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DSC Meridian ESG Leader, Spotlight Series: Featuring Tensie Whelan, Director of the Center for Sustainable Business at NYU Stern

Paula Luff
Director of ESG Research & Engagement

Tensie Whelan
Director, Center for Sustainable Business, NYU

Executive Summary:

Tensie Whelan is a Clinical Professor of Business and Society and the Director of the Center for Sustainable Business at NYU Stern School of Business, where she brings her 25 years of experience working on local, national and international environmental and sustainability issues to engage businesses in proactive and innovative mainstreaming of sustainability.

As President of the Rainforest Alliance, she built the organization from a $4.5 million to $50 million budget, recruiting more than 5,000 companies in more than 60 countries. She transformed the Alliance into an internationally recognized and credible brand. Tensie has sat on numerous corporate and non-profit Boards. Her work has been published by the Harvard Business Review and a range of business publications.

Tensie and the team at NYU Stern have developed the ROSI methodology, Return on Sustainability Investment, to further advance the business case for sustainability within companies and to help investors and corporate leaders bridge the gap between sustainability strategies and financial performance.

Tensie recently sat down with us as part of our ESG spotlight series, covering her research at the Center for Sustainable Business and why corporations should adopt sustainability metrics into their financial disclosure and performance.

Opinions expressed herein are the own opinions of Ms. Whalen and Ms. Luff and are not necessarily the opinions of DSC Meridian Capital LP or NYU or their respective partners, employees or affiliates. The interview has been edited for clarity.

Paula Luff (PL): Tensie, you've been working at the intersection of business and society for a long time. I would love for you to describe your journey and the changes you've seen in how companies and investors operate through a sustainability lens.

Tensie Whelan (TW): I've been working in sustainability and working with corporations for 25+ years. When I first started, most CEOs were older white males for whom these issues were not important, for the most part. There was a real lack of engagement at the C-Suite around sustainability 25 years ago. There were always exceptions, but even those saw ESG issues as a "nice-to-have" instead of a "must-have."

Ten to fifteen years later, we saw a generational shift in the CEOs and more recognition of the challenges posed by climate change and a variety of other issues, including more demand for socially responsible investment. At this time, the C-suite was saying, "I believe these issues are important, but it's hard for me to get anybody to agree; help me figure out how to invest in it, and if I can, I will." We saw some bolt-on initiatives emerge from this shift, because they did see it was important, but it was not embedded in business strategy and they didn't know how to implement it (exceptions being companies such as Seventh Generation and Unilever).

In the last five years, another generation has taken the reins, along with a new set of ESG challenges and opportunities. In the last year or two, we've seen a real recognition that these societal issues are material in terms of business survival and license to operate, and that the government is no longer the problem solver in these areas that it might have been 30-50 years ago. Frankly, some businesses have budgets bigger than small countries, so there's some reason for that.

We also see a real shift in stakeholder expectations. We've always had conscious consumers and investors, but they've been niche. In the last five years we've seen a shift to mainstream interest. Our research on consumer purchasing of sustainability-marketed products in the US, for example, finds that sustainability marketed products are responsible for 32% of the growth in consumer packaged goods at a 30% premium on average. We've also begun to see a preponderance of research—some done by us—that shows the clear business imperative around engaging in material environmental and social governance issues.

PL: That's an excellent overview. The Center for Sustainable Business has three pillars. Let's start with the first one: innovation and education. Tell me more about how ESG is shifting business education, particularly finance curricula. It seems that finance instruction has been largely a math problem, and a lot of what we deal with in ESG is more qualitative than quantitative. How do you see that changing and growing?

TW: I think that finance faculties in all business schools are just beginning to understand that ESG is not a momentary blip—it is something that is going to be around for a while. The Engine No. 1 board takeover at Exxon is a good example. The Robinhood Wild Ride is another example that ESG is not a passing fad. That said, I would venture to say that no business school has really changed its core offerings yet. But at NYU Stern and elsewhere, we are offering sustainable finance courses alongside traditional core courses. I also think we are seeing some interested professors bringing ESG issues into the core courses, but it's not comprehensive mainstreaming in the way that I think we would all like to see. I think that's true across most universities.

PL: Do you see that shifting? You've got a very different generation coming into both undergraduate and graduate programs. Do you think this could be student-driven?

TW: I do; I also think it could be employer-driven. I see several things happening externally. For example, sustainability reporting has historically been done out of the sustainability department. Now that the CFO is going to be responsible for that reporting—as bodies like the SEC start to say "we need to be clearer about the rigor of reporting on climate change or diversity and inclusion" for example—I think you'll see the finance department within companies assume more responsibility for the management and the quality of the data. It's not that the CSO (Chief Sustainability Officer) will just appear, but data collection and quality will improve. Then we'll see more demand at the corporate level for students who have that kind of background, students who understand and can manage more material ESG metrics.

On the investor side, I have seen more demand for bespoke executive education in this last year than I've seen in five years prior. Financial services firms are interested in getting their people trained. In the last four months, we've had around 600 job openings and internships come to us, and a good third were ESG-related finance positions. There's an explosion of demand for people with this experience. When you've got that kind of market pull, then you've got those students and faculty saying, "Okay, we need to start to deliver skills and content knowledge, training, etc." to help create that match between the employer and the student.

PL: The second pillar at an academic institution is always research, and you have built a very rich body of research. Will you walk us through the genesis of the ROSI methodology? I think the team at Stern were among the first in the ESG ecosystem to recognize how important making the business case is, particularly to the CFO. And now, as we are moving toward more regulated disclosure—in Europe for sure and now possibly here in the US—the CFO's role becomes more and more important. Talk to us a little bit about the genesis of ROSI and what your findings have been to date.

TW: Absolutely. In some of our research published in 2020, we analyzed more than 1,000 academic studies that examined the correlation between ESG performance and financial performance. A preponderance of those studies found a positive correlation. For corporates, 58 percent found a positive correlation between ESG and corporate financial performance. Only eight percent found a negative correlation. For investors, we found alpha in about 33 percent of cases. These studies found that there was outperformance associated with the ESG and the financial performance on the investors' side. About 26 percent found that it performed as well as conventional.

The challenge with our study and others like it is it only demonstrates correlation—not causality. Thus, we developed our ROSI—Return On Sustainability Investment — methodology, because when we went to the companies to try to assess causality, they weren't tracking the return on their sustainability investment. They might be tracking their energy savings resulting from their climate change commitment, but not other benefits such as risk mitigation, innovation, employee engagement, etc.

We have identified nine ROSI mediating factors that drive better financial performance when sustainability is embedded in strategy and practice. Those nine factors include risk mitigation, employee engagement, retention, productivity, innovation and growth, sales and marketing, operational efficiency, and so on. All these factors can be driven by any kind of good management. Sustainability isn't the only thing that drives innovation or employee engagement. But what we find is that sustainability can drive better performance across all nine mediating factors and can drive better financial performance.

With that model in hand, we began to work with a variety of different industries. We've worked with the automotive sector, pharmaceuticals, utilities, apparel, agri-business, retail, and more. In one example, we saw an automotive company has a waste reduction strategy under which they have a variety of different practices. One practice is to recycle paint and solvent. When you recycle paint and solvent, you no longer buy the virgin stuff, so you reduce cost. You no longer have waste disposal costs. And the company is selling extra recycled product. So, in the case of one automotive company's total waste reduction strategy—with all the different practices—they were saving about $235 million net, annually. They did not know that. They weren't tracking these returns together because they saw this as a compliance issue.

ROSI asks, "What are the practices you'll put in place for each sustainability strategy, and then how do we assess the benefits?" In the auto case, it was primarily operational efficiencies, but different approaches can drive different benefits. We worked with REI, an outdoor wear company, to look at how their focus on purpose and sustainability was leading to higher retention and more productivity. This focus resulted in about a $34 million contribution to their bottom line because their people were so committed to the organization, stayed longer, therefore the company had lower turnover costs, and so on.

We see these positive returns consistently. This methodology offers an opportunity to assess the total returns, which will then help companies meet internal hurdle rates and support investment in sustainability actions. It will also help with decision making, because companies are not always making well-grounded decisions because they don't have adequate information.

PL: Right. If you don't have the financial information associated with the environmental and social impact or opportunity, it's hard for management to justify capital allocation. Do you see the ROSI methodology as a replacement for materiality assessments? Or as a complement to them?

TW: I see ROSI as complementary. You've got to start with what's material, then you've got to design your sustainability strategy to improve your business strategy with what is material. After that, you need to figure out your KPIs, how you'll track progress with those KPIs, and your financial metrics for understanding impacts. Also, honestly, not everything will return you money. When we looked at the automotive sector, we saw eighteen different strategies: sixteen of them were indeed making money, but the other two were losing money. Companies do things for reasons other than returns. But if you build out your whole strategy based on these material issues, focus on your KPIs, but don't track the financial KPIs, your decision making may be flawed.

Investors and boards are currently asking for two completely separate data sets. They're asking for the financials and they're asking for the ESG metrics. But what we need to connect the two and better track and communicate them.

PL: The third pillar of what the Center does is contributing to the ESG ecosystem: the engagement that you do, the convenings you *hold and speak at. Talk a little bit about that strategy.*

TW: Everybody likes to be a thought leader. It's fun! And everybody wants to bring people together to work on ESG. I think there's a huge appetite for information that's practical and usable. A lot of conferences and thought leadership discussions operate at too high a level. People now understand the big picture stuff, but they need to learn how to execute. They're saying, "I have had so many obstacles to executing this change—bureaucratic inertia, politics, no money, no authority—all the things that go along with change management. "

What we try to do is offer events that provide practical, hands-on information from people who have learned, made mistakes, had successes, and research that is credible in terms of coming from a respected academic institution and very practical in its nature. We also work to bring students into this ecosystem so they can learn and broaden their network, meet more contacts, and increase skillsets as they go into business.

What I hear from practitioners is: corporations have their conferences, investors have their conferences, and we don't really get together to understand our different languages our different expectations, and what we can learn from each other. When I do my executive education courses and I have investors there, I always do a corporate piece first. They come back and say, "Wow, I didn't know that I needed to know that, but I did" because they don't truly understand what drives good ESG execution or poor execution—they haven't worked in a publicly traded company, generally. I think we provide a great convening opportunity to bring those different mindsets together and help them learn from each other in a practical way.

PL: Where do you see the field and your research headed over the next five years?

TW: Starting with the Center for Sustainable Business we've been doing some research around consumer insights and consumer purchasing of sustainable goods. When I was at Rainforest Alliance, one of the things I heard over and over was companies saying, "People said they want to buy it, but they won't, or if they do, they won't pay a premium." And I'd respond, "Okay, where's the research?" And there really wasn't any. It was all survey research; it wasn't actual comprehensive data.

So here at Stern, we partnered with IRI, a market research firm, which collects barcode data at the retail level to understand consumer purchasing. We've found in the last five years that 32 percent of the growth in CPG—consumer packaged goods—came from sustainably marketed products. We saw things like the fact that dairy was at minus 10 percent while sustainable alternatives were plus 10 percent; we first came out with that data back in 2019. Six months later, the two biggest dairy producers went out of business. From an investor perspective, you also need to be paying attention to this, because those companies will not. They were not making the pivot.

In 2020, we were wondering if consumer demand would go down with COVID, but instead, it continued to grow. We saw for the first time the emergence of carbon labeling on about $1.3 billion worth of good We're going to continue to move forward and do more research on consumers, because this is really important. These myths about consumer behavior persist out there.

PL: COVID was hugely disruptive but all epidemics end. Climate change is going to be a huge disruptor. That also creates huge opportunities to address it. It's going to change consumer behavior, investor behavior, and company strategy. Do you see any evidence of *that coming through already in some of the research you're doing?*

TW: I do. I think the fact that we saw carbon labeling emerge for the first time in 2020 is a significant engagement tool. Additionally, we saw many commitments toward net zero, and discussions about what are good versus bad offsets—overall, we see a more sophisticated discussion around what needs to be done.

We have only this decade to mitigate the worst impacts of climate change. It's going to be devastating no matter what, and I think the recognition that this is the moment is finally taking hold. I do think a major trend will be asking, "How do we actually drive sustainability through everything that we do?" For those companies with big supply chains, how will they achieve this goal through their supply chains?

IKEA, for example, has made a commitment around reducing total carbon footprint of their supply chain by 70 percent and working with their suppliers to reduce it not only for their own products but for all the products they produce. They're looking at if they can provide access to inexpensive solar installation and power for their customers in 29 markets. You're starting to see companies go beyond their own issues and say, "This is a bigger problem we need to solve in a bigger way." Many Silicon Valley companies are creating climate innovation funds. I do think it's an exciting moment, and we also see what governments are doing — what Biden's administration is doing, what the Europeans are doing—they're taking it seriously because we're living with these crazy weather changes.

In addition to research, I think two other trends looking forward are clearly economic inequality and diversity/inclusion/racism (which overlap, of course). I was looking at company performance on DEI and they're not disclosing; there's no transparency. They're giving grants to Black Lives Matter organizations, which is great, but they don't disclose how many Black people they employ and at what level. That's a huge disconnect, and they're going to get called to task for it if they don't address it. So, disclosure is the first step.

The second comes when we have that data: how do we open up our pipeline? How do we make it easier for women to work when trying to have children? How do we make it easier for people of color to feel accepted, supported, and empowered as they move through the ranks? There's a lot to be done.

PL: I think COVID might accelerate a lot of this. We just saw a huge crisis. It's a window into what climate change is going to bring.

TW: Exactly.

PL: Tensie, thank you so much for sharing your time and perspective with us today.

TW: Thanks so much for having me.

LEARN MORE

If you would like to learn more about DSC Meridian, please contact:

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