whether business owners become more sustainable because they have to, or want to, will have implications for their strategies. We discuss this in more detail later.

When weighing the different motivations for corporate sustainability programs, it may be important to trust stakeholders to come up with interesting and innovative ideas—but then filter those ideas based on top-down, pragmatic considerations about what works for the business. And given the importance of environmental and social sustainability to stakeholder engagement, careful documentation around why particular decisions were made will be increasingly important.

KEY QUESTIONS FOR ENTREPRENEURS AND EXECUTIVES TO CONSIDER:

- Is sustainability a means to survive…or thrive?

- Do businesses need formal, written sustainability frameworks or informal, cultural ones?

- Do businesses need to report on sustainability? If so, to whom?

- How should sustainability be communicated about within and outside the firm? Should businesses tailor their communications for different stakeholders (e.g., regulators, suppliers, and clients)?

External view: insights from private business owners

Members of the UBS Industry Leader Network* generally said that it was a necessity for their businesses to become more sustainable (in a series of interviews in October 2020). Their motivations were diverse. Some said corporate sustainability programs are an important part of their company's culture and purpose, especially for well-established, family-run firms. Others cited external pressure to become more sustainable -- whether regulatory, in response to customer demand, or in line with the trend of firms becoming more transparent.

In most instances, members of the network say becoming more sustainable helps reduce operational risks. Several members agreed that reduced risks can boost and stabilize profitability over time. But only a few members acknowledged the opportunities that becoming more sustainable provided, such as competitive advantages over peers or unlocking markets in new products and services.

Company size was the most commonly cited barrier to becoming more sustainable. This is particularly problematic for members of the Industry Leader Network operating within large, complex supply chains. Changing to become more sustainable is difficult. Visibility on the social and environmental conditions across the supply chain is limited, and in many instances, sustainability checks hinge on trust alone.

**The UBS Industry Leader Network is a global group of UBS clients and prospects who are private business owners and executives. Their views may differ from those of UBS.*

External view: interview with Nicole Rycroft

UBS Global Visionary, Founder and Executive Director, Canopy

What are the main reasons why small and mid-sized enterprises (SMEs) become more sustainable businesses?

Sustainability is no longer exclusively a way to manage risks to brand capital or operations - though that is still a relevant driver.

Today I see more and more small and mid-sized enterprises (SMEs) actively pursuing sustainability. That includes family businesses that really want to align what they do with who they are. It's the understanding that learning about environmental, social, and governance factors gives business leaders an informational edge in a fiercely competitive world.

Entrepreneurs lose out if they only pursue sustainability when they have to. First movers can gain values-driven customers from laggards that just adhere to the "floor" of legal sustainability standards. Forward-thinking businesses build, trial, and refine sustainability frameworks that best suit their core purpose. And the best-prepared business leaders know a sustainability mission is a magnet for talent and a signal of leadership that customers increasingly back with their purses.

How can SMEs better collaborate to build more sustainable supply chains?

First, it's vital that business owners acknowledge they can't act alone. In my experience, it's often SMEs and not necessarily the large companies that set the pace for positive supply chain changes.

Second, entrepreneurs should try to actively address supply chain challenges rather than waiting for those challenges to come to them. This commitment, alongside recording your supply chain ambitions clearly in a formal policy, can help solve the "chicken-and-egg" problem of a lack of sustainable options or transparency. Business owners might struggle to gather carbon data from their supply chains, relying instead on trust.

But if business owners are not willing to model the change they want by formalizing commitments and gathering their own data to share with suppliers, how can they expect meaningful transparency and change from their value chains?

Third, it's worth looking to partner with an expert organization or NGO with experience in systems change and supply chain transparency. This networking fosters the collaboration needed to lower sustainable alternative costs for everyone, as well as drive positive environmental, social, and societal impact. Third- and fourth-tier suppliers that may work in less developed or underserved markets are often where the potential for positive impact is greatest.

What are some of the best practices or examples of putting sustainability at the core of a business?

Changing Perspective. Businesses can benefit greatly by changing their definition of waste. In the natural world there's no such thing as waste. Businesses rather have access to alternative resources with untapped value. In the course of the movement to build sustainable viscose supply chains, we've seen companies reimagine waste textiles and even agricultural waste as alternative feedstocks with success. If you can, pivot from managing and minimizing waste to monetizing alternative resources.

Value Add. Successful sustainable businesses take ideas that work for them and build new supply chains or ecosystems that benefit everyone. For example, the company responsible for the first modern-day straw pulp mill in North America built such a supply chain. It uses straw from local farmers as an alternative, sustainable input for their production. But the mill realized that if this material works for them - commercially and from an environmental perspective - it could also work for other pulp producers. So the mill built the logistics and infrastructure to supply straw to other producers.

The pulp mill owners created change in the ecosystem - locally collected straw was cheaper than wood feedstock, so it lowered production costs at the mill. They generated a new revenue stream for local farmers and for their pulp mill owners, and also helped improve the industry's environmental impact.

Change can happen faster than you think. When we started our work in the fashion industry, many brands didn't know viscose came from trees, let alone from high-carbon, high-biodiversity forests. Entrepreneurs can and should be persistent and inquisitive. The payoff will differ across firms and sectors. But when I look at the amount of progress - with 52% of global viscose production now sourced from no- or low-impact production compared to 0% six years ago - I'm confident that business owners can deliver results that benefit everyone, including their bottom line, in years not decades.

**This interview contains views which originate from outside Chief Investment Office Global Wealth Management (CIO GWM). It is therefore possible that the interview does not fully reflect the views of CIO GWM.*

Step 2: Assess which sustainability factors matter most to your business

Having established the primary reasons why business owners need or want their company to become more sustainable, the second step is to determine which environmental, social, or corporate governance issues should be considered.

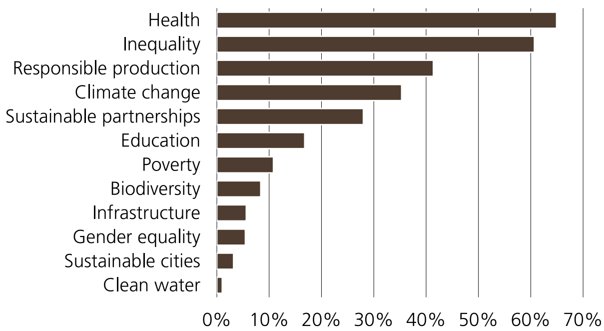
Some business owners work on the sustainability challenges they most care about. Sustainability challenges (or opportunities) are decided upon to satisfy the business owner's personal values. In an ideal world, the entrepreneur's or executive's sustainability affinities match the key performance drivers of the company.

Such coordination is not guaranteed, though. And in the worst case scenario, following a more "hobbyist" approach to sustainability can create business obstacles. Stakeholders may object to tackling particular social and environmental problems if they do not align with the company's core objective. Focusing on sustainability issues that don't impact business performance could be an inefficient use of capital.

A second challenge could be that a company's sustainability credentials depend heavily on other firms. This can be especially true if a business is part of a complex supply chain. A 2019 study from the Economist Intelligence Unit quoted McKinsey's estimate that over 90% of firms' environmental impact stems from their supply chains' environmental impact. Illustrating the large differences by sector, a food and beverage firm's typical supply chain may produce 24 times as much environmental impact as a single firm working in the same chain. For retail firms, the comparable forecast is 11.5 times—and in the case of firms working in heavy industry, the figure may be much larger.[7] Small and mid-sized companies forming part of a bigger supply chain may need to consider which sustainability issues matter to the large listed companies with whom they work. As shown below, recent surveys of European listed companies' reporting show that health and inequality are the areas of fastest year-over-year growth, though other topics grew in importance in the third quarter of 2020 as the COVID-19 crisis evolved (**Figs. 1 and 2**).

Fig. 1: Health, inequality, and responsible production are becoming more important topics for European listed companies

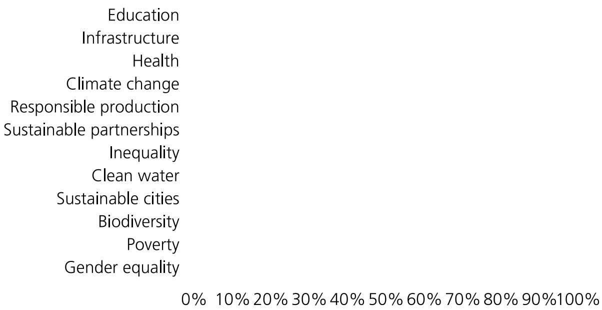
Growth in ESG issues (according to UN SDGs) discussed in European corporate documents, **year-over-year change**, as of 3Q 2020



Source: AlphaSense, Deutsche Bank, as of September 2020.

Fig. 2: The COVID-19 crisis has underscored the near-term importance of social sustainability and infrastructure

Growth in ESG issues (according to UN SDGs) discussed in European corporate documents, **quarter-over-quarter change**, as of 3Q 2020



Source: AlphaSense, Deutsche Bank, as of September 2020.

Commercial success depends on finding the sustainability issues that matter most to the business, its stakeholders, and its profitability. In technical terms, business owners should consider the sustainability topics that have a material impact on their operations.

Beginning to assess what matters—the material sustainability topics for a business—need not be daunting. To gather this information in a cost-effective and efficient way, we suggest the following steps:

- **Look at existing problems, successes, and investments through a sustainability lens:** Does the business face challenges that can be reimagined in terms of social or environmental well-being? Rising manufacturing costs, for example, may be the result of overreliance on a scarce natural resource. Re-examine prior business investment to ask whether its return on investment includes overlooked sustainability elements. For instance, has building renovation—new building insulation, lighting replacement, or the upgrading of a factory's glazing—delivered environmental impact, as well as reduced financial costs? By pulling together all existing investments, business owners may be able to identify sustainability gaps, and then use those insights into gaps and achievements to craft a cohesive sustainable business strategy.
- **Supplement stakeholders' views with information from networks, peers, and portfolios:** Ideally, views from a wide range of stakeholders should be taken into account when deciding on the most important sustainability issues. These stakeholders can include customers, employees, key suppliers, investors, regulators, and non-governmental, governmental, and non-profit organizations. But other sources should not be overlooked as a means to "filter" sustainability topics and situate them within a commercial or market context. For example, gathering intelligence from networks of small or local business owners or social entrepreneurs can provide additional information on which environmental or social topics matter most in the marketplace today. Sustainability business networks can also enable business owners to share observations on how to identify and tackle environmental, social, and governance challenges in practical, profit-focused ways. Another idea is to cross-check sustainable and impact investments—and the obstacles they address—against a business. An entrepreneur may be tackling a sustainability challenge through their investment portfolio but not in their business (where arguably they may have more control and a higher ability to generate a positive impact).[8]
- **Make materiality a management decision, but draw on help where needed:** While it's important to gather many stakeholder views on sustainability, the materiality test has to be undertaken at the management level. Managers and business owners likely have the best insight into which sustainability factors, if addressed, could have the greatest commercial impact through higher sales, lower costs, or wider profit margins. However, business owners can work with other trusted advisors when drawing together a materiality matrix, which is a simple representation of a sustainability topic's impact on performance against its relevance to stakeholders (**Fig.3 in appendix**). Professional advisers such as accountants, banks, corporate finance houses, or sustainable business consultants may be able to assist with materiality matrixes and sustainability business development as part of their existing services. For example, accountants can help firms build environmental management systems using ISO 14000 standards; they can also provide guidance on overcoming hurdles to becoming a more circular business, for example due to a lack of cost-benefit data, knowledge gaps around the required investment, or a talent deficit for implementing new sustainability activities.[9]

Furthermore, wider industry standards can help identify topics that are material (i.e., of key importance) to a company or activity. For example, the Sustainability Accounting Standards Board (SASB) has established industry-specific disclosure standards across environmental, social and governance topics. They are designed to improve the communication between companies and investors about financially material information that is useful for decision-making. SASB standards identify sustainability topics and related key performance metrics that are likely to have material financial impacts on companies in each of 77 industries.

However, according to SASB, companies can also focus on building strong systems of internal control and governance for the key performance metrics identified as being material for their industry group. With more standardized disclosure across an industry, companies and other stakeholders can compare the performance of business-critical sustainability indicators across companies. These can include product safety in the auto industry, data security in the tech sector, and water management among beverage manufacturers. Although the SASB metrics are "non-financial," they capture performance on key operational matters that drive long-term financial returns. For companies, they highlight key areas of risk to be mitigated and opportunities where improved sustainable business performance can lead to cost efficiencies, enhanced revenues, or competitive advantages.

We incorporate SASB materiality information in our approach to evaluating the sustainability performance of listed companies. We have identified six key sustainability topics (**Figs. 4 and 5 in the appendix**) that capture the major sustainable development challenges facing businesses. These topics draw on a combination of current frameworks and practices in the sustainable investing industry, the availability of reliable corporate data on these issues, and feedback received from investors.

The table (**Fig. 4**) shows a selection of industries and a visualized heat map of the respective materiality with regard to the six key sustainability topics. The materiality is defined by identifying the most important ESG opportunities and risks to stakeholders (including investors and asset managers), the economy, the environment, or the reporting organization. A risk is material when it is likely that a company in a given industry will incur substantial costs related to it. An opportunity is material to an industry when it is likely that a company in a given industry could capitalize on it for profit. Red topics are the most material, green the least.

For example, governance topics are key for all industries as a matter of course. Looking at other sustainability topics, the "Meat, Poultry & Dairy" and "Hotels & Lodging" industry groups both stand out for their issues related to climate change. For "Hotels & Lodging," the total energy consumed, the percentage of renewable energy used, and environmental management policies and practices to preserve ecosystem services are all analyzed here. In the "Meat, Poultry & Dairy" category, Global Scope 1 emissions (i.e., all direct emissions from the activities of an organization or under its control) and land usage in relation to conservation plans are also in focus. In "Marine Transportation," pollution and waste topics— which incorporate ballast water issues, as well as spills and releases into the environment— are critical.

We also highlight (**Fig. 5**) a selection of the underlying data and indicators that drive UBS CIO's six sustainable investing topics.

KEY QUESTIONS FOR ENTREPRENEURS AND EXECUTIVES TO CONSIDER:

- Which sustainability factors are material? For whom are they material?
- What are the most immediate priorities based on current "gaps"?
- How much scope is there to effect change (e.g., challenges within the business versus challenges across supply chains)?
- Which sustainability factors most influence profits, revenues, staff retention, or the cost of capital?
- If the materiality analysis yields conflicting views, how can entrepreneurs and executives prioritize and allocate resources accordingly?
- How and where can the business invest more in sustainability to yield the best financial and non-financial returns?

External view: insights from private business owners

Members of the UBS Industry Leader Network* account for materiality when tackling sustainability issues (in a series of interviews conducted in October 2020). A number of them say they identified the social and environmental issues to tackle commercially by understanding which of them most affect their core operations and profitability. For example, the majority of interviewees working in manufacturing sectors said their focus rested on renewable energy, wise water usage, and energy efficiency. Sustainable production and consumption (the 12th UN Sustainable Development Goal) was also mentioned, with specific examples being waste reduction programs and more localized production in response to client demands.

Members most commonly said that input from clients or customers helped them to design their materiality and sustainability business plans. Several mentioned that access to networks of like-minded business owners had clarified sustainability priorities (and even presented investment opportunities).

In those instances where formal materiality checks had not been made, some members said that sustainability was not a major part of their core business (as these companies were privately held by the management team and had no external directors, meaning there was no real challenge to consider social and environmental impacts). Others mentioned they were willing to become more sustainable but were actively seeking external help and guidance to design formal objectives and translate them into business action.

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External view: interview with Alan Ricks
UBS Global Visionary, Founding Principal and Chief Design Officer, MASS Design Group

Alan, how easy is it for small and mid-sized enterprises (SMEs) to identify the sustainability issues that are material to their profits and purpose?

Sustainability issues are hiding in plain sight. Think about how much we scrutinize where our food comes from: whether it's organic, free-range, or steroid-free, and its nutritional value. What if you applied the same logic to your supply chain? You have to go more than one layer deep to trace back to the raw materials, where they come from, and how they are extracted. What are the implications on the environment? And is ethical labor employed? Thinking about sustainability isn't about limiting just the amount of electricity we use. It's about understanding the embodied carbon costs of the whole system. It's very likely that simply by taking a deeper, more studied look at your business, you'll discover ways to make it more efficient and for your decisions to be more climate conscious just by arming yourself with the knowledge.

Is it easy to look at existing business activity through a sustainability lens (such as building retrofitting or water use policy)?

Really we have to look at every choice as a complex trade-off of carbon, value created, and cost. We cannot simply look through a lens that is puristic about reducing carbon. We also have to understand what we have to do to balance the equation, like how do we offset carbon and regenerate our planet. In some cases, perhaps a more carbon-intensive method might make sense to create a higher-quality, more enduring product at a lower cost, with the savings realized free for use to offset our production carbon costs.

What are your top tips for identifying the material sustainability issues and building a profitable, purposeful action plan?

Sustainability cannot be seen as simply a moral imperative. We need to reframe the equation as one of creating value. The way we create value needs to be holistic and long-term. People care about the provenance of their products, but they also have to be aware of those origins, as do the producers. When you know the provenance you have information to make choices, which can take into account social and environmental impacts.

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Step 3: Build simple ways to measure sustainability and learn through experience

How to measure corporate sustainability?

When a business owner knows *why* they are building a more sustainable business and *which* sustainability areas they will focus on, the key question to answer next is *how much* sustainability issues impact profits, people, and planet. Measuring a firm's sustainability and impact does not have to be complicated or expensive. Nor does it require external expertise to begin. But measurement does require careful thought and planning.

First, sustainability data measurement plans will depend on *what* data needs to be collected. The types of financial, environmental, social, and governance data demanded depend on the original drivers for becoming a more sustainable business.

Businesses that become more sustainable because of regulatory pressures may be obliged to collect particular types of sustainability data (like carbon dioxide emissions) in proscribed ways at particular times. Reporting requirements may be mandatory and formal. Even if a private business has no internal capabilities to collect data, laws or rules may force business owners to invest in internal data collection systems or external expertise. And while costs of compliance could be high, the consistency of regulation may allow firms to fix these costs and amortize them.

Conversely, if consumers drive sustainability as values-driven customers, firms may have more flexibility on how they validate their environmental, social, and corporate governance results. Laws can be very specific, but customer demands may be more fluid. The advantage of potentially lower costs versus regulation, however, may be offset by evolving consumer demands on the most important sustainability criteria. If consumers ask for environmental data first but then later care more about workforce diversity or other social topics, sustainability data management may have to be more flexible to meet these changing needs. And the degree to which additional costs can be passed on to consumers will differ across companies.

Second, collecting sustainability data can be complex, as there are no common standards. This lack of standardization has proven problematic for sustainable and impact investors and remains a challenge for business owners, especially in terms of cost, expertise, and experience.[10] A small-scale study of 14 small and mid-sized manufacturing companies in Germany found there was a lack of consistency in their sustainability reporting. They used as many as 671 different sustainability indicators between them, and large variation (or standard deviations) in the indicators made it virtually impossible for stakeholders to compare sustainability performance between firms.[11]

Third, many private business owners may be daunted by the task of building measurement frameworks. There is a practical need to strike a balance between clarity for stakeholders and real measurement of sustainability and impact. Sustainability is a fast-evolving topic. The challenge for entrepreneurs is to decide how to report based on a "continuum" of sustainability requirements, as different stakeholders will demand different information at different times. How can SMEs build systems to measure sustainability with this degree of flexibility, at a reasonable cost?

We suggest two potential solutions to these challenges:

- **Look at practical ways to measure sustainability.** Survey customers, employees, and investors on what sustainability factors matter the most to them. Then consider building sustainability into regular feedback you solicit from these stakeholders. Where possible, match sustainability gauges to existing data and processes, so different data points can be simultaneously collected at the lowest marginal cost. Where possible, put a financial price on sustainability factors and measure non-financial metrics with the same discipline as financial ones.

- **Use sustainability networks to crowdsource ideas, expertise, and help in measuring social and environmental data.** Engaging with other business owners—whether in the same region and industry, or elsewhere—can provide opportunities to share ideas, expertise, and even guidance. In the same vein, sustainability networks of social entrepreneurs—for whom sustainability and impact measurement may be a core capability—can share lessons on how to build robust systems at reasonable cost.

KEY QUESTIONS FOR ENTREPRENEURS AND EXECUTIVES TO CONSIDER:

- What are the "must-do" and "want-to-do" sustainability topics identified in the business's strategy and materiality assessments? Lots of regulatory pressure will undoubtedly lead to lots of reporting requirements.
- How much information should be disclosed about materiality and reporting on materiality?
- Can sustainability data be further monetized, for example as an additional service or as further guidance to stakeholders and investors? Non-financial data may have an advantage over restricted financial data that can only be reported quarterly.

External view:

Kate Sandle, Director of Programmes and Engagement, B Corp UK.

Isn't sustainability too tough and too expensive for most small and mid-sized enterprises?

First, I'd like to reframe the question. "Sustainability" implies that thinking about environmental, social, and governance (ESG) factors sits in a single department. If we replaced the concept with the term "responsibility," I think we would have more action. Responsibility implies that measurement is relevant for every department, and as a result we should act responsibly and be responsible for every action.

Getting back to your question, from an environmental perspective, knowing how much energy you use, where it comes from, how much waste you produce, and how much it costs to dispose of it are all important to understanding your business better. This information can immediately help you identify your costs and where to reduce them. Reviewing if your employees are paid a living wage, your recruitment practices, and the opportunity to progress from a non-managerial position will help you attract and retain the best talent. These are just some examples, and there are many more. I would say measurement isn't too tough or expensive because this data can only help feed into your business success.

Other factors that can also influence the need for business measurement are clients or customers. The data might be a pre-requisite for working with them or they might prefer working with businesses that have made public commitments, such as aligning with the Paris agreement or paying a living wage. As a result, prioritizing measurement can potentially provide more commercial opportunities and elevate you against competitors.

How can business owners begin measuring social and environmental data in an efficient way?

Every business is different, and it is important to understand your priorities as a business. If you are going to start addressing specific areas, make sure it is authentic and aligns with your business strategy.

Measurement might not be in everyone's job description, so you need to ensure your team members are on board. Buy-in from the top to the bottom of an organization is vital. It is important to recognize that people in your organization might have different views on measurement, so pick the easy wins so they can see the benefit. This will help to build cooperation for further action. Remember—don't run before you can walk, if all of this is new.

Communicate the changes you're making and articulate the purpose for introducing measurement. One important factor in measurement is interdependence; we often see departments in silos and forget that everything is interconnected. This comes back to the point about responsibility for our actions, knowing that decisions can have consequences all over the business. Build an understanding of the end goal - this will help employees to allocate time and measure efficiently and effectively.

If you have an open culture of measurement and improvement, your employees will help you innovate and find solutions to challenges.

My top tips are be authentic to your business, be transparent about what you're doing, communicate with your team, and start with an easy win.

Can you share examples of how sustainability data measurement can unlock profits or new commercial opportunities?

Examples of businesses innovating to solve environmental or social challenges include one large smoothie maker that was aware of their environmental impact and wanted to reduce their carbon footprint, water usage, and time spent transporting goods. They chose to build a factory close to the port where their raw materials come in, innovated to save 70% of water through different cleaning techniques, and built a carbon-neutral factory. These decisions have reduced their operation, production, and transportation costs.

One small brewery wanted to act after the Black Lives Matter protests all over the world. Recognizing the lack of diversity in their industry, they created Work in Progress, a group that encourages more Black and minority students to start brewing and distilling. As a result of this initiative, 27 other breweries have joined, undoubtedly raising their profile within the industry.

Several companies are increasingly recognizing that the cost of packaging and raw materials are not always sunk costs. The potential to reduce costs in the long term and decrease your impact on the planet go hand in hand. Embracing the circular economy requires business innovation to work out how to reclaim part of the product or remove the cost of packaging, but can open up many opportunities.

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[1] World Economic Forum "The war on plastic: 5 green laws for 2020," 3 January 2020, accessed 16 October 2020. URL: https://www.weforum.org/agenda/2020/01/green-laws-environment-2020/.
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[10] For a fuller discussion about the need to simplify and standardize sustainability data, please see UBS's 2019 white paper, *Awareness, simplification, and contribution: Core requirements needed to actually achieve the United Nations' Sustainable Development Goals.* URL: https://www.ubs.com/global/en/wealth-management/chief-investment-office/investment-opportunities/sustainable-investing/2019/wef-2019.html.
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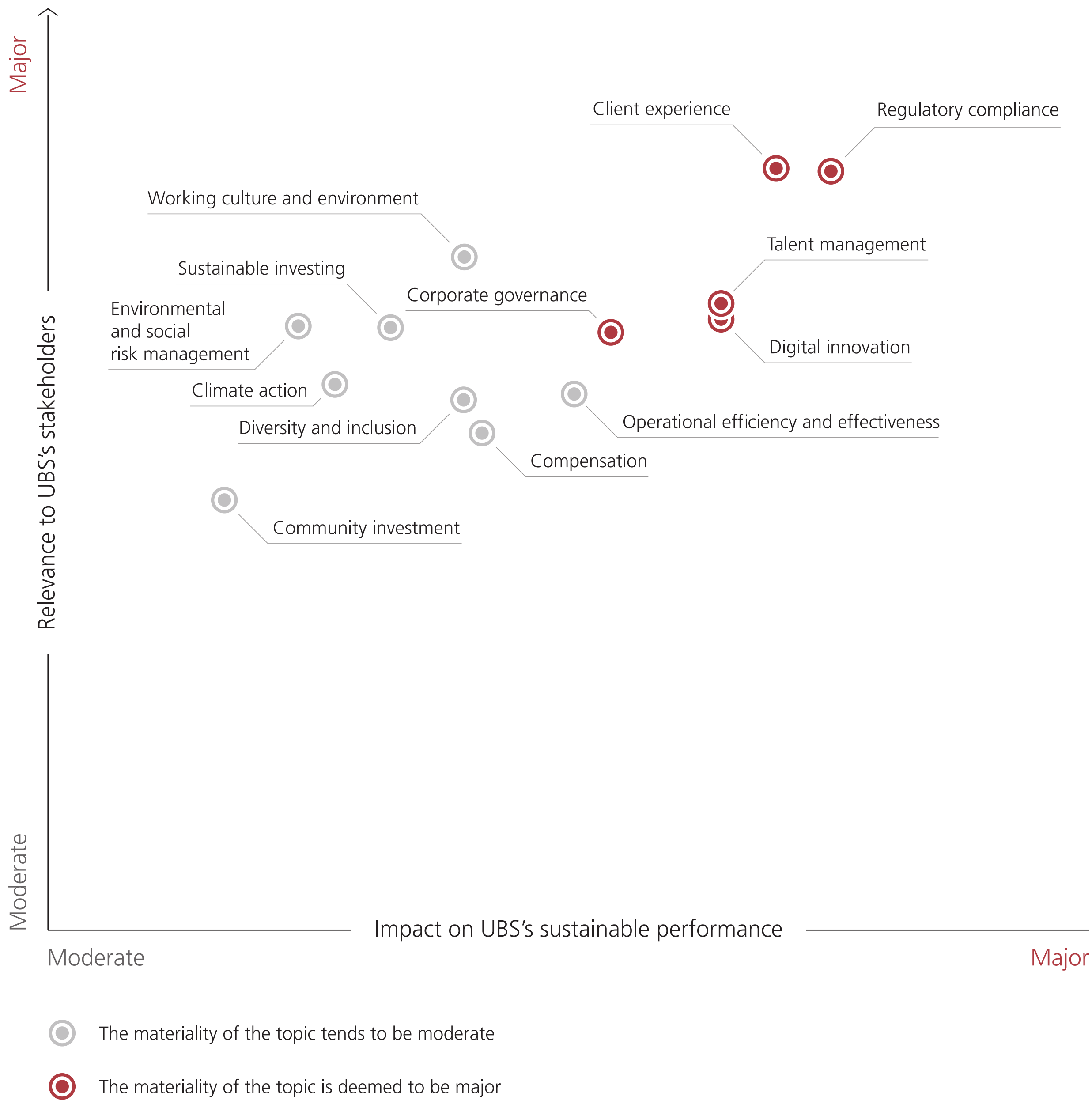
Appendix

Fig. 3: Materiality matrixes need not be complicated

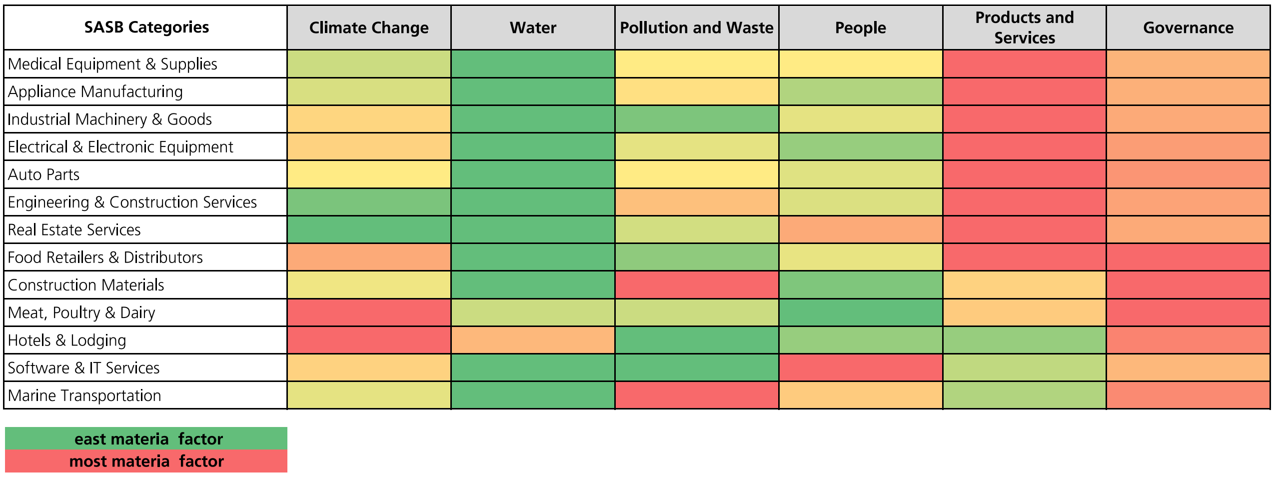
An example of how business owners and entrepreneurs can draw up a simple map of the most important sustainability topics for their stakeholders and business performance.

UBS materiality matrix 2019



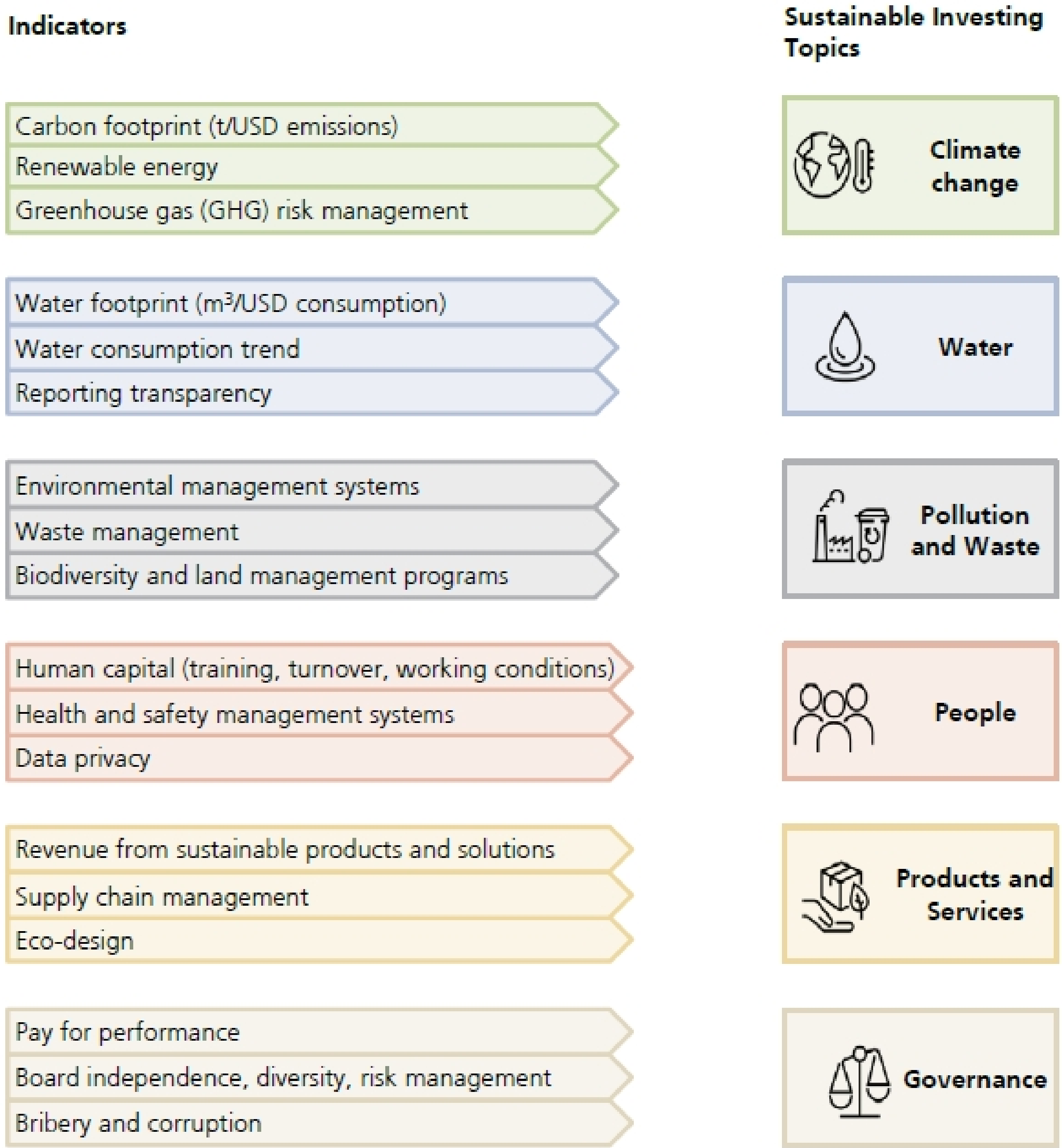
Source: UBS, 2020. For illustrative purposes only.

Fig. 4: Materiality Heat Map based on SASB and UBS CIO analysis



Source: UBS CIO GWM.

Fig. 5: Examples of input data in reference to UBS CIO sustainable investing topics



Source: UBS CIO GWM.

Appendix

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