

## Sustainability Strategy Integration at Amazon.com

### **Background on the organization**

Founded by Jeff Bezos in 1994, Amazon.com is the largest online retailer in the world with products and services covering e-commerce, cloud computing, digital streaming, and artificial intelligence. Amazon is known to be a pioneer in the e-commerce and cloud computing tech space, with some of the most popular innovations such as the invention of customer reviews, 1-Click shopping, personalized recommendations, Amazon Prime, Fulfillment by Amazon, AWS, Kindle Direct Publishing, Kindle, Fire tablets, Fire TV, Amazon Echo, Alexa, and The Climate Pledge (*Amazon.Com, Inc. - Annual Reports, Proxies and Shareholder Letters*, n.d.).

The for-profit e-commerce giant operates based on four key principles: 1) customer obsession rather than competitor focus, 2) passion for invention, 3) commitment to operational excellence, and 4) long-term thinking. In the company's most recent annual report, Amazon has pledged a new goal to become Earth's most customer-centric company, best employer, and Earth's safest place to work (*Amazon.Com, Inc. - Annual Reports, Proxies and Shareholder Letters*, n.d.). The operations of Amazon are categorized in three segments: North America, International, and Amazon Web Services (AWS). These segments reflect the way Amazon evaluates the company's business and financial performance. In each segment, Amazon provides both products and services to various stakeholders such as customers, sellers, developers, enterprises, vendors, authors, and content creators (*Amazon.Com, Inc. - Annual Reports, Proxies and Shareholder Letters*, n.d.).

The scale of this organization is enormous, as it employs more than 1 million employees across ~180 offices and warehouse locations worldwide (*Amazon.Com, Inc. - Annual Reports, Proxies and Shareholder Letters*, n.d.). To date, Amazon has more than 200 million Prime members worldwide, more than 1.9 million small and medium-sized businesses on its platform, and more than 100 million smart home devices connected to Alexa. Amazon Web Services serve millions of customers on an annual basis and ended with a \$50 billion annualized run rate in 2020. In total, Amazon has created \$1.6 trillion of wealth for its shareowners and as of December 2021 Amazon has a market capitalization of \$1.746 Trillion, making it the fifth most valuable company in the world (*Amazon (AMZN) - Market Capitalization*, n.d.).

### **Definition of sustainability in the organization**

Sustainability at Amazon is categorized into three main pillars— Environment, People, and Governance. Under the environmental pillar, Amazon is focused on the sub-topics of Sustainable Operations, Circular Economy, The Cloud, and Product Sustainability (*Amazon Sustainability 2020 Report*, n.d.). Sustainable Operations at Amazon is further defined as the broad, science-based approach to reducing carbon emissions and improving operational

efficiencies. This includes the transition to 100% renewable energy by 2025, improving building and facility resource efficiency, decarbonizing its shipment and fulfillment fleets, minimizing its corporate carbon footprint, and rolling out electric vehicles for last-mile deliveries (*Sustainable Operations*, n.d.). Amazon's approach to circular economy is further defined as their approach to minimizing waste by improving packaging design, promoting recycling, donating surplus inventory, eliminating food waste, and connecting customers with resources to retire products instead of sending used items into the waste stream (*Circular Economy*, n.d.). The third area of focus under the Environment pillar is The Cloud. As the world's largest cloud computing software provider (Amazon Web Services), Amazon is committed to creating sustainability in the Cloud by investing in renewable energy to power its operations, improving cloud efficiency, driving water stewardship to use less potable water to cool data centers, as well as developing a sustainability data initiative (ASDI) to support sustainability research and innovation (*Sustainability in the Cloud*, n.d.). Finally, the fourth sub-category focuses on product sustainability. This aims to provide customers access to more sustainable products through sustainable shopping initiatives, sustainable product development covering household goods, food and grocery items, apparel, and Amazon devices (*Amazon Product Sustainability*, n.d.). Beyond environmental factors, Amazon also places an emphasis on non-environmental factors such as human rights, employee health, safety, well-being, diversity, equity and inclusion, community engagement, and sustainability within its supply chain. The third pillar of sustainability is defined as corporate governance, which focuses on initiatives integrating sustainability practices into its operations across the supply chain.

Sustainability management at Amazon does not only address sustainability within the organization, but instead, it goes beyond to consider the impact across its entire supply chain affecting various stakeholder groups. In their published sustainability report, Amazon framed its overall mission as "driving toward a net-zero carbon future where the people that support our *entire value chain* are treated with dignity and respect" (*Amazon Sustainability 2020 Report*, n.d.). This statement captures the holistic strategy of Amazon being inclusive to multi-stakeholder groups, as well as driving environmental and social aspects of sustainability as its core mission. Diving deeper into its People section, Amazon highlights employees, customers, and the community as targeted stakeholder groups, where it plans to "leverage scale and assets" to strengthen the communities around them through initiatives such as housing equity, providing food and basic needs, enhancing opportunities for computer science education, enabling upward mobility, and on-demand disaster or pandemic-related relief (*Community*, n.d.).

In expanding their sustainability strategy to include supplier engagement, Amazon created a Responsible Sourcing Program to work more closely with its suppliers. Amazon aims to use this program to communicate standards that they've set while also helping suppliers build their capacity to provide safe and respectful environments for workers. Amazon's supply chain standards are based on the UN's Guiding Principles on Business and Human Rights, the UN Universal Declaration of Human Rights, and the ILO Declaration on Fundamental Principles and Rights at Work (*Amazon Sustainability 2020 Report*, n.d.). Employees also play a big role as another key stakeholder in their focus on People. Amazon hopes to build a strong culture and is actively investing to attract a diverse and innovative workforce. For example, Amazon advocated for an increase in the federal minimum wage to \$15 per hour for all employees and spent \$700

million in skills training programs with a goal to provide training programs for 100,000 Amazonians by 2025 Work (Amazon Sustainability 2020 Report, n.d.).

Overall, Amazon seems to have quite a well-rounded definition of sustainability. It has defined goals, targets, and initiatives cutting across its value chain to impact various stakeholder groups. Among the sea of initiatives that they have established, Amazon has also defined its utmost priority in a few sustainability topics including climate change, responsible employment, waste, and pandemic support (see image below). For a company of their scale, it is crucial to have broad-based initiatives across the organization, but more importantly, prioritization and targeted focus on issues that are most material in the context of the business, industry, and global market is necessary. It is interesting though that while the company has wide-ranging policies to tackle various sustainability issues, the company has yet to publish a materiality assessment to elucidate their rationale for prioritizing certain issues over another, a common practice that is seen by many companies that follow sustainability reporting frameworks.

Some of our current highest priority sustainability issues are:



Amazon top sustainability priorities; <https://sustainability.aboutamazon.com>

## Strategy and metrics

As part of Amazon's mission to be Earth's most customer-centric company, Amazon has made a commitment to build a sustainable business for its employees, customers, and communities. Amazon is striving toward a net-zero carbon future where the people that support their entire value chain are treated with dignity and respect. In 2019, Amazon co-founded The Climate Pledge—a commitment to achieve net-zero carbon emissions across its business by 2040, 10 years ahead of the Paris Agreement (*Amazon Sustainability 2020 Report*, n.d.). The pledge was co-founded alongside influential figure Christina Figueres, architect of the Paris Agreement. As part of their journey to the Pledge, Amazon made significant commitments to reach its goal, such as the promise to transition towards 100% renewable energy by 2025, making 50% of all shipments net-zero carbon by 2030, deploying 100,000 custom electric vehicles by 2030, investing \$2 billion to support the development of decarbonizing technologies, and investing \$100 million in reforestation and climate mitigation solutions. These are the key metrics Amazon is using to track its progress towards net zero by 2040. Additionally, Amazon launched The Climate Pledge Friendly in 2020 to help customers find eco-friendly products on Amazon.com. It was established in partnership with trusted third-party certification organizations such as Cradle-to-Cradle, Fairtrade, and Energy Star (*Amazon Sustainability 2020 Report*, n.d., p. 52). Although the goal to help consumers shop more sustainability is clear, the metrics for

measuring the success of this initiative is yet to be identified. Nonetheless, The Climate Pledge is a big statement and commitment for a company like Amazon, and its impact can certainly be wide-scale and far-reaching.

One interesting area to highlight is that while Amazon has robust goals, metrics, and targets for their environmental pillar, there are few tangible metrics for measuring the progress of its People and Governance pillars. In fact, Amazon has been under scrutiny for not managing poor worker environments well, causing high incidents of worker injuries at their warehouses, resulting in poor ESG ratings on the company's ranking (*Amazon.Com, Inc. (AMZN) Environment, Social and Governance (ESG) Ratings - Yahoo Finance*, n.d.). According to a recent news article, Amazon was blacklisted on the National Council on Occupational Safety and Health's "Dirty Dozen" list for this issue (Wasserman, 2021). Thankfully, Amazon responded quickly and have since taken swift action to address this issue by rolling out new safety and wellness programs. There is still much to be said regarding the effectiveness of these programs, but perhaps the key to the success of managing its People strategy is to set clear metrics for measuring health, safety, and inclusiveness in the first place.

Over the last five years or so, Amazon has shifted its priorities from being narrowly focused on operational efficiency, growth, and profits to now include sustainability in its business strategy. The company has actively shown that they have taken initiatives to incorporate sustainability within the organization and are working towards providing long-term value in the form of financial, environmental, social, and ethical terms. There are a few scenarios to prove that Amazon have changed its "business-as-usual" scenario to incorporate sustainability in its company operations. One example is the launch of its Climate Pledge Friendly program, which uses sustainability certifications to highlight products that are environmentally friendly to effectively boost eco-conscious shopping for consumers on their platform. Not only did they choose to engage external third-party certifications to partner up on this program, but they have also gone above and beyond to develop their own certification process— Compact by Design. This action demonstrates how important sustainability is to Amazon, so much so that they decided to invest in the development of their own capability within sustainability.

Over the years, sustainability has become increasingly important and central to Amazon's business. In the most recent 2020 annual report, Jeff Bezos, Founder and ex-CEO of the company, dedicated much of his shareholder letter to the topic of sustainability. Bezos highlighted the importance of building a values-based company, one that creates more value than it consumes, and calls attention to the company's sustainability agendas regarding the Climate Pledge and becoming Earth's best employer and safest place to work. Reading Jeff Bezos' annual letter to shareholders from 2015-2020, it is apparent how sustainability became an increasingly material topic for the company in the last few years. With almost no mentions of sustainability and the impact of climate change from 2015-2017, and a small paragraph in 2018, to finally three quarters of Bezos' letter in 2020, Amazon's commitment to sustainability from the highest level of leadership directly underscores leadership as a key factor in sustainability strategy integration at an organization. The speed to which Amazon has implemented sustainability initiatives and became the largest corporate purchaser of renewable energy, certainly could not have happened if there was no push from the management team. It truly is

great to see how Amazon has grown in its sustainability commitments over the years, and the remarkable progress shows just how central sustainability is in the company's future.

However, there is still room for further integration of sustainability at Amazon, such as in the form of compensation and reward structure. In Jeff Bezos' 2020 shareholder letter, he writes about the measure of Amazon's 'value' in terms of economic value to different stakeholder groups. For example, he estimates the delivery of value to employees in the form of compensation expense. In 2020, employees earned \$80 billion, plus another \$11 billion to include benefits and various payroll taxes, for a total of \$91 billion (*Amazon.Com, Inc. - Annual Reports, Proxies and Shareholder Letters*, n.d.). To fully integrate sustainability, Amazon could think about embedding the social value it creates for its employees or tag an environmental dollar value it creates as part of measuring its total value created for stakeholders. Additionally, Amazon could tie executive pay to ESG performance as a public statement to demonstrate their commitment towards sustainability and further incentivize climate action.

### **Relations with suppliers and partners**

As part of Amazon's commitment to conduct business in a lawful and ethical manner, Amazon requires that its suppliers equally respect human rights and can provide safe, inclusive work environments. The e-commerce giant believes in supply chain transparency and setting a high bar for itself and its suppliers. As a result, Amazon developed a Responsible Sourcing Program to ensure that all their policies and programs incorporate internationally recognized human rights standards. Specifically, it follows the UN Guiding Principles on Business and Human Rights, the UN Universal Declaration of Human Rights, the Core Conventions of the ILO, and the ILO Declaration on Fundamental Principles and Rights at Work (*Amazon Sustainability 2020 Report*, n.d., p. 84). Amazon conducts a review of their supply chain standards at least once every three years against industry best practices and consults external experts such as Business for Social Responsibility and Verité (fair labor non-profit) to ensure that the highest standards are in place.

To ensure compliance of Amazon's supplier code of conduct, Amazon performs routine evaluations and supplier due diligences. Suppliers are assessed across four key pillars: 1) Labor, 2) Health and Safety, 3) Environment, and 4) Ethics (*Amazon Sustainability 2020 Report*, n.d., p. 86). These categories further break down into sub-topics such as non-discrimination, emergency preparedness, and transparency. Each subcategory is assessed and flagged as either High, Medium, or Low depending on the level of severity. Independent auditors are also used to verify supplier compliance with Amazon's Supply Chain Standards through regular on-site inspections and confidential worker interviews. They would also evaluate credible allegations or reports of selling partner violations of its Supply Chain Standards, including but not limited to those published by governments, reputable investigators, journalists, or human rights defenders (*Amazon Sustainability 2020 Report*, n.d., p. 84). If Amazon identifies any misalignment of its Supply Chain Standards, the company will request the selling partner to demonstrate how its products were manufactured in accordance with Amazon's Supply Chain Standards. This can occur in the form of auditing protocols, showing processes for assessing factory working conditions, engaging in unannounced audits, participating in an approved industry association

that includes factory monitoring, or verifying where products are made (*Amazon Sustainability 2020 Report*, n.d., p. 84).

To summarize, Amazon suppliers do share sustainability goals but only to a limited extent. All Amazon selling partners are held accountable to the Supply Chain Standards, but it only covers areas of inclusivity, continuous improvement, and supply chain accountability. Amazon also expects its selling partners to do their own due diligence to ensure every product is produced in safe, healthy, and inclusive work environments. Nevertheless, large-scale selling partner companies such as Colgate-Palmolive, PepsiCo, and Unilever are already ahead in establishing their own sustainability goals. Therefore, it is more accurate to say that while Amazon's third-party sellers must meet the basic sustainability standards and goals set for worker health and safety, there is a varying degree of sustainability ambition and goals set across all suppliers. With Amazon-branded product suppliers, Amazon has a greater say and control over what sustainability goals suppliers must/should share. Moving forward, Amazon should think about establishing specific goals such as sourcing from at least 30% of selling partners that have science-based targets. This can help the company drive towards net zero sooner, as well as influence companies across its global supply chain to follow suit.

### **The future of sustainability in the organization**

The future of sustainability at Amazon seems rather optimistic, and it is apparent that Amazon's leadership team is confidently optimistic about it too. The company has shown tremendous progress with their sustainability initiatives in recent years and there are few signs to show the slowing of this momentum. In 2020, Amazon reached 65% renewable energy across its business and became the world's largest corporate purchaser of renewable energy (*Amazon Sustainability 2020 Report*, n.d.). It is very much on track to achieve 100% renewable energy by 2025, which is one of the key metrics for measuring their progress for achieving net zero by 2040. In their efforts to electrify their delivery fleet, they have purchased 100,000 electric vehicles from Rivian and have already delivered 20 million packages to customers in EVs across North America and Europe today. Amazon also boasts about their efforts in successfully advocating for the increase of federal minimum wage to \$15 per hour and their launch of a \$2 billion Housing Equity Fund to preserve and create affordable homes in the US (*Amazon Sustainability 2020 Report*, n.d., p. 9). The company even created its own Clean Energy Accelerator to help fund startups working on innovative climate tech solutions. The list of initiatives and progress this company has achieved is quite remarkable. With this growth trajectory, the future of sustainability at Amazon and the impact it will have globally on its supply chain and stakeholder groups, will truly be far-reaching.

Having said that, Amazon still has much room to improve in terms of their sustainability performance. Amazon has been under heavy scrutiny for various issues such as the alleged treatment of its workers, tax avoidance, and political lobbying, all of which are critical issues that need to be addressed to improve future sustainability performance (Beslik, 2020). There are strong indicators of Amazon's willingness to improve and address these issues though, such as in the case of worker health and safety, where Amazon responded with a pledge towards becoming "Earth's safest place to work", raising federal minimum wage, to now rolling out employee wellness programs across regions. Amazon also invested \$125 million in safety capital projects

because of this issue and is planning to spend an additional \$300 million in new and continuing safety projects this year. Their employee wellness programs—AmaZen and Working Well, received positive feedback and is expanding to more sites this year. More crucially, they have set a tangible target to cut recordable incident rates by 50% by 2025 (*Safety, Health, and Well-Being*, n.d.). Overall, it seems like Amazon is managing their sustainability strategy rather well, but it begs the question of whether they have the right incentives to begin with.

From the external sustainability lens, Amazon has never been perceived to have a reputation for being genuinely sustainable. For incidence, Amazon kept its carbon footprint figures hidden from the public for the longest time. Only in 2019, the company released some data on its climate emissions, and the figures were staggering. The company emitted 44 million metric tons of CO<sub>2</sub> equivalent in 2018 (Beslik, 2020). Perhaps it is public scrutiny that prompts Amazon to act on sustainability issues, or more depressingly, Amazon could just be posing as a responsible institution “aspiring to the common good”, when really, its main intention is to achieve profitability (Beslik, 2020). Regardless of its intentions, there are a few lessons Amazon can learn from its past sustainability experiences.

The first is to promote transparency from the start. This points back to the hidden emissions episode. Yes, the emissions were astounding, but Amazon also needs to recognize the immense power and influence they have as a large organization to change that. They have all the means to invest in the right resources to abate those emissions and successfully scale their impact. A benefit of being a company with one of the largest market capitalizations in the world is that everything it does will never go unnoticed. The accountability and standards to which Amazon is expected to uphold should be world-class, implying that if anything less is frankly unacceptable. The second lesson is to always set rigorous standards and commit to strict governance and monitoring practices, ideally benchmarked against international standards and best practices. This lesson is evident from their pickle on poor labor rights and worker environment, where the cost of being sloppy with sustainability standards is tremendous. Low ESG ratings, poor media reputation, and falling stock prices happened because of poor sustainability governance. It is important for Amazon to develop sustainability metrics for its People and Governance pillar to better manage policies and standards affecting the health, safety, and livelihood of key stakeholders.

In addition to the sustainability lessons mentioned above, there are a few lessons that other companies can learn from Amazon’s sustainability strategy integration. First, is the power and influence of having strong leadership to drive sustainability using a top-down approach. Jeff Bezos, double hatting as Chairman and CEO, was exceptionally proactive in steering the company towards sustainable business transformation. This helped frame the organization’s overall vision and purpose from a high-level perspective. Companies often need leaders who can balance both the pressure of short-term goals in the context of achieving long-term ambition, which leads seamlessly to incorporating the second lesson on developing ambitious goals and targets. Many companies today are executing sustainability initiatives and often publish it in their sustainability reports but look closely and you might notice that most of these companies do not have a consolidated sustainability statement that encompasses a long-term plan and objective. A successful sustainable business starts with long-term purpose and mission. The problem that we see now is that companies are only making incremental changes, such as in the form of

purchasing carbon offsets, donating 1% to the planet, or using 10% recycled packaging. What we really need is for businesses to take on transformational change. Defining a business strategy that aims to deliver long term value in the form of economic, financial, social, environmental, and ethical values, is the ultimate first step towards achieving sustainable business transformation.

Additionally, it is crucial to establish a set of metrics and key performance indicators (KPIs) to measure the progress of implementation. Essentially, sustainability management can't truly exist without sustainability metrics. Amazon's metrics for achieving its Climate Pledge goals are clearly defined and as a result, it is easy for an investor, customer, or employee to decipher what progress the company has made and how close they are to achieving its goals. The final aspect of a successful sustainability integration is collaboration. Amazon, as big as it is, probably can do and achieve a lot on its own. For example, Amazon's goal to electrify its delivery fleet would probably still be possible without their investment in EV startup Rivian but building that partnership has enabled Amazon to accelerate its delivery and progress for achieving net zero sooner. Collaboration can be employed in various forms, such as investments or joint ventures, but in any case, the future of any one company relies heavily on how well it builds a network of peers, competitors, governments, and NGOs to help it succeed. Companies need to participate in building an ecosystem and be as inclusive as possible, to effectively drive our transition towards a sustainable economy.

Seeing as Amazon is currently betting on the rise of artificial intelligence and has entered the pharmaceutical and health insurance market recently, it will be likely that Amazon will have to step up in its sustainability focus on social and governance issues. The accompanying risks of social and governance issues that come with artificial intelligence will be astronomical if it is not well managed. There is still much research to be done to understand the economic, social, and political impact of advanced technologies, hence Amazon should invest early and be upfront about managing unknown risks associated with AI. Having said that, a gorilla company like Amazon can certainly pull a lot of weight in driving the future of commerce, technology, innovation, and even sustainability. The progress from its current initiatives indicate that the organization has a solid foundation to work with, implying towards a promising future for the company and the planet. I hope to see Amazon continue striving for growth in their sustainability agendas and help accelerate our global momentum towards achieving a just transition.

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