The Business Case Benefits of Increased Sustainability

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An increasing number of businesses and individuals are becoming aware of the term 'sustainability,' however, many are still formulating their understanding of the accepted definition of the term and the benefits of implementing sustainability actions within their organization. This article will briefly clarify the most widely-accepted definition of sustainability in the 21st century context, and will then focus on highlighting the six main sources of business value and benefit that can result from increasing your organization's sustainability.

What exactly is sustainability?

The term "sustainability" has gotten a growing amount of usage recently, in the media, business, and general communities. Increased exposure to the term, however, has not necessarily correlated with increased consistency of understanding of exactly what sustainability is, or what it means in today's context. In fact, the rapidly widening usage of the term may be contributing to greater confusion about it, as the increased usage results in more people bringing slightly different interpretations of it to the conversation. Therefore, there is an ongoing need to clarify the 21st century definition of sustainability.

In the past, sustainability simply referred to the ability of someone or something "to [remain] in existence; maintain; prolong."[1] Most business owners or leaders are very familiar with the traditional definition of business sustainability, which in many interpretations referred simply to the ability of the business to remain in existence and be financially viable over the long term. The most widely accepted definition of sustainability for the 21st-century context, originated by the U.N. World Commission on Environment and Development, and subsequently refined by the international community, expands this view and refers to sustainability as the ability to meet the financial, environmental, and social needs of the present generation without compromising the ability of future generations to meet their financial, environmental, and social needs.[2] The modern definition of business sustainability expands the view from the older "single bottom line" of solely financial performance, with a corresponding perception of environmental and social resources, issues, and impacts as "externalities," to the "triple bottom line," addressing all three key areas – financial, environmental, and social.

Why is it important?

So, why should a business, in particular a small to medium sized business, increase its focus on its environmental and social impacts and viability, in addition to its financial viability, which can be enough of a challenge by itself, especially in economic conditions like those we face today? Primarily because, as more and more businesses are discovering, the three aspects, despite initially appearing very different and unrelated, are actually highly intertwined and interdependent. The increasing scarcity, degradation, and cost of the resources and energy needed to run businesses is becoming more apparent every day, and one need only look to the devastating environmental, economic, and social impacts that the BP Deepwater Horizon oil drilling disaster in the Gulf of Mexico is causing to see how intertwined commerce is with environmental and social responsibility. In this new environment, businesses are increasingly recognizing the need to reduce their environmental impact, maximize resource efficiency, and become more sustainable – in the 21st-century definition of the word. Drivers include increasing climate damage, environmental degradation, resource depletion, and business competition, as well as increasing pressure from stakeholders including customers, employees, competitors, regulators, NGO's (Non-Governmental Organizations), and communities.

On top of this, astute business leaders have realized that, if planned and implemented properly, integrating sustainability strategies into core business activities is more than simply the right thing to do; it can actually be a source of reduced risk and of increased and enduring business value, competitive advantage, and profits. This concept is a critical one for leaders of businesses of all sizes, because improving a company's triple-bottom-line sustainability cannot be just a feel-good activity – it must contribute to tangible business benefits. Those businesses that are leading the way in business sustainability – and that are projected to lead in measures of overall business success, as well - are continually showing that incorporating sustainability practices into core business activities truly does result in significant tangible and intangible business benefits.

These benefits cluster into six key categories of business value.[3] While they are not necessarily sequential stages that a company goes through, there does tend to be a progression in terms of moving from more fundamental to more complex activity, and from more micro-focused to more macro- or industry-focused. The categories are described below in ascending order relative to these aspects. Sometimes a company may progress more or less sequentially through these categories or phases, but often companies may find themselves operating in some areas and never focusing on others, and/or moving around from one to another, but not in an ordered sequence. The key to optimizing success in gaining value from your organizational sustainability efforts is to think strategically about where you are now, where you would like to go, and which actions are most appropriate when, based on your capabilities, circumstances, strengths, weaknesses, opportunities, threats, and other strategic considerations. The information that follows will highlight each of the key categories and provide examples of the types of benefits that result from actions in that area, all of which combine to deliver a compelling business case for increasing the sustainability of an organization.

1. Risk Reduction

The first key benefit most companies pursue in increasing their sustainability is risk mitigation. In the past, this may in fact have been the only goal of environmental activity for many companies, in the form of the traditional Environment, Health, and Safety departments that focused solely on maintaining compliance with various environmental and occupational health regulations. Today's leading companies recognize that to survive and thrive in the 21st century, a company needs to go beyond mere compliance in areas related to the health, welfare, and sustainability of the environmental and human resources that are so vital to their organizational success. Taking steps to reduce the company's adverse environmental, occupational, human health, and social impacts can go a long way in avoiding many forms of business risk. It obviously reduces the risk of the impacts themselves (i.e., reducing the usage of hazardous chemicals can directly reduce health risks). It reduces the risk of damaged company reputation and resulting lost business. It reduces the risk of lawsuits, fines and/or unfavorable regulations being forced on the company or industry, and it can reduce the risk of the loss of 'license to operate' (i.e., finding it more difficult to obtain leases to expand operations due to negative impacts and/or reputation of current operations). The ongoing BP Deepwater Horizon disaster is a prime example of the type of risks and costs that could have been avoided by a company with a more sustainability-focused and responsible approach. A more responsible energy company would have recognized that incorporating better safety and emergency processes and systems, as well as a more complete approach to minimizing safety, environmental, social, and financial risks would have been a very prudent investment, not a cost to be avoided. BP's focus on short-term cost avoidance rather than on a more sustainable, bigger-picture, and responsible approach has resulted in the direct loss of 11 lives, unknown adverse health impacts to cleanup workers and the local community, irreversible damage to critical ecosystems, human livelihoods, and an entire regional – and by extension, national – economy, and also severely damaged the company's financial performance and further sullied its reputation. As of early June 2010, BP had already lost over $75 billion in shareholder value and spent over $1 billion on the cleanup[4], and that is only the beginning – estimated total direct costs to BP could run to the dozens of billions,[3,5,6] and that doesn't include the potential for continuing erosion of shareholder value and related pressures – and possible lawsuits – resulting from that.

It is not just the largest companies in the most environmentally impactful, extractive industries that face such risks. Smaller businesses face both risks and opportunities related to how well or poorly they address the new triple bottom line, as well. The risks and opportunities may be proportionally smaller than those faced by BP, but they are no less critical to these smaller companies. For example, consider the small local manufacturer who receives pressure from the local government or community about emissions, toxic effluent levels, and/or employment practices that are no longer acceptable, or the risk of lost business that a ski area or lodging establishment might face if seasons such as ski season or the leaf season in New England are adversely impacted by climate damage. Or, the risk of lost business to better-prepared competitors if a large customer requires its suppliers to meet certain sustainability criteria, as Wal-Mart has recently done, and the supplier is unprepared. A proactive approach to sustainability can help mitigate these types of risks.

2. Process Improvement Opportunities

The second category of sustainability benefits that astute businesses move to quickly is that of process improvement opportunities. Actions taken in this category generally fall under the description of "eco-efficiency,"[7] which refers to actions that reduce resource usage, increase resource productivity, reduce waste, and reduce operating costs, thus increasing profitability. Process improvement is one of the areas of greatest immediate benefit for many companies, and it is the area in which most companies focus most highly when they start implementing increased sustainability activities. There are many examples of successes in this area, within companies of widely varying types and sizes. Clif Bar, maker of healthy energy bars with revenues of roughly $150 million, eliminated shrink wrap from its packaging and saved 90,000 pounds of plastic and $400,000 annually.[8] A Florida auto dealership won an Energy Star Small Business Award in 2009 for an energy efficiency improvement program that saved $60,000 annually, in addition to saving over 347,500 kWh of electricity per year and nearly 2,600 therms of natural gas – and the CO_2 emissions equivalent of 37 homes.[9] A spa and wellness center in Albany, NY, saved $10,000 per year and an estimated 56 tons of CO_2 emissions – the equivalent of seven homes – through its energy efficiency and process improvement measures[10]. There are countless other examples of businesses, large, medium, and small, adding bottom-line value via sustainability efforts scaled to the needs and situation of their particular business type, size, and scope.

Widening the lens

The first two categories of sustainability value creation, risk reduction and process improvement, are highly important, effective, valuable, and are the right foundations on which to build an organizational sustainability effort. Some organizations do not move beyond this foundation, however. While that is better than taking no action or merely trying to reduce risk, it leaves a great deal of value on the table that could be gained by continuing to work in the fundamental areas while simultaneously advancing to other categories. The leading companies go beyond the fundamental areas and take advantage of value creation opportunities in the areas that follow. The first two categories are necessarily focused on the present – what is being done now and how it can be done better. While the rest of the areas also require looking at what is being done now and how it can be improved, they add increasingly future-oriented perspectives to the mix. In effect, businesses pursuing increased sustainability in the areas that follow are helping to shape a more positive economic, environmental, and social future for themselves and for the community and environment within which they exist, and are doing so in ways that can gain competitive advantage for themselves in that new world.

3. Product Advancement Opportunities

The third key category of sustainability business value is designing, or re-designing, products to provide increased value to both customers and to the firm itself. At the most basic level, this category of value refers to efforts to develop new product improvements and increased product differentiation through sustainability. This category includes adding more environmentally-friendly product offerings, such as laundry detergents made from more natural, chemical-free raw materials, being more concentrated to do more with much less detergent, or being designed to work well in energy-saving cold water – or any combination of the three.

Other examples include grocery stores or restaurants adding organic and/or local food offerings, household products manufacturers adding low-VOC (Volatile Organic Compounds) paints to their offerings, and so on. This category also entails thinking about your products in new ways – for example, optimizing the current manufacturing process for a product to reduce in-process scrap would fall in to the prior category of process improvement, while re-designing the product to be just as effective or more so, but to also use many less assembled parts, fewer raw materials, or to completely eliminate a toxic material or a wasteful process would fall within this category of product advancement. Office furniture manufacturer Herman Miller is a best-in-class leader in this area.

Designing a product so that it can be easily disassembled into recyclable or reusable components for the same or other products is another example of taking the product advancement process even further. Nature can be a great source of inspiration for innovations in this area. Nature relies on countless cyclical, renewable processes in which the “waste” of one process (falling leaves in autumn, for example) becomes the “food” for another process (the bacterial composting and decay of the leaves that provides nutrients to the trees and other plants). Applying this “waste equals food”[5] concept to the redesign of products so that they minimize resource usage and make as much renewable and cyclical use of those resources as possible has been referred to as “eco-effectiveness.”[5] For example, Recycline, Inc. offers the Preserve® line of razors and toothbrushes, the handles of which are made from recycled plastic and which can be returned to the company for recycling or recycled by the user. In an example of a symbiotic “waste equals food” business relationship, Recycline receives some of its plastic feedstock from Stonyfield Farm, in the form of used or excess yogurt cups.

4. New Market Opportunities

This category of sustainability value refers to opening up new markets, or penetrating existing markets with new market models related to increased sustainability. ZipCar is a company that has done both of these with one offering. ZipCar has built a company of over 350 employees and over $105 million in revenue that grew over 670% between 2005 and 2008,[11] by re-envisioning the car-rental market. By focusing less on travelers who need long-term rentals, and more on locals without cars who need short-term auto usage, and positioning the reduced environmental impact and road congestion as major elements of its value proposition, Zipcar has created and become the leader in the short-term rent-per-use auto market.

ZipCar’s success has come not only from re-envisioning the car-rental market and developing a deeper understanding of the true needs of an untapped market segment, but also from recognizing the opportunity to turn some products into “products of service.” People often don’t truly want or need the actual physical product, but rather the service that the product provides. In ZipCar’s case, some city dwellers don’t want or need a car, but just want the ability to use one for a short time when needed – they want “transportation service,” not “a car.” Zipcar has been very successful with this “product of service” model and in the process has reduced the number of cars that need to be produced and bought to just sit unused most of the time. There are other similar product of service opportunities, such as moving from traditional one-time purchase models (on products such as household appliances on the consumer side or manufacturing equipment on the commercial side) to long-term lease models, in which the customer gets the security of a good product, warranty service, and an upgraded replacement product at the end of the original’s useful life, as well as predictable long-term pricing, and the seller takes responsibility for the take-back of the original product (with the opportunity to re-sell it into a refurbished market channel, to use for replacement parts, to find a secondary market for parts or recycled/reused materials, etc), but also gets a more predictable, consistent demand and annuity-like revenue stream, as well as a guaranteed long-term customer, as opposed to having to battle for that customer all over again when the next replacement is needed. Of course, the pricing and economics need to be acceptable to both parties, and in the commercial scenario the conflict that sometimes exists between the customer’s capital and expense budgets would need to be addressed, but innovative companies can find attractive and mutually beneficial opportunities that also reduce environmental impact.

Another, more basic – and for many companies, even more obtainable – source of value in this category involves finding secondary markets and revenue streams for recovered materials or manufacturing by-products. A small medical device manufacturer in Vermont reports having found a smelter to purchase spent silver from one of its manufacturing processes, turning this once troublesome and hazardous byproduct into a new revenue stream, and turning the "waste" of one process into the "food" for another. Proactive companies of all sizes can find opportunities like this that are specific to their situations.

5. Brand/Culture Benefits

The 5th key category of increased business value that can result from increased sustainability is improved brand image, company culture, customer and employee loyalty, and stakeholder perception. Despite sometimes being a little harder to measure directly, these benefits also correspond to hard dollars as well. For example, Stonyfield Farm has grown from a business with seven cows and a few people to the number one worldwide producer of organic yogurt and dairy products, with over $300 million in revenue and an annual average growth rate of 27 percent for 18 years[12], and it has done little to no traditional advertising. Customer loyalty, word-of-mouth promotion, 'cause marketing' (donations and personnel support of sustainable causes, sustainable messaging on its product labeling) and product sampling have been the primary revenue growth drivers. Senior management also reports high employee loyalty due to the company's integration of sustainability into its mission. It is said that the cost to replace an employee, including recruiting, interviewing, hiring, training, and the lost productivity throughout the process can be 1.5 to 2 times the given position's annual salary, so employee retention is critical for all businesses. Numerous studies have indicated that employees are happier with, and less likely to leave, companies whom they feel are strongly mission-driven and more socially and environmentally responsible. One such survey, by Ipsos Mori, found that "80% of respondents across 15 developed nations would prefer working for a company that 'has a good reputation for environmental responsibility' - the figure was 81% in the US"[13]

A key caveat: marketing or promoting your company's sustainability activities in order to generate further value can be a two-edged sword: if a company is perceived as "greenwashing," or trying to present themselves as more sustainable than they actually are, backlash from stakeholders such as customers, employees, the community, and/or NGO's can be swift, harsh, and difficult to recover from. Credibility, transparency, and humility about what you have done, what you are doing, and – in some senses most important from a credibility perspective - what still needs to be done are critical to authenticity, and authenticity is the most critical aspect of succeeding with and obtaining value from your sustainability efforts.

6. Business Context Opportunities – "Changing the Rules"

The final category of business value, and the one that is the most macro-focused, complex, and advanced to implement, but also one of the most potentially powerful, is that of using the sustainability expertise and credibility that the organization has established through its other ongoing sustainability efforts to help "change the rules of the game." Companies achieving this level have already been "doing well by doing good," but by being in position to set new industry standards, they also stand to further benefit from their leadership position. Envision an auto company that had, through its own sustainability focus, been able to significantly improve the fuel efficiency and significantly reduce emissions of its product offering, and then (credibly and ethically, due to its proven sustainability efforts and track record) successfully led the way to passage of significantly higher Corporate Average Fuel Economy standards. In addition to benefits already attained from its sustainability actions in the categories described above, this company would now have helped to establish a new standard that will leave its less proactive and less sustainable competitors behind, thus further solidifying its competitive advantage. On a smaller scale, local farms focusing on more sustainable and organic agriculture might advocate for standards, laws or regulations that encourage more such practices and that thus indirectly benefit those who are first in the space. Similarly, human health organizations such as medical and dental practices, hospitals, and senior care centers that practice and operate more sustainably (i.e., fewer toxic cleaning supplies, energy saving steps, and in the case of hospitals and senior centers, healthier, organic, local food – possibly grown on-site, etc.) might advocate for standards or regulations encouraging or requiring such practices, thus benefitting society and simultaneously putting themselves in a stronger competitive position. Manufacturers leading the way in social and/or environmental responsibility might help set standards for energy efficiency, toxics, or employment practices that may cause less proactive and less sustainable companies to have to play catch-up. Or, hospitality businesses such as lodging and restaurant institutions could call for increased sustainability practices in food and hospitality, again benefitting the larger community while also putting themselves in a stronger competitive position. Clearly, this is the most advanced and big-picture area of increased business value, and one that is best addressed only after progress has been made in the other areas – since the credibility of the organization to lead the change and the ability to thrive in that new world will be lacking without successes in the other areas.

Key Takeaways

- The 21st century definition of business 'sustainability' requires awareness of and attention to the triple bottom line of economic, environmental, and social responsibility and performance. The companies that will lead in the near and longer term will be those that are the most proactive in integrating sustainability actions within their core business operations.
- Increasing your organization's sustainability drives multiple sources of value, including risk reduction, process improvement and cost reduction, new product opportunities, new market opportunities, brand and company culture benefits, and the opportunity to impact the business context and 'rules of the game'.
- There is an element of sequential progression to these value sources, with risk reduction and process improvement being the most fundamental, product improvement, market and brand/culture opportunities in the next tier, and business context and 'rule setting' the most advanced. However, an organization is not required to progress in rigid sequence, and organizations will often find success operating in several categories at once, and/or by moving around between categories.
- The key to success is to think strategically and develop an overall plan of attack, rather than just diving in to the action that seems most obvious at the time. Often this will mean starting with the basics and continuing to more advanced activities (and many times the fundamental eco-efficiency activities can help generate early wins as well as provide funding for further activities), but in some cases the most low-hanging fruit may be in one of the more 'advanced' categories. Sustainability efforts should be seen as a process of continuous improvement, with regular assessment of what has been successful and what still needs to be accomplished.
- It is also vital to be modest, factual, transparent, and thus credible about sustainability successes as well as areas where continued improvement is needed. This is the only way to eventually earn the right to take a true leadership position in terms of sustainability in your market space and thus maximize the potential benefits – to your company as well as to the environment and society in which you operate and live.

Organizational leaders who view improved sustainability, in the 21st century sense of the term, as a critical core competency, and who successfully integrate sustainability actions into everyday operations, can tap into the various sources of value described here, and increase their overall competitive advantage in an increasingly challenging business environment.

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