

## **Amazon.com, Inc. - Case Study**

### **i. Executive Summary**

Given the constraints in obtaining information from employees, I will focus my research on those topics that can be answered with public sources. I will start by giving some general background on the organization followed by an analysis of the organization's definition of sustainability. As part of that definition, I will explain Amazon's stakeholder engagement. In the following section, I will describe Amazon leadership's ambiguous commitment to sustainability along with the sustainability team's structure and capacity. The following main section of the case study is dedicated to evaluating Amazon's progress towards achieving environmental sustainability. Following the concluding thoughts on Amazon's achievements to date, I will propose future improvements that the company should undertake to further improve its sustainability management approach. Some of these improvements are specifically targeted at Amazon while others can be replicated amongst other companies, large and small. Most of the analysis and suggestions will be focused on environmental sustainability, even though Amazon also addresses governance and social issues, which are particularly relevant for a company with more than 1.4 million employees.

### **ii. Background**

Amazon.com, Inc. (Amazon) is an American public company (AMZN) that generates most of its revenue from an e-commerce platform. The company also offers additional online services such as cloud storage and a video streaming platform. Additionally, Amazon has recently started opening physical stores to sell goods and entered the grocery business through the acquisition of Whole Foods in the United States. In 2020, the company generated over \$386 billion in revenue, of which \$21 billion resulted in net income (Amazon.com, Inc, 2020b). As of September 2021, the company employed nearly 1.5 million people, of which more than 55% are based in the United States. The company holds customer service offices and development hubs in more than 30 cities outside the United States. As of the time of writing, Amazon has domains in 21 different countries and can deliver goods anywhere in the world.

Amazon is a customer-centric company, as explained through the company's mission: "Our mission is to continually raise the bar of the customer experience by using the internet and technology to help consumers find, discover and buy anything, and empower businesses and content creators to maximize their success" (Amazon.com, Inc, 2018b). This statement encompasses all the different market niches that Amazon has expanded to over the years: video streaming, grocery stores, cloud services, AI assistant provider and the online marketplace.

Amazon has released a sustainability report for the past three years and is attempting to become a role model in their way of doing business sustainably. The company engages a variety of stakeholders in its sustainability plans, both internal and external. There is room for growth, however, since the drive for sustainability is not embraced company-wide but falls under a small team outside the top executives. As a public company, Amazon makes financial data and part of its strategic plans available to the public. It also has a sustainability website ([sustainability.aboutamazon.com](https://sustainability.aboutamazon.com)) where they publish all their ESG related documentation and

updates. As of 2016, the sustainability team was composed of just over 50 people. I have tried contacting company employees and specifically team members from the sustainability department, but have had no success. Therefore, my research is focused exclusively on publicly available information on Amazon's sustainability and annual reports, Amazon's corporate website and other articles from trusted sources.

I chose to review Amazon because the company has an increasing presence in our day-to-day lives, is present worldwide and has a reputation for disregarding sustainability issues and worker rights (Kantor & Streitfeld, 2021). Through this case study, I learned more about the reality behind Amazon and how the company is now attempting to become a role model in sustainability. I am a strong believer in the power of corporations to address the climate crisis and I am privileged to be able to analyze how one of the world's largest employers does so.

### **iii. Discussion**

The Climate Pledge is Amazon's new initiative to engage companies worldwide in achieving net-zero emissions by 2040. It is interesting to see Amazon's attempt to shift its reputation for near-slavery working conditions to a leader in addressing the climate crisis. So far, Amazon has been successful in this endeavor. Since its launch in 2019, 209 companies have already signed the Climate Pledge spanning various industries in more than 25 countries (The Climate Pledge, 2021). The Climate Pledge also includes a requirement to measure and report greenhouse gas emissions regularly, which I believe is crucial to keep companies accountable for their success towards net-zero. The 2040 net-zero objective is Amazon's main goal related to environmental sustainability.

Amazon has taken a strong stance in its intent to reduce harm to the environment, but its sustainability efforts do not end there. Amazon's definition of sustainability also includes social, DEI and safety factors. The company's sustainability reports highlight the company's commitment to equal pay regardless of gender and ethnicity. Further, the report dedicates a whole section to employee safety and wellbeing, a sustainability area they have been publicly exposed for in the past. Within the sustainability initiatives that Amazon is building, there is one in particular that demonstrates the company fully embracing social and environmental sustainability. The company has started financing its employees' education to become accredited as photovoltaic installation professionals.

Amazon has recently been named as one of the Top 10 employees according to LinkedIn the U.S., UK, Australia, India, Canada, Germany, Mexico, Japan, and China. The company is making an effort to highlight its good practices with regards to employee fair pay and engagement. I consider this emphasis slightly unusual in the standard definition of sustainability. These should be given attributes in corporations, but given that Amazon has suffered a bad reputation in this particular aspect, it is understandable that they focus their attention to this matter.

The multinational might not have been an early adopter of sustainability reporting, but they have certainly proven that they take the matter seriously. While some companies focus their sustainability reports on Scope 1 and Scope 2 emissions as an internal culture-building project, Amazon takes a more holistic approach. In addition to the above, Amazon considers its Scope 3 emissions and its relationship with suppliers, investors, contractors, society and trade associations. For example, in addition to co-founding The Climate Pledge to influence all

sectors, Amazon is working with its direct suppliers to educate and help them report on sustainability issues. Additionally, Amazon is focusing its customer-facing environmental efforts on reducing plastic use and increasing circularity (*Circular Economy*, n.d.). Specifically, the company keeps monitoring and improving on different metrics related to customer return and green transport.

On the one hand, it is reassuring to see Amazon address sustainability with a variety of stakeholders, including employees, customers, suppliers and the communities where they operate. On the other hand, however, most of the strategic business decisions are aimed at maximizing shareholder value (Amazon.com, Inc, 2020b). This in itself is not an issue, it is the capitalist system that Amazon operates in, the issue emerges with how executive compensation is almost exclusively tied to this goal. Short- and long-term executive and board compensation is mainly tied to increases in the share price rather than improvements towards the net-zero target. This will disincentivize those sustainability projects which require significant upfront capital but can end up improving business performance in the medium and long term.

Even though there are some misalignments between Amazon's sustainability strategy and the compensation structure, there are some important leadership figures that support making sustainability a core component of Amazon's operations. Jeff Bezos stepped down as CEO in July of this year, but during his tenure, he has supported a myriad of environmental and social initiatives. Amazon's sustainability efforts are a reflection of his dedication to transforming Amazon into a sustainable role-model business. Similarly, while I cannot yet assess the new CEO's global impact on Amazon's sustainability plans, I can evaluate his previous actions as CEO of Amazon Web Services - AWS. Andy Jassy was a key player in switching the data centers' power source from fossil fuels to renewable energy during his tenure as CEO of AWS, a position he held since the creation of the business line in 2003 (Bookman, 2021). I expect the new CEO to continue to advance sustainability within Amazon and even accelerate some of the commitments established by his predecessor. While neither Mr. Bezos nor Mr. Jassy often make public remarks about their support of sustainability at Amazon, they have shown it with their actions.

In addition to the CEO's stance, it is important to assess where sustainability lies within the leadership structure to fully understand its relevance within the organization. Amazon is not prone to disclosing its teams' structure, thus it is difficult to find accurate information without internal input. It seems that the sustainability team is composed of more than 50 people distributed into the following 6 teams: social responsibility, energy and environment, customer packaging experience, sustainability services, sustainability technology and sustainability science. Unfortunately, Kara Hurst, the Head of Worldwide Sustainability and the person who oversees all 6 teams, is not part of the senior executive team. She is a direct report to the COO. In fact, no senior executive, other than Beth Galetti (SVP of Human Resources), has been involved in sustainability-related matters in recent years. Specifically, she is a strong advocate for DEI reform within the company. But she is an exception. Even though Mr. Bezos has made some public remarks on the importance of his company embracing sustainability, there are no other clear supporters in the senior executive beyond Beth Galetti and Andy Jassy (Palmer, 2019).

While it does not seem that leadership sees sustainability as a critical issue to address within the company, the sustainability department has planned some ambitious goals to transform the corporation's way of doing business. The team's environmental goals focus

primarily on 3 main topics: net-zero carbon shipments, powering operations with 100% renewable energy and using nature-based solutions for the remaining offsets. The sustainability team's main responsibilities are to drive the accomplishment of these goals. The scientists in the team focus on measuring natural resource consumption and work alongside the engineers to find innovations to incorporate within Amazon's operations. The communications group are also key members of the sustainability team. Their role is to collect all the sustainability data from the different teams worldwide and build reports and company newsletters to highlight the company's latest sustainability achievements. These reports are primarily targeted to customers and investors. The communications team is responsible for highlighting Amazon's new sustainability-minded brand image, including visuals for clarity to consumers and a positive financial impact that is relevant to investors. In addition to these team members, the company also has a \$2 billion early-stage investment fund - Climate Pledge Fund - dedicated to supporting nascent technologies to fight climate change and to improve Amazon's profitability. It is not clear, however, if this team lies under Kara Hurst's responsibilities or if it is part of another department.

Amazon has taken steps to improve its sustainability performance and has done so in a cautionary way. They were late to start reporting on sustainability – the first sustainability report dates back to 2018 – but once they started, they have made sure to disclose on all the relevant materiality topics for the company when assessed against the SASB standards (SASB, 2021). The company does want to ensure, however, that they are at the top of the ratings if they participate in one. For example, Amazon has declined to participate in the Carbon Disclosure Project – CDP - rating until this year. The CDP requires a large amount of quantitative data on issues such as water consumption, greenhouse gas emissions and estimated financial damage due to climate change. Amazon has likely been unable to measure most of these metrics until this year, which indicates both their strive for excellence in reporting and the developing nature of their sustainability strategy.

Even though the sustainability team is dedicated to achieving a combination of sustainability and profitability improvements for the company, Amazon does not seem to fully embrace the sustainability team's efforts. In addition to the lack of a sustainability representative in the executive team mentioned earlier, there is barely any acknowledgment in Amazon's Annual Report on the role that sustainability plays in the company's business strategy (Amazon.com, Inc, 2020b). The document mentions the Climate Pledge as a new initiative, but there is no connection between sustainability and profitability throughout the report. The company continues to treat both issues as antagonistic. It is increasingly common now in large multinationals to acknowledge the climate crisis as a potential risk to the business. For example, Amazon could have referred to the increased energy required to cool their data centers as Earth's temperature increases. Additionally, the company's reliance on airplanes could be a risk factor in the medium- and long-term if the aviation industry is not able to effectively power planes with biofuels, hydrogen or electricity. This would have a direct impact on Amazon's costs.

The sustainability team faces barriers to incorporating sustainability within the overall business strategy. In the meantime, the team, established in 2014, has been working on transforming the company according to resource use and emission targets. The long-term environmental sustainability target is net-zero by 2040, in line with the Climate Pledge, but there are additional shorter-term targets. These can be summarized under the following two goals: 100% renewable-powered by 2025 and 50% of shipments carbon-zero by 2030. Regardless of

these ambitious goals, Amazon's business strategy remains different from these targets. "Amazon seeks to be Earth's most customer-centric company, Earth's best employer, and Earth's safest place to work" (Amazon.com, Inc, n.d.-b). Some of these goals relate to social sustainability, but environmental sustainability is not yet one of the organization's main business goals.

This disparity between the business strategy and the sustainability strategy might help explain why some of the compensation schemes are not tied to achieving environmental sustainability goals. As mentioned earlier, management compensation is not tied to sustainability goals. This lack of recognition of the environmental sustainability targets trickles down to employees as well. In 2017, the company established the role of Sustainability Ambassadors for those employees that build local and regional programs to improve the internal sustainability of the company (Amazon.com, Inc, 2018a). To date, there are more than 7500 ambassadors worldwide (Amazon.com, Inc, 2020c). This title, however, does not imply a higher performance review or a salary increase. Sustainability Ambassadors are recognized in internal newsletters but do not receive additional monetary benefits from their initiatives.

Despite Amazon's compensation structure being misaligned with the company's sustainability targets, the company has made important progress to achieve its environmental goals. To reach these goals (100% renewable-powered by 2025 and 50% carbon-zero shipments by 2030) the company is working on a variety of different areas. These are carbon intensity, water use, cloud efficiency, transport, building management and renewable energy use, packaging reduction, circular economy, shipment-zero and nature-based solutions. Carbon intensity, for example, is measured in grams of carbon dioxide equivalent (CO<sub>2e</sub>) per dollar of gross merchandise sales (GMS). This year, given primarily the increase in the number of Amazon orders, the company's carbon emissions have increased from 51.16 to 60.64 mmt CO<sub>2e</sub> (18% higher than 2019), but carbon intensity is over 15% lower (Amazon.com, Inc, 2020c). This objective ties most closely to Amazon's business strategy since they can increase sales while decreasing their damage to the planet per unit sold.

Carbon intensity is one of the company's main measurable targets, but Amazon has also made progress in other areas. Amazon's goal to become 100% renewable-powered by 2025 was initially set for 2030. The company reported that in 2020 they were the largest corporate purchaser of renewable energy and obtained over 65% of its energy from renewable sources, up from 42% in 2019 (Amazon.com, Inc, 2020c). Amazon has also made strong progress in its intention to deliver carbon-zero shipments. The company has recently introduced an option whereby customers can choose to receive their packages in the original packaging sent to Amazon from third-party suppliers rather than using an additional Amazon-branded box. More importantly, the company has committed to purchasing more than 100,000 electric vehicles from Rivian, an emerging electric vehicle company. In 2020, Amazon delivered more than 20 million packages to customers in electric delivery vehicles (around 0.5% of Amazon's total annual deliveries). There is still a lot of progress to be done to reach the carbon-zero delivery goal, but Amazon is committed to achieving it.

The organization is working hard to achieve its sustainability targets and also to integrate sustainability within the day-to-day operations of the corporation. While sustainability is not yet a core focus area for Amazon, there have been some environmental sustainability driven improvements in the company's overall strategic choices. For example, Amazon has recently joined the Science-Based Target organization to professionalize its environmental sustainability

reporting. Further, Amazon will publish all its science-based targets in 2022. In addition to this, Amazon started including a third-party verification of its emissions in 2019. The environmental audit report is done by APEX and is additional proof of the company's strong commitment to abide by best practices when it comes to sustainability reporting.

Amazon is improving how it reports on environmental sustainability, the main focus of this case study. Yet measuring success in sustainability at Amazon has to include a reference to the company's social benefits as they work to become Earth's best employer. One of their biggest achievements in 2020 was to position themselves in support of a federal minimum wage of \$15 per hour. In line with this statement, they reported an average starting salary of \$17 per hour in the company's fulfillment and logistic centers. Amazon also has ambitious goals to increase female and BIPOC representation in their leadership positions. In 2020, the company successfully met its goal of doubling the representation of Black directors and vice presidents in the United States - from 4% to 9.5% (Amazon.com, Inc, n.d.-a). Lastly, in 2020 specifically, the company invested heavily in protecting its employees against the Covid-19 pandemic. In total, Amazon invested over \$11.5 billion in different programs to keep employees safe. Over 20% of that investment went directly to customer-facing front-line employees in the form of incentives and bonuses (Amazon.com, Inc, 2020c).

In addition to these social initiatives, Amazon has also implemented other environmental sustainability initiatives that further demonstrate its pursuit of greener operations. On top of the financial support that the Climate Pledge Fund offers for emerging technologies and services to fight the climate crisis, the AWS Clean Energy Accelerator also helps startups in the clean energy space accelerate their growth. Along with their support for early-stage companies, Amazon is also enrolled in programs to protect the natural environment. For example, the company is a founding participant of the LEAF Coalition, a global public-private initiative aiming to raise \$1 billion to protect tropical rainforests. This initiative will be particularly useful for Amazon as it expects to account for investments in natural resources as an offset in its net-zero emission goal.

#### **iv. Conclusion**

Evaluating Amazon's approach to sustainability has been an eye-opening experience. I was expecting to find a lax approach to sustainability with small amounts of data available but was surprised to see the transparency with which Amazon reports on its efforts and the challenging sustainability strategy ahead. My perception as a customer has changed for the better. Primarily because of the company's net-zero commitment by 2040, but also due to the ambitious and detailed shorter-term objectives that the company has set to reduce its damage to the environment. This case study has also challenged my perception of Amazon as an unethical business given their past treatment of employees. While cases of improper employment conditions might continue to emerge in the future, I am confident that Amazon is strongly committed to avoiding these in order to become Earth's best employer.

Amazon's environmental sustainability efforts as well as their determination to improve employment conditions and society as a whole are evident. There remains, however, a disparity between the company's sustainability strategy and its overall business strategy. I believe that this disparity emerges, in part, due to the lack of novel governance practices, which affects both the board and the executive team. Kara Hurst, the VP of Worldwide Sustainability has a difficult

challenge ahead, especially since she is not yet part of the executive team. While I do not have first-hand input on how she is perceived internally, her previous experience before joining Amazon speaks for itself. She was Vice President at Business for Social Responsibility for three years and later the CEO of the Sustainability Consortium for two years. In both roles, she worked closely with the world's largest multinationals to improve their social and environmental sustainability. These professional endeavors provided her with a set of skills that she needs to apply now at Amazon. Specifically, the ability to engage in dialogue when sustainability is not seen as a priority as well as the need to reach consensus in discussions involving multiple conflicting interests and stakeholders.

Even though information on the other members of Kara's team is not publicly available, I do not doubt that she is surrounded by leading scientists, engineers, communication experts and advisors. Her team spearheaded the creation of The Climate Pledge and is responsible for engaging as many companies as possible worldwide. This dedication to bringing along other large companies to reach net-zero emissions by 2040 shows Amazon's interest in becoming a role model in operating sustainably. Not only is the company transforming its operations, but it is engaging other companies to do so. Amazon's net-zero objective is ambitious given the company's complex supply chain, the number of annual deliveries, its diverse business lines and its international presence. If Amazon can do it, any other company can too.

## **V. Recommendations**

Amazon has set ambitious environmental sustainability targets that will affect all areas of the company and transform the day-to-day operations. The impact of sustainability on the traditional way of doing business of corporations is evident. A net-zero business, as all should be by 2040 or 2050 at the latest, has to incorporate environmental sustainability as a core component of the business strategy. In other words, environmental protection and business growth have to go hand in hand, not pull against each other. To achieve this, corporations, including Amazon, have to incorporate at least one person from the sustainability department into the executive decision-making team. In the same way that the Head of Human Resources, the Head of Finance and the Head of Technology are currently part of these executive teams, so should the person who leads the transformation to net-zero growth.

On top of this modification of the executive team, there should also be a restructuring of the leadership team's compensation. Board and executive compensation should be tied both to short-term financial metrics and to long-term sustainability goals. If there is no financial incentive to incorporate sustainability, there will be a reason for it not to be the priority in decision-making. Shell is a good example of this. The company has recently adjusted executive compensation to tie 20% of the compensation to demonstrated efforts throughout the year to achieve the company's long-term sustainability targets (Royal Dutch Shell plc, 2020). The percentage was just increased in 2021 from an earlier 10%. This approach affects primarily executive compensation and can trickle down towards all other employees. To be certain, however, I suggest adjusting a percentage of employees' annual bonuses to demonstrated efforts towards the company's sustainability goals. In the case of Amazon, this would promote the role of Sustainability Ambassador and incentivize other employees to create their own sustainability initiatives.

A final recommendation that I have for Amazon and other large public companies is to start integrating sustainability into their annual reports. Most corporations already release sustainability reports along with their 10-K forms and their annual reports. One way to showcase the company's dedication to sustainability and the integration of this value within the corporation's business strategy is to disclose financial metrics and sustainability metrics alongside each other. The IFRS Foundation is in the process of creating a combined set of standards to report on financial metrics as well as sustainability, bridging the path towards fully integrated reporting (Value Reporting Foundation, 2021). If Amazon follows this new standard, both investors and customers will be more convinced of the company's commitment to sustainability, which will further boost sales, share value and profitability.

None of these recommended changes have been publicly announced by Amazon yet. While implementing Integrated Reporting standards might not arrive in the short term, I expect to see modifications to the compensation structure within the next two to three years, in line with other multinationals. I do foresee that an announcement is imminent on how sustainability is integrated into the business strategy and how Kara Hurst becomes part of the executive team. Overall, I am excited and confident that Amazon will lead corporations to become net-zero.

## References

- Amazon.com, Inc. (n.d.-a). *Diversity and inclusion at Amazon*. Retrieved December 5, 2021, from <https://www.aboutamazon.com/workplace/diversity-inclusion>
- Amazon.com, Inc. (n.d.-b). *Who we are*. Retrieved December 5, 2021, from <https://www.aboutamazon.com/about-us>
- Amazon.com, Inc. (2018a). *Sustainability Report*.
- Amazon.com, Inc. (2018b, April 18). *Our mission*. UK About Amazon. Retrieved December 3, 2021, from <https://www.aboutamazon.co.uk/uk-investment/our-mission>
- Amazon.com, Inc. (2019). *Sustainability Report*.
- Amazon.com, Inc. (2020a). *Amazon.com, Inc. - SEC filings - SEC Filings Details*. <https://ir.aboutamazon.com/sec-filings/sec-filings-details/default.aspx?FilingId=13875159>
- Amazon.com, Inc. (2020b). *Annual report*.
- Amazon.com, Inc. (2020c). *Sustainability Report*.
- Amazon.com, Inc. - Officers and directors*. (n.d.). Amazon.Com, Inc. Retrieved December 4, 2021, from <https://ir.aboutamazon.com/officers-and-directors/default.aspx>
- Bookman, R. (2021, February 4). *What CEO Andy Jassy Means for Amazon Sustainability's Future*. ElkShelf. Retrieved December 4, 2021, from <https://www.elkshelf.com/post/what-ceo-andy-jassy-means-for-amazon-sustainability>
- Circular Economy*. (n.d.). Amazon.Com, Inc. Retrieved December 4, 2021, from <https://sustainability.aboutamazon.com/environment/circular-economy>
- Kantor, J., & Streitfeld, D. (2021, September 23). *Inside Amazon: Wrestling Big Ideas in a Bruising Workplace*. The New York Times. Retrieved December 3, 2021, from <https://www.nytimes.com/2015/08/16/technology/inside-amazon-wrestling-big-ideas-in-a-bruising-workplace.html>
- Palmer, A. (2019, September 21). *Jeff Bezos unveils sweeping plan to tackle climate change*. CNBC. Retrieved October 15, 2021, from <https://www.cnbc.com/2019/09/19/jeff-bezos-speaks-about-amazon-sustainability-in-washington-dc.html>
- Royal Dutch Shell plc. (2020). *Sustainability Report*. Shell.
- SASB. (2021, October 13). *Materiality Finder*. Retrieved October 15, 2021, from [https://www.sasb.org/standards/materiality-finder/find/?company\[\]=US0231351067](https://www.sasb.org/standards/materiality-finder/find/?company[]=US0231351067)
- The Climate Pledge. (2021). *Net zero carbon by 2040*. Retrieved December 13, 2021, from <https://www.theclimatepledge.com/us/en/Signatories>
- Value Reporting Foundation. (2021, November 4). *IFRS Foundation announces International Sustainability Standards Board*. The Value Reporting Foundation. Retrieved December 4, 2021, from <https://www.valuereportingfoundation.org/news/ifrs-foundation-announcement/>.