



## CFR Teaching Note #001: Retailing and Sustainability

Introduction to Retailing (NDH101), 2019

Sara Rosengren & Lin Lerpold

Global consumption and production trends play a key role in meeting the global challenges of tomorrow. Sustainability is also high on the agenda for most retailers. According to a 2019 [report](#) by the Swedish Retail Federation, 78% of Swedish retail and wholesale companies work actively with sustainability. For larger retail companies (with more than 50 employees) 95% do so. 51% of all retail companies also say that their focus on sustainability will increase in the future.

Retailing functions as an intermediary between supply-side production and manufacturing and demand-side consumption. Consequently, the retail sectors' environmental and social impact spans over a wide range of activities, starting with (a) their own actions, but relating also to (b) partnerships with suppliers and (c) interactions with consumers. In the following note we briefly provide an overview of the current state of research on retail sustainability.

### ***What is sustainability?***

If you look up sustainability in a dictionary you will find that it refers to the quality of being able to continue over a period of time. The most commonly accepted definition for sustainable development is found in the [UN Bruntland Report](#): "development that meets the needs of the present without compromising the ability of future generations to meet their own needs." In this definition; social, environmental, and economic development is meant to be interdependent.

In a business context, sustainability is increasingly being used to denote a company's ability to continue in relation to the overall environment and society at large. Most importantly, a stakeholder rather than shareholder perspective is assumed. Company efforts to contribute to a more sustainable development in this regard are often referred to as Corporate Social Responsibility (CSR) or sustainable business/management. Often these terms are used interchangeably, but there are slight differences between them. CSR can be defined as "the integration of an enterprise's social, environmental, ethical and philanthropic responsibilities towards society into its operations, processes and core business strategy in cooperation with relevant stakeholders" (Rasche et al 2017., p. 6). As highlighted by this definition CSR is often focused on ethical dimensions and responsibility. "Sustainable business", on the other hand, tends to refer to the opportunity of business models aimed at solving sustainability challenges, for instance in eco-technology or the so-called sharing economy (Borglund et al., 2017).

Sustainability/CSR is thus a multidimensional construct that covers a range of issues related to social as well as environmental, ethical, and philanthropic responsibilities that companies have to different stakeholders and society at large. In this view, CSR influences everyday

practices and business processes in a way that is aligned with its overall business strategy as well as the surrounding society at large.

In 2015, the UN agreed upon a new framework for sustainable development: “[The 2030 Agenda for Sustainable Development](#)”. The new agenda, which succeeded the Millennium Development Goals, outlines [17 Sustainable Development Goals](#) (SDGs) that are meant to stimulate action in areas of critical importance for humanity and the planet until 2030. The 2030 Agenda and its SDGs serve as a blueprint to achieve a better and more sustainable future for all and is increasingly being adapted by retail companies. The goals address global challenges faced by contemporary society related to poverty, inequality, climate, environmental degradation, prosperity, as well as peace and justice. The agenda also highlights that all these goals are interrelated and that partnerships between the public and private sector, investors and consumers are needed to meet the goals.

For retailers, SDG 12 stands out as one of the most central: [Responsible Consumption and Production](#). This goal is about promoting resource and energy efficiency, sustainable infrastructure, providing access to basic services, green and decent jobs and a better quality of life. Sustainable consumption and production aim at “doing more and better with less”. To achieve this goal every stakeholder along the value chain, from raw materials suppliers, to producers and retailers, and to final consumers need to be involved.

Although CSR and the SDGs are widely used acronyms when discussing sustainability in retailing there are several related concepts that you also might come across in the literature:

*Triple bottom line (TBL)*: The term typically refers to an accounting framework with three parts: social, environmental, and financial. Simply stated the framework is used to direct focus not just on the economic value, but also on the environmental and social value that a company adds or destroys. A related terminology is that of the 3Ps; Planet, People, and Profit. The idea is to assess the performance of a company not only in terms of profit (financial bottom-line), but also its effects on planet (environmental bottom-line) and people (social bottom-line). (Elkington, 2004).

*Circular Economy*: This term typically refers to an economic system that is regenerative and circular, rather than wasteful and linear. The general idea is to develop long-lasting design, maintenance, repair, reuse, remanufacturing, refurbishing, and recycling to make sure that waste is eliminated and materials from used products are used as raw materials in new products. The term evolved from Life Cycle Approaches such as “Cradle to Grave” and “Cradle to Cradle” and was popularized by the Ellen MacArthur Foundation. (Murray et al. 2017)

*Shared Value*: The term shared value is defined as policies and operating practices that ~~enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates~~. In this framework, every firm should make decisions and evaluate opportunities based on assessments of shared value (i.e., an overall assessment of benefits related to costs) of different stakeholders. The idea is that both economic and social progress must be addressed simultaneously by a) focusing on value rather than economic benefits alone and b) considering costs from a societal perspective. (Porter and Kramer 2011)

*Conscious Capitalism*: The term conscious capitalism is typically used to describe a type of capitalism in which companies follow a business strategy in which they seek to benefit both human beings and the environment. Based on a review of companies that have successfully

created value for all their stakeholders (including customers, employees, suppliers, investors, society, and the environment) this framework delineates four principles for conscious capitalism: higher purpose, stakeholder integration, conscious leadership, and conscious culture and management. (Mackey and Sisodia 2013).

### ***Why retail sustainability?***

Through a review of academic research on environmental sustainability in retailing, Naidoo and Gaspartos (2018) identify three main reasons why retailers invest in sustainability. There is to date no review providing this overview in term of social responsibility in retail alone, but their framework should also be applicable to social sustainability efforts.

1. “Profit”-related: Investments in sustainability guided by a focus on cost-savings and resource efficiencies that have immediate effects on the cost structure of the retail operation. Focus can also be on demand-side effects (e.g., being able to charge more for sustainable products and/or attracting certain customer groups), but this motive has not received the same empirical support as the cost-side.
2. “Policy”-related: Investments in sustainability guided by a focus on laws and regulations. Focus is thus on regulatory issues and on fulfilling institutional requirements. It should be noted that regulations do not have to be mandatory or by law, but often are voluntary.
3. “Pressure”-related: Investments in sustainability guided by a focus on managing expectations of important stakeholders such as media, customers, employees. Focus is on managing reputational risks and ensuring legitimacy among key stakeholder groups.

### ***What kind of retail sustainability?***

Naidoo and Gaspartos (2018) identify three main types of sustainability efforts undertaken by retailers:

1. Internal operations: Sustainability activities that focus on managing the sustainability impact of the own operations (e.g., stores, head office, warehouses). The type of activities that are in focus vary depending on the type of retailer, but generally speaking energy management, CO2 reductions, waste management, and water conservation efforts are common.
2. Supply chain management: Sustainability activities that focus on managing sustainability impact of the products being sold by the retailer. Three key considerations are (a) the way the product has been produced, (b) the way it has been transported and stored (inventories) and (c) whether the value of product can be recovered after its use (reverse logistics/circularity). The type of activities that are in focus vary depending on the type of retailer, but generally speaking environmental requirements for suppliers, third-party product certification and labels, and transportation efficiencies are common.
3. Stakeholder engagement: Sustainability activities that focus on managing sustainability impact by influencing behaviors of key stakeholders. Key stakeholders are typically consumers and employees, but also investors can be considered. The type of activities that are in focus vary depending on the type of retailer and stakeholder, for example eco-labels can be used to engage customers, staff training

to engage employees, and sustainability reports to engage shareholders in sustainability.

Although Naidoo and Gaspartos (2018) focus on environmental sustainability, these three types can also be applied to social sustainability. For example, internal operations could be linked to diversity and equality (e.g., % of female/male supervisors), supply chain management to labor conditions (e.g., working wages in production), and stakeholder engagement to change shopping habits (e.g., one bag habit).

### ***How retail sustainability?***

There are several voluntary guidelines and frameworks available to retailers when implementing sustainability efforts. Naidoo and Gaspartos (2018) identify the following three as the most widely adapted:

[\*The United Nations Global Compact \(UNGC\)\*](#). This voluntary framework is often considered a first step in implementing sustainability strategies. The compact covers ten principles in the area of human-rights, labor, anti-corruption, and environment. It is designed to push companies to move beyond traditional compliance and narrow risk assessment.

[\*ISO14001\*](#). This standard defines the requirements for an Environmental Management System (EMS) that helps organizations to identify and manage impacts of their operations from a life-cycle perspective. Regular audits are needed to check the implementation of the EMS and this standard also outlines the general principles for conducting social and environmental audits (e.g., criteria for selecting audit teams, qualifications necessary for internal and external auditors).

[\*The Global Reporting Initiative \(GRI\)\*](#). This initiative provides the most recognized set of voluntary guidelines for corporate sustainability reporting. It was the first global framework for comprehensive sustainability reports and works as starting point for defining indicators and establishing the data collection protocols for sustainability auditing programs.

These three frameworks are all voluntary and have been criticized by civil society organizations and academics for lacking legally binding rules (for example related to [greenwashing](#) and [fundamental human rights](#)). They are examples of complementary guidelines developed through multistakeholder initiatives and can be used to improve transparency when communicating progress on sustainability efforts. Within the EU there is also a [formal requirement](#) for certain large entities to publish a “non-financial statement” and disclose a diversity policy. In Sweden, this directive has been adapted to companies if they have: i) average number of employees over 250, ii) balance sheet over SEK 175 million, or iii) net turnover over SEK 350 million. These companies must disclose their sustainability efforts in at least four key areas: environmental matters, social and employee matters, respect for human rights, anti-corruption and bribery matters (Borglund et al., 2017).

## References:

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*Note: access to reports and regulations are available via hyperlinks in the text*

CFR Teaching Notes are developed for use in the BSc in Retail Management program at the Stockholm School of Economics. Teaching notes are brief summaries that are meant to complement course readings on important topics not covered in the main textbooks or articles.

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