

## Sustainability: The Latest Mission-Critical Business Function for the 21<sup>st</sup> Century

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Any business - large, medium, or small - that wants to be successful over the long term would not – or certainly should not – consider trying to operate without a good strategic plan, a solid budget, a marketing plan, and a guiding operating plan, whether it is a manufacturing or a service company. Whether the business is a large company with an extensive planning process for these various mission-critical plans, or a small company with a more scaled-down planning process, the businesses that succeed over the long term are those that have solid plans in place so that they avoid operating in an ad-hoc, off-the cuff, reactionary way. Their plans in these mission-critical areas, just like their implementation of them, are never perfect and need regular re-assessment and adjustment, but they do help the company be more proactive in the successful pursuit of the company's long-term goals. Many companies, however, are leaving opportunity on the table or possibly increasing their business risk by not having a proactive plan in another mission-critical area for business success in the 21<sup>st</sup> century - sustainability.

The most proactive companies have recognized that sustainability is another business function that is mission-critical for the 21<sup>st</sup> century, and thus they have developed and are implementing proactive sustainability plans. The 21<sup>st</sup> century definition of sustainability refers to adding a focus on environmental and social responsibility to the traditional business focus on financial responsibility, and operating so that business and society meets the economic, environmental, and social needs of today without sacrificing the ability to meet those needs in the future. These businesses have recognized sustainability as being mission-critical and thus have integrated a sustainability focus because they see it as either (a) the right thing to do, (b) a way to avoid downside risk, (c) a way to pursue upside opportunity, or some combination of the three. Any one or any combination of these reasons is entirely valid. And there is a large and continually growing body of evidence showing that companies that integrate a sustainability focus achieve both tangible bottom-line and intangible business benefits.

However, many companies have either not yet recognized the mission-critical nature of sustainability, or perhaps have recognized it but have not yet incorporated it into their operations. By not proactively addressing sustainability in their operations, these organizations are running the risk of missing significant business opportunities or increasing their business risk.

### Why sustainability is becoming mission-critical

Here are some of the key reasons why sustainability is becoming so mission-critical for businesses in the 21<sup>st</sup> century:

- **Employees expect it:** A recent survey from Ipsos Mori found that 81% of U.S. workers would prefer to work for a company with a strong reputation for environmental responsibility.<sup>1</sup> A recent Price-Waterhouse Coopers survey found 88% of Millennials want to work for companies with strong social responsibility values.<sup>2</sup> Another survey by Cone, Inc. and the Boston College Center for Corporate Citizenship found that 79% of workforce respondents want to work for a company that cares about its societal impact and that 64% say their loyalty to a company is related to the company's level of social and environmental responsibility.<sup>3</sup> While weak economies like the one we are starting to emerge from tend to limit the voluntary departure of employees, as economic conditions improve, employee movement may begin to increase. With the cost of replacing a lost employee estimated at 150% of the

employee's compensation,<sup>4</sup> the recruiting and retention benefits of increased sustainability are being viewed as increasingly critical by businesses.

- **B2B customers expect it:** It seems that every few weeks we see another major company announce that it will be asking its suppliers to present their environmental strategies and results. Wal-Mart, P&G, Honda, Kaiser Permanente, the U.S. Government, and many others have made this request of suppliers and potential suppliers, and the expectation is that many more will follow. So far the information has not been used as a supplier selection or rejection criteria, but it is anticipated that it may well be used as such in the future. Any company that currently does business with one of these customers, wants to do business with them, or is simply a supply-chain partner to a larger company, should be proactive with their sustainability plans and actions to avoid potential lost business.
- **B2C customers expect it:** Just as with employees, B2C customers are also increasingly expecting greater environmental and social responsibility from the companies they do business with, and will increasingly switch from companies with poor sustainability records to those with better ones, where other elements like price and quality are similar. In some categories this switching is reduced during weak economies, when low price takes on some increased importance, but consumers' preference for environmentally responsible products has shown surprising resilience during the recent recession.
- **Other business stakeholders expect it:**
  - Business investors increasingly expect it, with record numbers of environmentally-related shareholder resolutions that have received record levels of support being filed in recent years, and with investors increasingly looking at companies' sustainability metrics as an indicator of investment quality and good corporate governance. This affects both publicly-traded companies and any companies that do or want to do business with them, as these at-risk companies seek to be more aware of their environmental impacts up and down their supply chains.
  - Insurers were among the first to recognize the impact of climate damage on business costs, and are starting to increase premiums on all businesses because of it.
  - Despite the recent change in the congressional makeup in the U.S., regulatory bodies like the EPA still expect it, as do bodies like the SEC, with its requirement that publicly-traded companies disclose any material environmental risks and impacts. Again, this affects not only the publicly-traded companies themselves, but their supply-chain and other business partners.
  - International regulatory bodies are requiring increased attention to the environmental performance of products, with lists of banned substances and materials growing, and increasing focus on product end-of-life responsibility on the part of the manufacturer. Again, the entire supply chain of such companies, whether those suppliers do international business directly or not, will be impacted.
  - Non-governmental organizations (NGO's) and other watchdog organizations are continuing their pressure on the largest and most visible companies, but are increasingly turning their attention to smaller companies. The internet allows for much closer scrutiny of smaller organizations and much faster and more disproportionately wide distribution of any good or bad news about a company's sustainability performance.

- **Reduces business risk:** In addition to reducing the risk of lost business or increased costs due to not meeting the expectations of any of the stakeholders mentioned above, increased sustainability helps reduce other sources of business risk. These include such things as the risk of fines or fees due to being out of environmental compliance, risk of loss of license to operate or expand due to poor environmental reputation, physical or revenue-loss risks to businesses in areas or industries susceptible to the impacts of climate damage (costal industries, seasonal-dependent industries, etc.), risk of increased insurance costs, the risk of increased scarcity and cost of key resources and raw materials needed by the company, and others.
- **Offers significant upside:** But it's not all doom and gloom and downside prevention. In fact, the many sources of significant business value and upside opportunity are generally the main reason that the proactive companies integrate sustainability planning and action into their operations.
  - Process Improvements: The first area of upside opportunity, and the one that yields the greatest near-term benefit for most companies, is the ability to reduce costs in many areas through process improvements throughout the company's value chain and operations. By assessing its complete value chain, from raw material and component acquisition, through manufacturing, warehousing, distribution, product use and disposal, as well as the supporting functions and operations, a company can identify the largest opportunities for combined environmental impact and cost reduction that it has control over, and prioritize the most appropriate projects for implementation. By doing so, the company can reduce its energy and resource use, waste, and cost, and increase resource efficiency, productivity and profits. Addressing such projects in a one-off, ad-hoc fashion, however, is almost certain to result in less efficient and less successful implementation. The combination of the significant upside opportunities and the need to choose the best projects based on the company's situation, resources, and capabilities points to the importance of viewing sustainability as a critical business function that warrants a committed planning effort.
  - Product Improvements: Another key source of business value and upside opportunity lies in cost reductions and/or revenue enhancements resulting from sustainability product improvements. Assessing opportunities to improve the environmental performance of current products to meet customer or other stakeholder expectations, as well as exploring opportunities to add new environmentally-responsible product lines – which often command premium prices – can lead to enhanced revenue opportunities. Assessing product design to maintain or improve performance using fewer resources and/or resources that are more environmentally sound can lead to cost reductions or revenue enhancements, depending on the choices made.
  - Market Opportunities: A third area of potential business upside value is the opportunity to penetrate existing markets the company is not currently in or to develop entirely new markets based on sustainability. A hotel or hospitality company could begin to compete on its environmental performance where it was unable to before, a restaurant, food or beverage company could begin offering more local and organic choices to compete that fast-growing food industry segment, a manufacturing company could create a category for more environmentally-friendly versions of its product, or a company could create an entirely new market, as ZipCar did when it introduced a new model for short-term car rental.
  - Brand & Culture Benefits: Companies that increase their focus and performance regarding sustainability also very often obtain brand or culture benefits based on their sustainability reputation and performance. As discussed above, employees, customers, and outside stakeholders are increasingly expecting companies to be more sustainable, and will very often

reward companies that lead the way in this area with increased loyalty. This translates to lower recruiting costs or costs to acquire a customer, higher employee and customer retention rates, and decreased employee turnover or customer attrition costs. It also translates to increased ease of doing business within the local communities in which the company operates.

- Business Context Influence: A final source of business value and upside is the opportunity to favorably influence the business context. A company that has done a strong and credible job with the other aspects of sustainability listed above often has the opportunity to favorably influence industry standards, regulations, legislation, or other 'rules of the game,' to move them towards greater sustainability. Doing so can yield benefits for society, the environment, and the business itself, because its responsible prior performance will have put it ahead of others in terms of being able to meet the new requirements.
- Reduces environmental impact: The size and scope of business as a whole today makes it a significant contributor to the resource usage, waste generation, climate damage, and other environmental impacts of which we see increasing evidence in the news, science, and in our daily lives. Businesses taking a proactive approach to operating more sustainably not only derive direct business benefits; they also contribute to reducing negative environmental impacts. This aspect is presented last because, although it is deemed by many to be the most important reason to be more sustainable, it may or may not be the primary reason a business aims to increase its sustainability. Any one or any combination of the three main drivers – environmental impact reduction, business risk reduction, or pursuit of upside opportunity – are entirely valid reasons for pursuing increased business sustainability, as long as the pursuit is done credibly, diligently, and authentically, just like a pursuit of continually improving product quality, product and employee safety, or customer service would be. Just as a focus on quality, safety, or customer service is likely to be most successful and beneficial to the company if it is undertaken both because 'it's the right thing to do' and because it yields business benefits, so too an increased sustainability focus will likely be most beneficial if undertaken for both reasons. However, the fact that a business recognizes and is motivated - perhaps even primarily - by the business benefits and competitive advantages of a great quality program, a great safety or customer service reputation, or a great sustainability reputation and position, is perfectly acceptable as well. There has to be a business case for a business to increase its focus on sustainability – and these leading businesses are showing that there is.

## What to do about it

The companies leading the way in proactively integrating an increased sustainability focus into their core operations have clearly demonstrated what to do about the increasing importance of sustainability to business:

- ***They have recognized that sustainability is just as mission-critical as other key initiatives*** such as strategic planning, budgeting, marketing, quality, operational planning, customer service, and others.
- ***They have committed appropriate resources and effort to a sustainability planning process***, whether small and basic or large and comprehensive, as appropriate to their situation. This may consist of internal resource commitments, outside help as needed, or some combination, just as it does with other functions. The plan and implementation can also be scaled to be appropriate to the size, resources, and situation of the company.

- ***They are gradually working towards the point at which sustainability will be a fully-integrated, instinctive practice of employees in all functions of the business,*** just as a commitment to quality, safety, and customer service are for the best companies.
- ***They recognize that just like quality, safety, customer service or other key initiatives, obtaining the business benefits from increased sustainability is an ongoing process of continuous improvement*** in which there will be successes and learning opportunities, and in which a company can always improve and is only as good as its recent performance.

There are other specific practices that the leading sustainability practitioners undertake to maximize the success of their sustainability efforts, and these are and will be discussed elsewhere, but the key message of the preceding information is that it starts with a mind-set. The companies that will compete most effectively and that will thrive, rather than just survive, in the 21<sup>st</sup> century, will be those that view increased sustainability as being just as mission-critical as other traditional vital business functions, and those that proactively plan and implement sustainability strategies to generate the many business benefits that can result.

### **Key Takeaways**

- Leading companies recognize the mission-critical nature of various business functions, such as strategic planning, budgeting, quality, operational planning, marketing, and customer service, and implement diligent, properly-scaled planning and implementation processes to address these functions.
- Increased sustainability – adding a focus on environmental and social responsibility to the traditional business focus on financial responsibility – is becoming increasingly mission-critical for business in the 21<sup>st</sup> century, for the following reasons:
  - It is increasingly expected by numerous stakeholders, including employees, business and individual customers, investors, insurers, national and international regulatory bodies and NGOs.
  - It reduces numerous sources of business risk.
  - It offers numerous sources of business value and upside opportunity, including improved processes, reduced energy and resource use, reduced waste and cost, increased profitability, product enhancement opportunities and new market opportunities that can result in new revenue sources, improved company and brand image, improved customer and employee loyalty, and increased opportunities to favorably influence the business context.
- The companies that will thrive in the 21<sup>st</sup> century will be those that view increased sustainability as being just as mission-critical as other vital business functions such as quality, safety, marketing, customer service, and other traditional mission-critical functions, and those that proactively plan and implement sustainability strategies as diligently as they do so for all other mission-critical functions.

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## References

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<sup>2</sup> Herrera-Wilkerson, J. (July 2, 2010). *Corporate sustainability and employee engagement*. Retrieved August 5, 2010, from <http://blog.savagebrands.com/tag/employee-retention/>

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