

# Opportunity Cost

## in Marketing & *Sustainability*

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# Agenda

## Opportunity Cost in Marketing

- Why it Matters – Does it Matter?
- How it Aids Managerial Decision Making – Can it Aid?

## Opportunity Cost & Sustainability

- Strategies/Decisions will Change – Will they?
- “You can only manage what you can measure” – How do you measure **Marketing’s Impact** on ESG issues?
- “You can only manage what you can measure” – ESG-induced Re-allocations of Marketing Budgets? **Impact on Marketing?**
- External Reporting Requirements vs. Internal Impacts

# Opportunity Cost in Marketing

**“Strategy is about choice. The heart of a company’s strategy is what it chooses to do and *not to*.”**

- Vision
- Pursue a Problem – offer a Solution – “*not to*” = Opportunity Cost
- Organize accordingly – “*not to*” = Opportunity Cost
- **Interdisciplinary Literature Review – What is Opportunity Cost (OC)?**  
Definitions and use across fields of business
- **Industry Insights – How are decisions made?**
  - By decision level (Strategic, mesa, operational)
  - Interviews of board members, C-suit, etc.
  - Perspectives from CMO, chief of staff (managers), operations (tactical)
- **(Re-)Defining OC:**  
Does the definition change across 1) contexts, 2) organizational level 3) time horizons?

# Opportunity Cost in Marketing

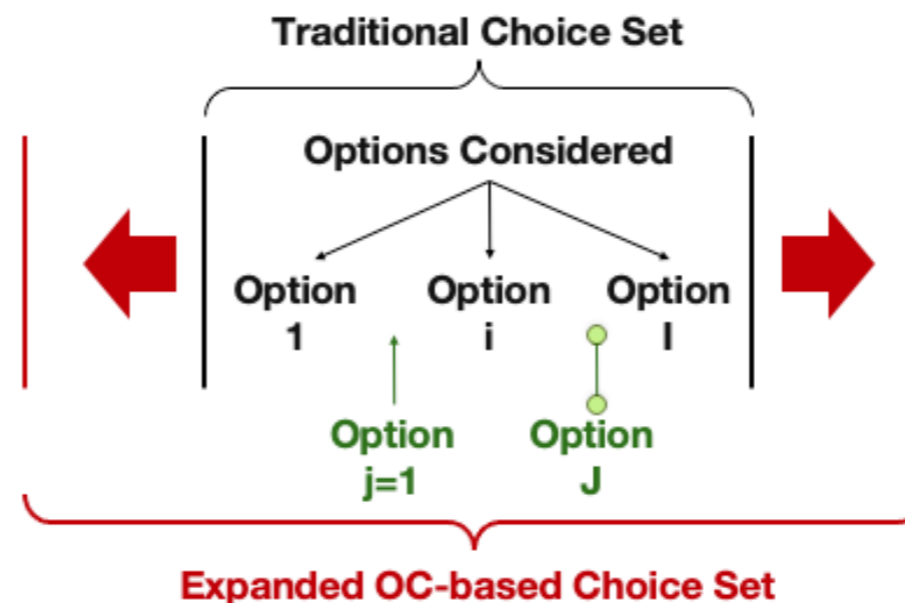
- **How does Considering OC Impact Decision-making?**

Does the “OC-way-of-thinking” lead

1) to more choices being considered within a given choice set and/or

2) lead to a boundary expansion of the choice set itself (broader scope of choices)?

Traditional Decision-making	OC infused Decision-making	
By organizational level: Strategic / Operational / Tactical	More options within choice set?	Expanded choice set?

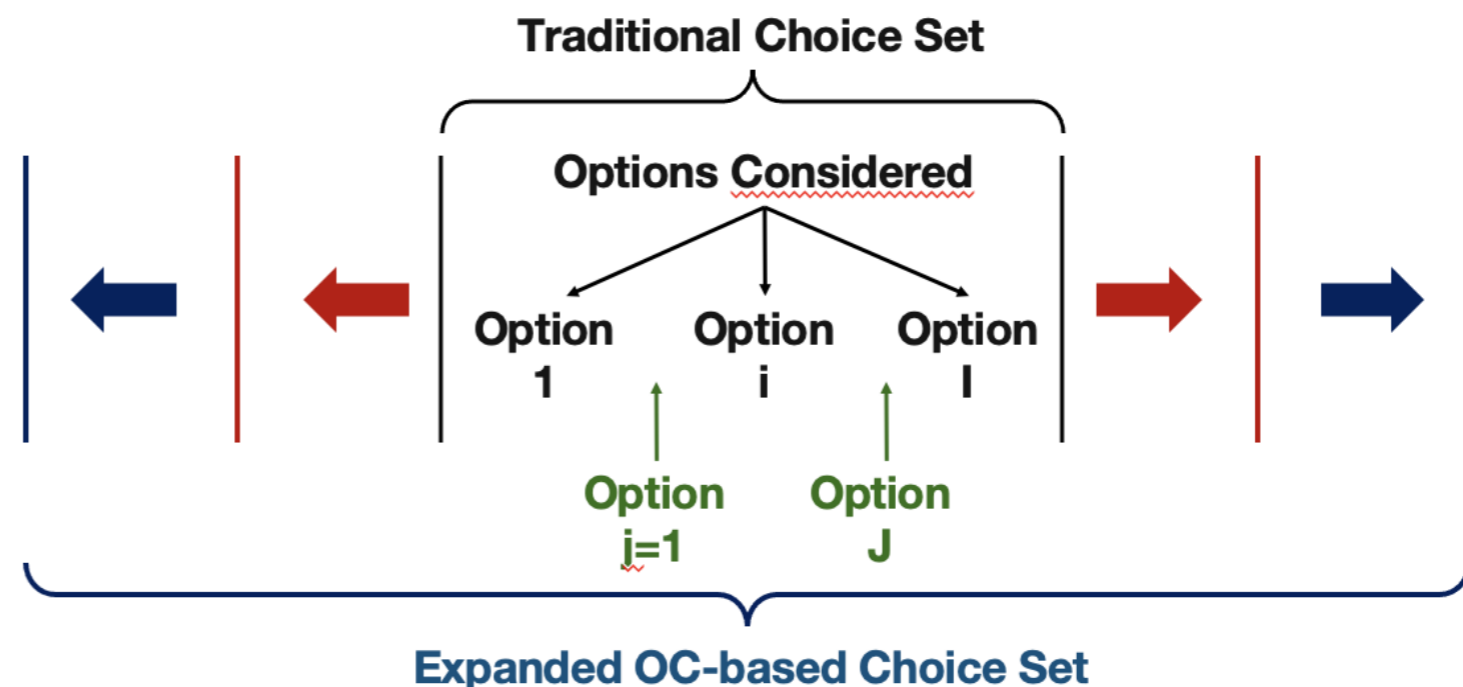


**Accountability:** an obligation or willingness to accept responsibility – or to account for one’s actions (decisions)

# Opportunity Cost & Sustainability

- How does Considering OC Impact Decision-making with ESG Goals in Mind?
  - Does the “OC-way-of-thinking” lead
    - 1) to more choices being considered **within** a given choice set and/or
    - 2) lead to a **boundary expansion** of the choice set itself (broader scope of choices)?

Traditional Decision-making	OC infused Decision-making	
No ESG consideration treated as hidden cost/externality	Same additional options within choice set?	But „Double“ Expanded choice set?



# Opportunity Cost & Sustainability

- **Academic Literature**

- Focus on changing/understanding consumer decision making
- Green marketing; circular economy
- No clear definition(s)

- **Practice**

- MSI research priority: measuring the effects of ESG-driven budget re-allocations on business and social KPIs
  - **Is marketing driving this change?**
  - **Does this change impact marketing?**
  - **KPIs?**
- Sustainability Accounting Standards Board, etc.
  - **Marketing's responsibility** in establishing and meeting **KPIs?**

# Opportunity Cost & Sustainability

## Profits vs. ESG: Synergistic or Trade-off Required?

**NYU Stern Center for Sustainable Business, “ESG and Financial Performance”**  
(firm-external stakeholders)

- Meta-Analysis of 1,000+ Studies 2015-2020
- Meta-Meta-Analysis on 13 Meta-Studies  
(Whelan et al. 2021)

### **Findings:**

1. Improved **financial performance** due to ESG **increases over time**.
2. ESG **integration** as an investment strategy performs **better** than negative screening approaches.
3. ESG **investing** provides **downside protection**, especially during a social or economic crisis.
4. **Sustainability initiatives** drive **better** financial performance due to mediating factors (improved risk management, innovation).
5. Managing for **low carbon** future **improves** financial performance.
6. ESG **disclosure** on its own does **not** drive financial performance.

# Opportunity Cost & Sustainability

## Profits vs. ESG: Synergistic or Trade-off Required?

University of Pittsburg Center for Sustainable Business, “Sustainability Progress Is Stalled at Most Companies” (firm-internal stakeholders)

- The Harris Poll – U.S. employee survey, 1,056 respondents  
(Bhattacharya and Jekielek 2023)

### Recommendations:

1. Establish a **purpose** based on **values**. Yet, **profit-maximizing** narrative.
2. Bake sustainability into **corporate strategy**. Yet, doing so presents a **challenge**.
3. Train employees and **incentivize** actions that advance sustainability. Yet, **lack of incentives**.
4. Create a **sustainability culture** in your organization. Yet, major or moderate **impediments** in organizations.
5. Conduct business through a **sustainability lens**. Yet, **lack of personal ownership** of sustainability performance.
6. Bridge the **last mile** between front-line employees and C-suit members. Yet, **significant differences** in how they rate sustainability within their organization.



# Upcoming EU ESG Regulation

## CSRD/ESRS - Starting 2024

### European Sustainability Reporting Standards (ESRS; 1, 2-5, 5+ yrs))

- Environmental Matters
- Social Matters
- Governance Matters

### Covering (relevant, faithful, comparable, verifiable, understandable):

- (1) strategy and business model in relation to sustainability;
- (2) governance and organization in relation to sustainability;
- (3) materiality assessment of its sustainability-related impacts, risks and opportunities;
- (4) implementation measures, covering policies, targets, actions and action plans, allocation of resources; and
- (5) performance metrics.

# ESRS Rollout in the EU

## CSRD as successor to NFRD

Starting in 2024, the Corporate Sustainability Reporting Directive (CSRD) will expand the scope of companies that are required to report on a wide range of Environmental, Social and Governance (ESG) topics. The CSRD is the successor to the NFRD, which already applies to public interest entities (such as large listed companies, banks and insurance companies).

**1-1-2024**

Large PIEs already  
subject to NFRD

**500 or more**  
employees

*CSRD is applicable if an  
organization meets two out  
of three criteria*

**1-1-2025**

For large companies

**250 or more**  
employees

**>20 MIO EUR**  
Total assets

**>40 MIO EUR**  
Turnover

**1-1-2026**

For listed SMEs

**10 to 250**  
employees

**>350KEUR**  
Total assets




**>750KEUR**  
Turnover

# Classification of ESRS

ESRS codification	Non-separable blocks of disclosures (paragraph AG 28)	Part of the management report (AG 32)
ESRS 1	1. General principles	1. General information
ESRS 2	2. General, strategy, governance and materiality assessment	
ESRS E1	3. Climate change	2. Environmental information
ESRS E2	4. Pollution	
ESRS E3	5. Water and marine resources	
ESRS E4	6. Biodiversity and ecosystems	
ESRS E5	7. Resource use and circular economy	
ESRS S1	8. Own workforce	3. Social information
ESRS S2	9. Workers in the value chain	
ESRS S3	10. End users / consumers	
ESRS S4	11. Affected communities	
ESRS G1	12. Governance, risk management, internal control	4. Governance information
ESRS G2	13. Business conduct	

# Current High-Level KPIs

By industry up to 84 KPIs to report

Environment 		Social 		Governance 	
<b>E1 Climate Change*</b>	<ul style="list-style-type: none"> <li>• Energy performance certificate (EPC/BREAAW/LEEP)</li> <li>• Primary Energy Demand (PED)</li> </ul>	<b>S1 Own workers</b>	<ul style="list-style-type: none"> <li>• N° incidents, % absence, gender pay, employee satisfaction<sup>2</sup></li> </ul>	<b>G1 Business Conduct</b>	<ul style="list-style-type: none"> <li>• Code of Conduct, Frequency of bribery / corruption<sup>2</sup></li> <li>• Outcome of legal cases<sup>2</sup></li> <li>• Lobbying expenses<sup>2</sup></li> </ul>
<b>E2 Pollution</b>	<ul style="list-style-type: none"> <li>• Greenhouse gas emissions<sup>2</sup></li> </ul>	<b>S2 Workers in the value chain</b>	<ul style="list-style-type: none"> <li>• N° incidents, % absence, gender pay<sup>2</sup></li> </ul>		
<b>E3 Water and marine resources</b>	<ul style="list-style-type: none"> <li>• Water consumption<sup>2</sup> (Mln m<sup>3</sup>)</li> </ul>	<b>S3 Affected communities</b>	<ul style="list-style-type: none"> <li>• Local contractors (%)<sup>2</sup></li> </ul>		
<b>E4 Biodiversity and ecosystems</b>	<ul style="list-style-type: none"> <li>• TBD</li> </ul>	<b>S4 Consumers and end-users</b>	<ul style="list-style-type: none"> <li>• Social rent (%), tenants satisfaction, experienced safety end-users<sup>2</sup></li> </ul>		
<b>E5 Resource use and circular economy</b>	<ul style="list-style-type: none"> <li>• Materials passport<sup>2</sup></li> </ul>				

1. Source: European Sustainability Reporting Standards (ESRS); 2. Source: KPMG analysis

\* The EU taxonomy defines two objectives for Real Estate on climate change: adaptation and mitigation. Other sector-specific objectives are not yet disclosed.

Figure 2: According to the ESRS, real estate organizations should report on several sector-specific and sector-agnostic KPIs

# Appendix