CFR Course Note #001[1]: Retailing and Sustainability

Introduction to Retailing (NDH101), 2024

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Global consumption and production play a key role in meeting the global challenges of tomorrow. Retail plays a central role in this development as it functions as an intermediary between supply-side production and demand-side consumption. The retail sectors' environmental and social impact thus spans over a wide range of activities, not only their own actions, but also to those of suppliers and consumers.

Today, sustainability is high on the agenda for most retailers. According to a 2024 report by the Swedish Retail Federation, 65% of Swedish retail and wholesale companies work actively with sustainability. What is more, new regulations and reporting requirements related to sustainability are increasingly being implemented, for example by the European Union, suggesting that retailers will need to work more with these issues in the future.

In this course note, we briefly introduce the concept of sustainable development before moving on to discuss its implications for retail more specifically. The note is meant as an introduction to the field and readers are provided with links and references to guide their future exploration into the topic.

What is sustainable development?

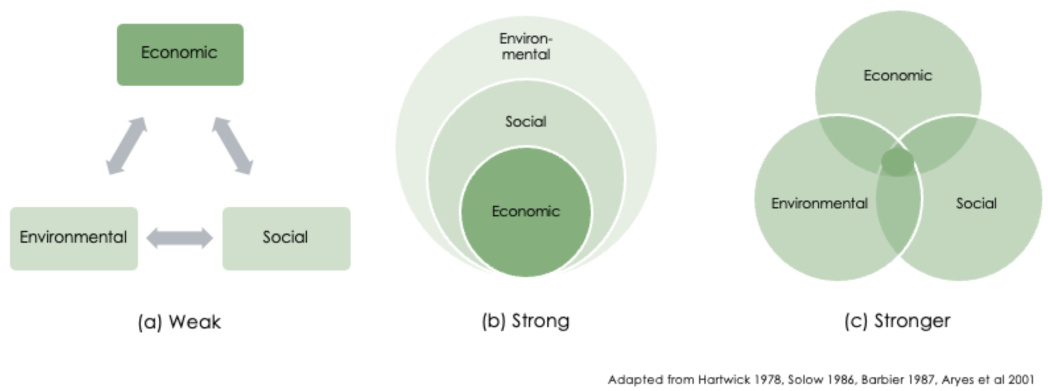
If you look up the term sustainability in a dictionary you will find that it refers to the quality of being able to continue over a period of time. The most commonly accepted definition for sustainable development was agreed in 1987 and defined in the UN Bruntland Report "Our Common Future" as *"development that meets the needs of the present without compromising the ability of future generations to meet their own needs"*.

This definition clearly outlines the intergenerational aspects of sustainability, meaning that what is done today will determine what can be done later. In addition, the term sustainability typically conveys a multifaceted view of development, emphasizing how diverse aspects of *social, environmental, and economic systems* are interlinked. Each system has its own unique set of goals and challenges. Any changes in these systems often come with benefits and drawbacks for different actors ("stakeholders") in society. This means that a *stakeholder* perspective, taking these various actors and their perspectives into account, is needed when working with sustainable development. The general objective of sustainable development could thus be described as maximizing the wellbeing of societies over time, systems, and stakeholders, a complex task that requires constant trade-offs and adaptation.

[1] This is an updated version of CFR Course Note #001 from 2019. Given the developments in this field, the content has changed significantly.

When it comes to the balancing of social, environmental, and economic development there are many taken for granted assumptions about interconnections between these different systems as well as how important they are to different stakeholders today and in the future. Three main discourses have dominated modern sustainability thinking (see Figure 1).

Figure 1. Sustainability discourses



Weak sustainability views natural resources as something that can be infinitely extracted for economic gain without considering the long-term consequences. Typically, it views economic prosperity as a primary goal as social development is seen to follow from economic growth. This perspective tends to downplay the intergenerational aspects of sustainability (e.g., when irreplaceable natural resources are transformed into economic capital there are few or no ways to return) and environmental capital is considered substitutable for social or economic capital (e.g., Ayres et al., 2001) In this perspective, an example of sustainable development can involve attempts to substitute natural resources with technology solutions such as Carbon Capture and Storage Systems (CCS).

Strong sustainability (b) views natural resources as the starting point. It reasons that our human existence and welfare requires a healthy and thriving natural environment. This leads to the view that we must foreground our natural world; without nature, there would be no people, and without people, we would have no economy. This highly influential line of thinking underpins the "planetary boundaries" model of staying within a safe operating space developed by the Stockholm Resilience Center (e.g., Steffens et al., 2015). In this perspective, the intergenerational aspects of irreplaceable resources set the boundaries of what can be achieved socially and economically and must be the starting point for any sustainable development initiatives.

Stronger sustainability (c) views sustainability as the intersection between the three systems (Barbier 1987). This perspective thus advocates a balanced view, where all three systems are given importance. Sustainability thus is seen to ultimately involve identifying solutions where ecological systems are aligned with social and economic systems, often considered as win-win-win propositions. This perspective has been put forward in numerous variations, including economy, ecology and equity ("3 E's": e.g., Campbell, 1996) and profits, planet and people ("3Ps") and the corporate triple bottom line ("TBL": e.g., Elkington 2004).

In 2015, the UN agreed upon a new framework for sustainable development: "The 2030 Agenda for Sustainable Development". This agenda, which succeeded the Millennium Development Goals, includes 17 Sustainable Development Goals (SDGs) meant to stimulate action in areas of critical importance for humanity and the planet by 2030. The SDGs were intended to be "integrated and indivisible and balance the three dimensions of sustainable development" with the assumption that social (human capital) and environmental (natural capital) are complementary, though not interchangeable. The agenda thus aligns with the stronger sustainability discourse.

The 2030 Agenda and its SDGs serve as a blueprint to achieve a better and more sustainable future for all and is increasingly being engaged with 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.

What is corporate sustainability and responsibility?

In a business context, sustainability is often used to denote a company's ability to continue in relation to the overall environment and society at large. Importantly, a stakeholder rather than shareholder perspective is assumed. A company's efforts to being considered ethical and a legitimate corporate citizen is often referred to as Corporate Social Responsibility (CSR) and 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, beyond minimum legal requirements. "Sustainable business", on the other hand, often refers to business models aimed at solving sustainability challenges, for instance in eco-technology or the so-called sharing economy (Borglund et al., 2025).

Sustainability/CSR in business 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 and corporate sustainability 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.

Increasingly, corporate sustainability and responsibility is being regulated through diverse legally binding national laws and EU directives. Germany's Supply Chain Act (2023), for instance, requires companies to identify, address, and report on human rights-related and environmental risks in their supply chains. The European Green Deal (2020) has also spurred new corporate sustainability and responsibility directives now being implemented into member states national laws. In fact, sustainability is defined by the EU as "the responsibility of companies for their impact on society at large". This includes responsibility for products and services, but also working conditions, human rights, and impact on health and the environment.

Several new corporate sustainability directives relevant for retail are being implemented in all EU member states, most notably the Corporate Sustainability Reporting Directive (CSRD, 2023) and the Corporate Sustainability Due Diligence Directive (CSDDD, 2024). Together with further sustainability directives being proposed in 2024 such as the EU Green Claims Directive (GCD), businesses' responsibility for sustainable development has been significantly expanded to include impacts along the extended value chain.

An important aspect of these new directives is the requirement for a "double materiality" analysis that acknowledges risks and opportunities from both financial and nonfinancial perspectives. This involves a stakeholder rather than shareholder perspective and requires companies to evaluate how sustainability issues might affect and create financial risks (financial materiality), but also how their operations and activities affect the environment and people in society at large (impact materiality).

What is sustainability in retailing?

For retailers, SDG 12 Responsible Consumption and Production stands out as one of the most central, but several SDGs are important and their relevance varies across retail sectors. 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.

Retailing functions as an intermediary between supply-side production and manufacturing and demand-side consumption. To fully understand the sustainability impact of retailers, one must adopt a life-cycle perspective to all the products and services they offer. This means that you need to consider all activities related to the sourcing of materials, production of various components, transportation across the whole value chain as well as the activities related to consumption and disposal of the products being used.

Consequently, the retail sectors' environmental and social impact spans over a wide range of activities, not only (a) their own direct actions and impacts, but also (b) contracts and partnerships with suppliers and (c) interactions and behaviors of consumers. When it comes to climate impact, a distinction is often made between Scope 1 emissions, that are under direct control of the company, Scope 2 emissions, that are indirect emissions from the company's energy usage, and Scope 3 emissions that are all the indirect emissions that occur along the value chain. Thus, retailers focus increasingly beyond their own direct impacts and on to sustainability impacts occurring among their suppliers and customers.

Why Retail Sustainability?

Sustainability is often stated as a key imperative for retail in the future. Reviewing the literature, Vadakkepatt et al (2021) identify five key advantages for retail companies investing in sustainability:

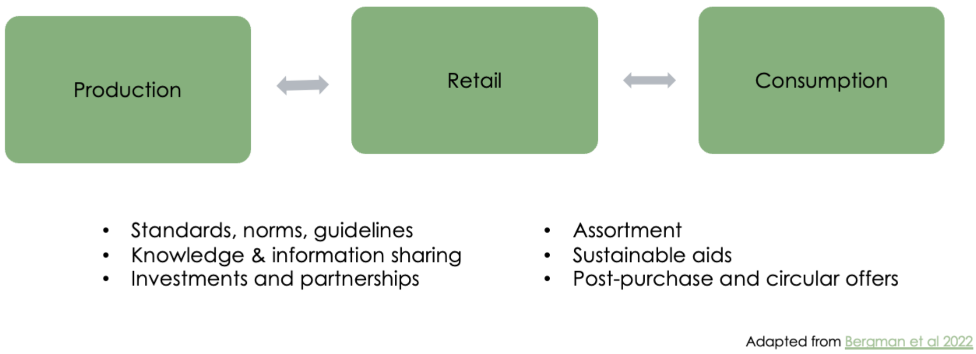
1. Demand advantages: Sustainability investments can help differentiate the brand from competitors potentially creating positive demand-side effects (e.g., being able to charge more for sustainable products and/or attracting certain customer groups).
2. Cost advantages: Sustainability investments can help reduce costs as many investments in sustainability are guided by a focus on cost-savings and resource efficiencies and thus can have immediate effects on the cost structure of the retail operation.
3. Risk advantages: Sustainability investments are needed to fulfil contemporary and future regulations. Thus, there are business risk mitigation benefits to be gained from sustainability investments.
4. Financial advantages: Sustainability investments can help attract capital. Investors and banks are increasingly bringing in sustainability dimensions in their analyses.
5. Stakeholder advantages: Sustainability investments can help attract employees and partners and build trust within different actor groups of importance to the company.

How Retail Sustainability?

How retailers work with sustainability varies across different retail sectors. One focus of sustainability work is managing the impact of own operations (e.g., stores, head office, warehouses). The type of activities focus vary, but energy management, CO_2 reductions, waste management, and water conservation efforts are common for environmental impact. For social impact, sustainability efforts tend to involve both internal working conditions and processes and engagement with social issues surrounding the product and company.

As much of retail's impact environmental and social impact comes from production and consumption rather than own operations interactions with suppliers and customers are also important (see Figure 2).

Figure 2. Sustainability initiatives that link production and consumption



Vadakkepatt et al (2021) identify three ways for how retailers can work with supply influence for sustainability. First, retailers can work with suppliers to enable more sustainable production using standards, norms, and guidelines. Second, retailers can partner with suppliers to ensure knowledge and information sharing related to sustainability. Third, retailers can enable/support investments in sustainability across their supply chains. All these initiatives thus build on collaborating with suppliers on sustainability issues. Often, they are also performed in collaboration with other stakeholders such as non-profit organizations (NGO's), trade associations, and even competitors.

Bergman et al (2022) identify three ways for how retailers can work with demand influence. First, retailers can work to enhance the sustainability of their assortments, as determines the options available to consumers. Second, retailers can work with consumers to help them act on sustainability ambitions, for example through communication, loyalty programs, or other promotion activities that stimulate purchases of more sustainable options. Third, retailers can work to enhance the lifetime of the products they sell, for example by developing circular business models or helping consumers in usage or disposal of products after purchase. All these initiatives thus build on collaborating with consumers on sustainability issues as a means to reduce the impact.

A Brief List of Sustainability Terminology

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)

Conscious Capitalism: The term 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).

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).

There are also several multilateral and national mandatory and voluntary guidelines and frameworks available to retailers when implementing sustainability efforts. Some of the most influential and cited guidelines relevant to retailers are:

Greenhouse Gas Protocol: provides standards, guidance, tools and training for businesses and governments to measure and manage seven direct climate-warming emissions. Scope 1 are direct emissions that are owned or controlled directly by the company, scopes 2 and 3 are indirect emissions that are a consequence of the activities of the company but occur from sources not owned or controlled by it.

The UN Guiding Principles on Business and Human Rights (2011): Also referred to as the "Protect, Respect and Remedy Framework" defines the States' duty to protect human rights and fundamental freedoms, the role of business and their corporate responsibility to respect human rights, and the right to appropriate and effective remedies when breached.

The OECD Guidelines for Multinational Enterprises on Responsible Business Conduct (2023): The guidelines were first introduced by the OECD in 2000, updated again in 2011 and finally in 2023. They are recommendations addressed by governments to multinational enterprises and aim to encourage positive corporate contributions to economic, environmental and societal progress.

The United Nations Global Compact (UNGC). The world's largest voluntary corporate network on sustainability has often been a first step in implementing sustainability strategies. The compact covers ten principles in the areas 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).

In the retail domain, sustainability-related scandals are quite common. Some terms used when discussing unsustainable practices encountered in connection to retail are:

Child labor: defined by the UN Agency International Labour Organization (ILO) as "work that deprives children (any person under 18) of their childhood, their potential and their dignity, and that is harmful to their physical and/or mental development."

Modern Slavery: Beyond the globally outlawed ownership of human beings as property, modern slavery has come to denote all forms of human exploitation in new and old forms. In retail, precarious working conditions and child labor in for instance sweatshops in developing nations has long been focused on by scholars and businesses. More recently, attention to the precarious working conditions of migrant berry pickers in the Nordics and migrant workers in wine yards in Italy that have previously been "hidden in plain sight" has garnered attention.

Greenwashing: Claims or tactics used by companies that are misleading the public to believe that a company or other entity is doing more to protect the environment than it is, for example being purposely vague about operations or materials and/or using misleading labels such as "green" or "eco-friendly," which do not have standard definitions and can be easily misinterpreted.

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

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