



Environmental responsibility and business success. *Growing together.*

The Criticality of Sustainability: Why the Small to Medium-Sized Business Can't Afford *NOT* to Increase its Sustainability Focus

Bryan Sheehan, President
SymbioSus Sustainability Consulting, Inc.

Today's topics

- Introduction and overview – SymbioSus™ and Bryan Sheehan
- Setting the stage
 - “Small to medium-sized businesses”
 - Sustainability and its criticality
 - Some initial perceptions
- Why sustainability is something you can't afford NOT to do
- Why a sustainability focus is even more critical in a downturn
- How to make sustainability an investment, not a cost
- Examples of small & medium-sized companies leading the way



Introduction and background: SymbioSus™

- **Mission:** To help small to medium-sized businesses profitably integrate environmental sustainability into core business operations
 - Reduce environmental footprint, reduce costs; increase resource efficiency, customer, employee, and community satisfaction, and profits
- Help organizations assess, plan, implement, measure, and report improvements that benefit:
 - People, planet, profit
- We work with wide range of companies and industries, and scale projects to meet the specific needs of each client.



Introduction and background: Bryan Sheehan

- 20 years of business experience
 - Start-ups to Fortune 500 companies
 - Sales, marketing, line management and internal consulting
- 10 years of concurrent sustainability involvement, activity, and expertise development
 - Master's degree in Sustainable Business Management
 - Member of:
 - International Society of Sustainability Professionals
 - Sustainable Business Network of Greater Boston
 - Vermont Businesses for Social Responsibility
 - New Hampshire Businesses for Social Responsibility
 - Maine Businesses for Sustainability



Small & medium-sized businesses defined

- US Census Bureau does not define small, medium, large businesses
- Small Business Administration only defines ‘small’ and it varies by industry¹
 - \$ 7 M in services, retail, construction, other industries based on receipts
 - <500 employees for manufacturing, mining, other employee-based industries
 - <100 employees for wholesale trade
- For our purposes:*

} “anchor” levels

Size	Revenue level	# Firms	% Firms	# Employed	% Employed	\$ Revenue	% Revenue
Small	<\$ 10 M	5.5 M	97.3 %	42.1 M	37.5 %	\$ 4.1 T	18.5 %
Med	\$10 M - \$249.9 M	147,412	2.6%	26.5 M	23.6 %	\$ 4.9 T	22.4 %
Large	\$250 M and larger	6,371	0.1 %	43.8 M	38.9 %	\$13.0 T	59.1 %
Total		5.7 M	100 %	112.4 M	100.0 %	\$ 22.1 T	100 %

* Table only includes U.S. employer companies – does not include ~ 20M non-employer companies.

Source: U.S. Census Bureau (n.d.). *Statistics about business size (including small businesses) from the U.S. Census Bureau*. Retrieved September 14, 2008, from <http://www.census.gov/epcd/www/smallbus.html>



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Small & Medium-sized businesses represent 41% of revenues and 61% of employment among US employer firms.

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Sustainability: The 21st-century definition

Sustainability

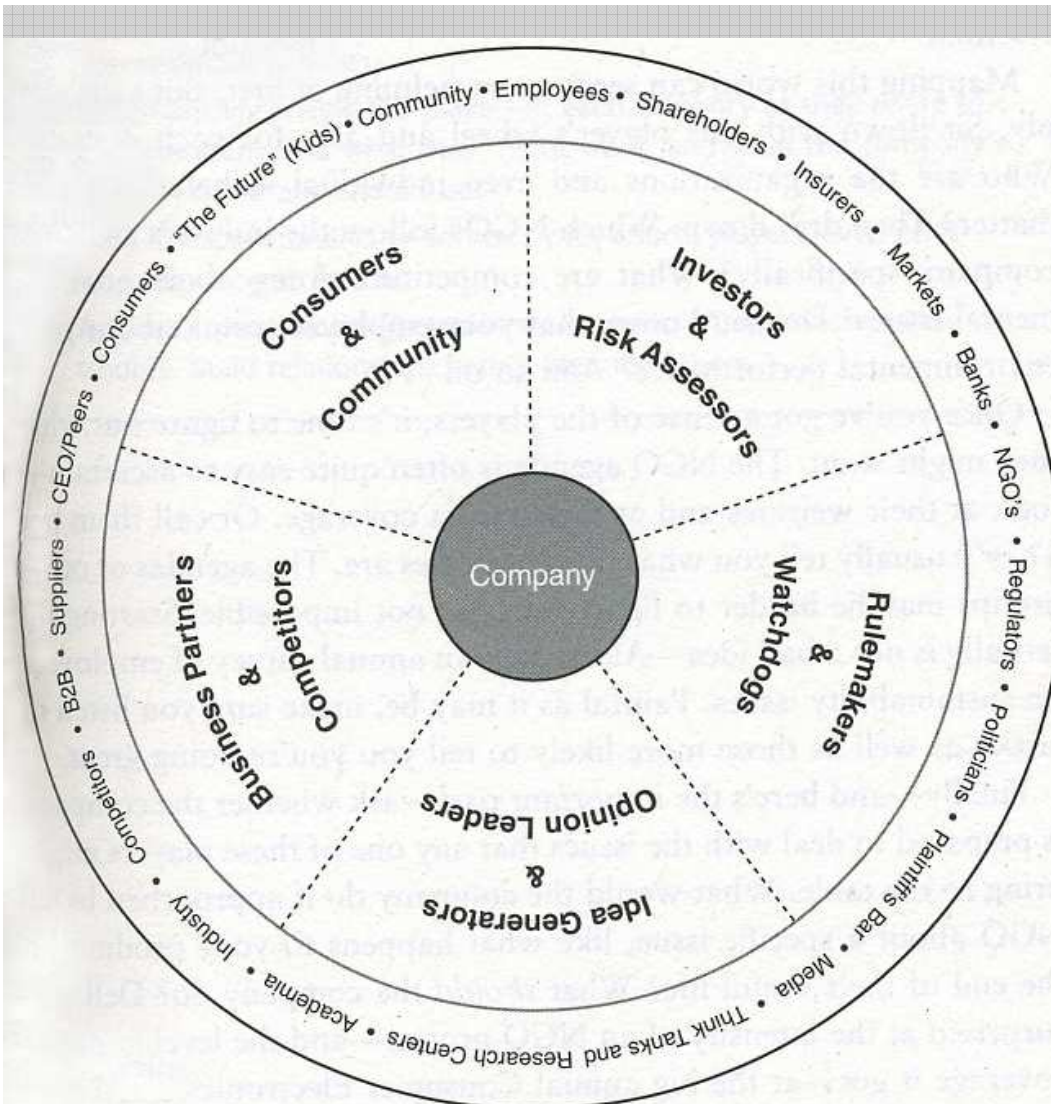
The ability to meet today's economic, environmental, and social needs without compromising the opportunity for future generations to meet theirs.²

A balanced focus on “people, profits, and planet”

Brundtland, G. H. (1987). *Our common future: The World Commission on Environment and Development*. Oxford, U.K.: Oxford University Press.



Sustainability: A broader stakeholder view



• Stakeholders

- Formerly limited in scope & impact

- New reality
 - Much broader stakeholder awareness & interaction required
 - The environment is a stakeholder in itself
 - Affects:
 - » Employee & community health
 - » Raw material / resource availability & costs
 - » Organizational reputation

Esty, D. C., & Winston, A. S. (2006). *Green to gold: How smart companies use environmental strategy to innovate, create value, and build competitive advantage*. New Haven, CT: Yale University Press.



Why is sustainability important?

Social

- World population projected to reach 8 billion by 2025, 9 billion by 2050.⁴
- If entire world population lived U.S. lifestyle, would need 5 Earths.⁵
- US GDP has nearly doubled since 1970, but GPI has only increased 15%.⁴
- Grass-roots NGO's emerging as an "immune response" to lack of social & environmental focus by companies & governments.⁶

Technological

- Global auto production 68 million in 2008.⁷
- Air travel at all-time high– 4.7 trillion passenger-km 2005⁴
- 2 billion cell phone users (all-time high); 24% growth annually last 5 years.⁴
- Estimated 1.2 billion internet users in 2006 (up 13% vs 2005); 433 million host computers.⁴
- Estimated 20-50 million tons of e-waste generated each year.⁴
- More metals per ton in e-waste than in natural ore (i.e., more gold in 1 ton of discarded computers than in 17 tons of gold ore).⁷

Economic

- Gap between wealthy and poor (nations and people) widening.
- Still 1.2 billion worldwide living on less than \$1 per day.⁷
- Still over 215 million children in child labor worldwide.⁴
- Resource conflicts are continuing and increasing.
- US & world recession will make cost reductions & efficiency more critical.
- SRI reached \$2.7 trillion in 2007 (~11% of US investments, fastest-growing investment segment).⁸
- Number of socially & environmentally-related shareholder resolutions (367 in 2007) and support levels (15%) at record highs.⁸

Political

- International governments defer action on climate damage.
- Alternative energy & carbon cap legislation in intense debate.
- Public pressure growing to address environmental risks (BP).
- US Gov't. announced it will ask suppliers (660K) to share GHG data.⁹
- Many nations taking strides towards increased sustainability; UK, Germany, Brazil, Canada, Aus, NZ, China.
- In face of lack of U.S. government action, many U.S. states and cities are taking the lead.



Why is sustainability important? (continued)

Climate Change

- Atmospheric carbon over 385 ppm in 2008 (all-time high)⁷
- 2009 2nd warmest year on record (2005), at end of warmest decade on record.¹⁰
- Glacier loss, Arctic ice melt, ocean acidification increasing in speed.^{7,11,15}
- 2,500 IPCC scientists concluded with >90% certainty that climate damage from global warming is real & human activity is significant contributor.¹²
- 2008 had more devastating-level weather-related disasters globally than ever. Overall, weather-related disasters resulted in ~ 92,000 deaths and over \$114 billion in damages.⁷

Energy

- World oil production outside Persian Gulf has been flat since 2005.⁷
- BP disaster & recent mining disasters demonstrate the risks of fossil fuel dependence, and clear interdependence of business and environmental & social responsibility.
- Wind & solar up 29% & 67% respectively in 2008 vs. 2007, but still represent only a combined 1.8% of global electricity usage.⁷
- Coal is abundant, but is the most polluting energy source.⁷
- Energy needs and costs are both rising.¹³

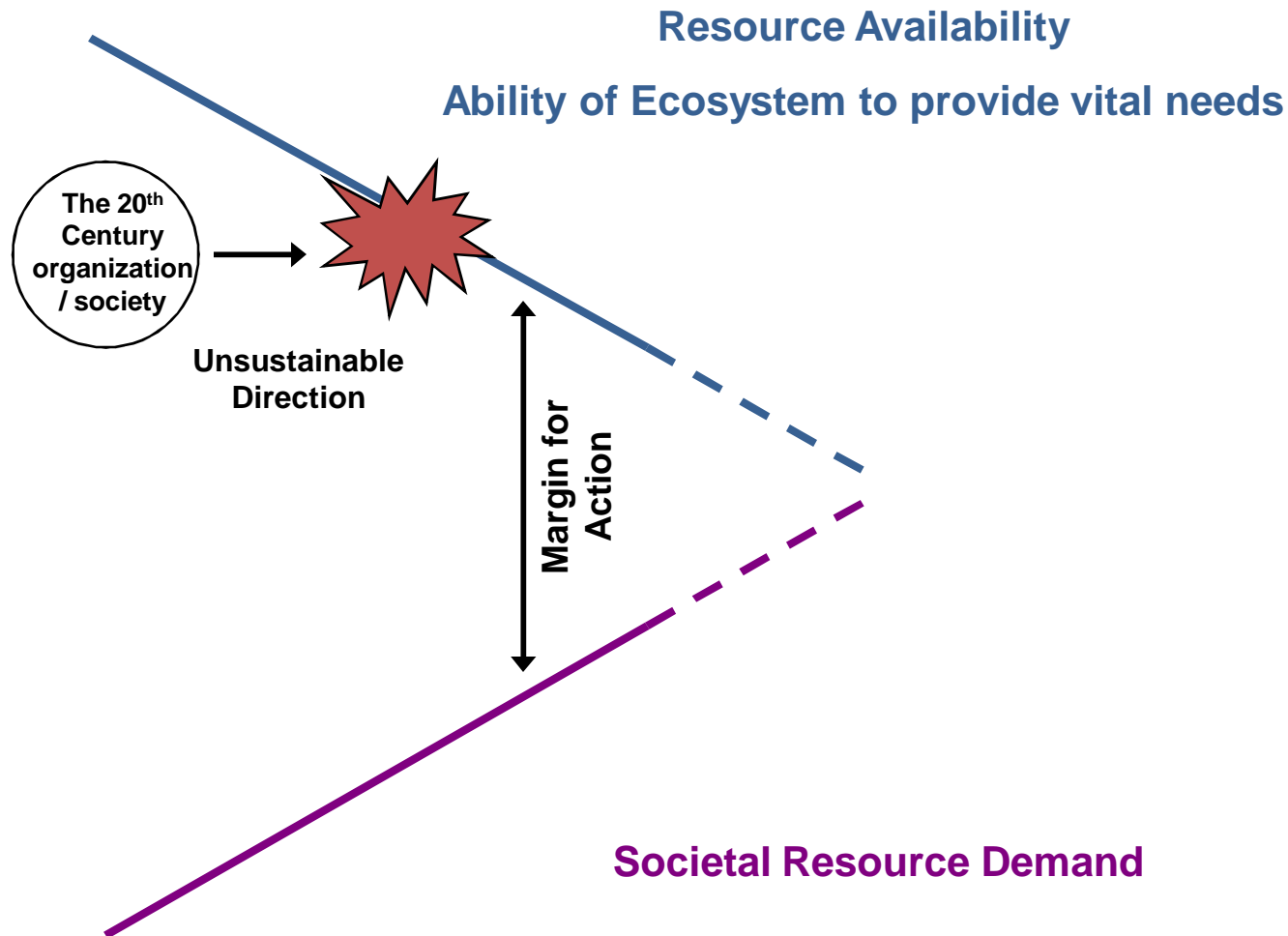
Other

- More than 3 trillion liters of untreated sewage enters US waterways annually. Fresh water shortages emerging worldwide due to aquifer depletion (even in US).⁴ Example: 50% chance that Lake Mead (behind Hoover Dam on Colorado River) could run dry by 2021 (supplies 5th largest WW economy).¹¹
- 2 million tons of PET water bottles go to landfill each year in US.⁴
- Biodiversity critical to environmental & human health; 33% of amphibians, 25% of coniferous trees, 25% of mammals, 13% of birds now in jeopardy. Overall Species extinction rate is at 1,000 the historical background rate.⁴
- Mercury levels have made many freshwater fish unsafe for frequent consumption by children & pregnant women.⁴
- Estimated 70,000 early deaths annually in U.S. due to air pollution; equal to deaths from breast & prostate cancer combined.¹⁴
- Roughly 170 million tons of solid waste to landfills in 2006 (all-time high) despite over 80 million tons recycled (only 33% recycling rate).⁴
- Human health – confirmed or suspected linkages to asthma & other respiratory diseases, numerous cancers; impacts health/productivity of workers & society



Negotiating the Resource Funnel

Margin for Action is Narrowing

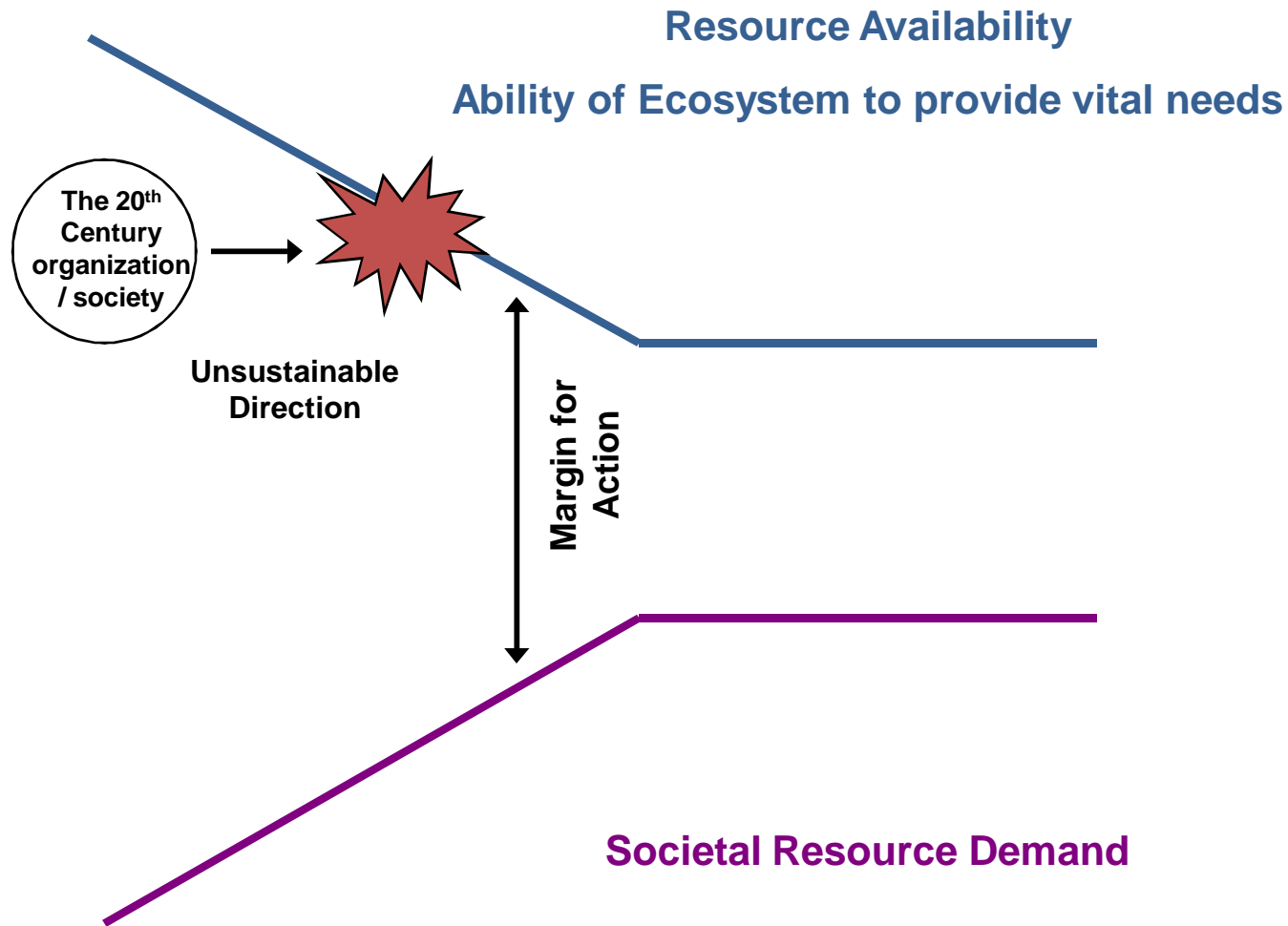


Natras, B., & Altomare, M. (1999). *The Natural Step for business: Wealth, ecology, and the evolutionary corporation*. Gabriola Island, B.C.: New Society Publishers.



Negotiating the Resource Funnel

Sustainability is the Solution

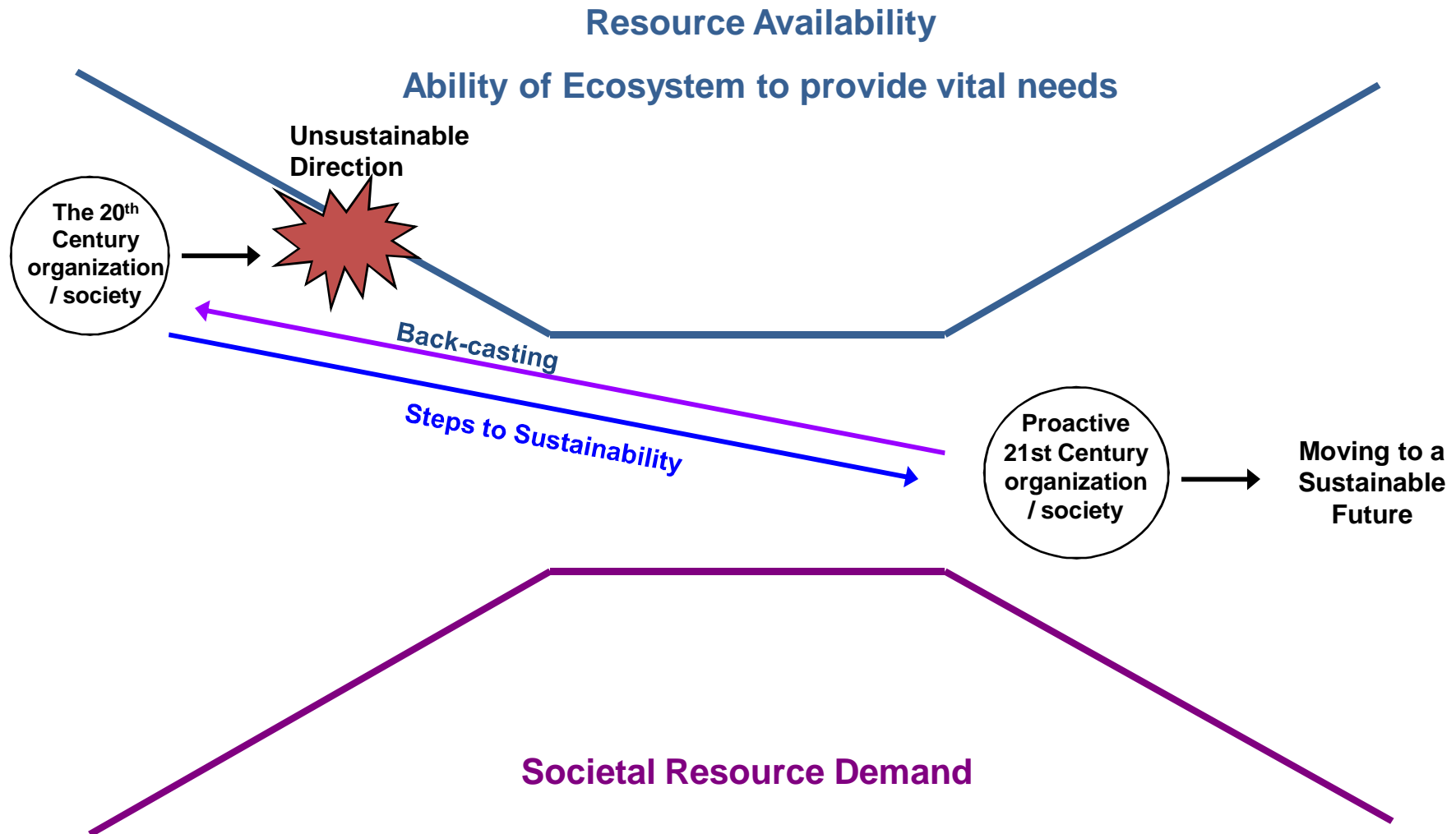


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“... but we just can't afford to right now.”

- Possible initial response based on current paradigm
 - Many, constant pressures on the small to medium-sized business
 - Customer demands
 - Competition
 - Tight economic conditions
 - Limited financial and human resources



. . .but let's look at it from another perspective. . .

- Sustainability is really something you can't afford **NOT** to do:
 - Many, constant pressures on the small to medium-sized business
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Many customers are starting to demand increased environmental and social responsibility – and will leave for competitors that offer it.

- Competition
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Your competitors may already be starting to incorporate sustainability – and may capture the competitive advantage that comes with it.

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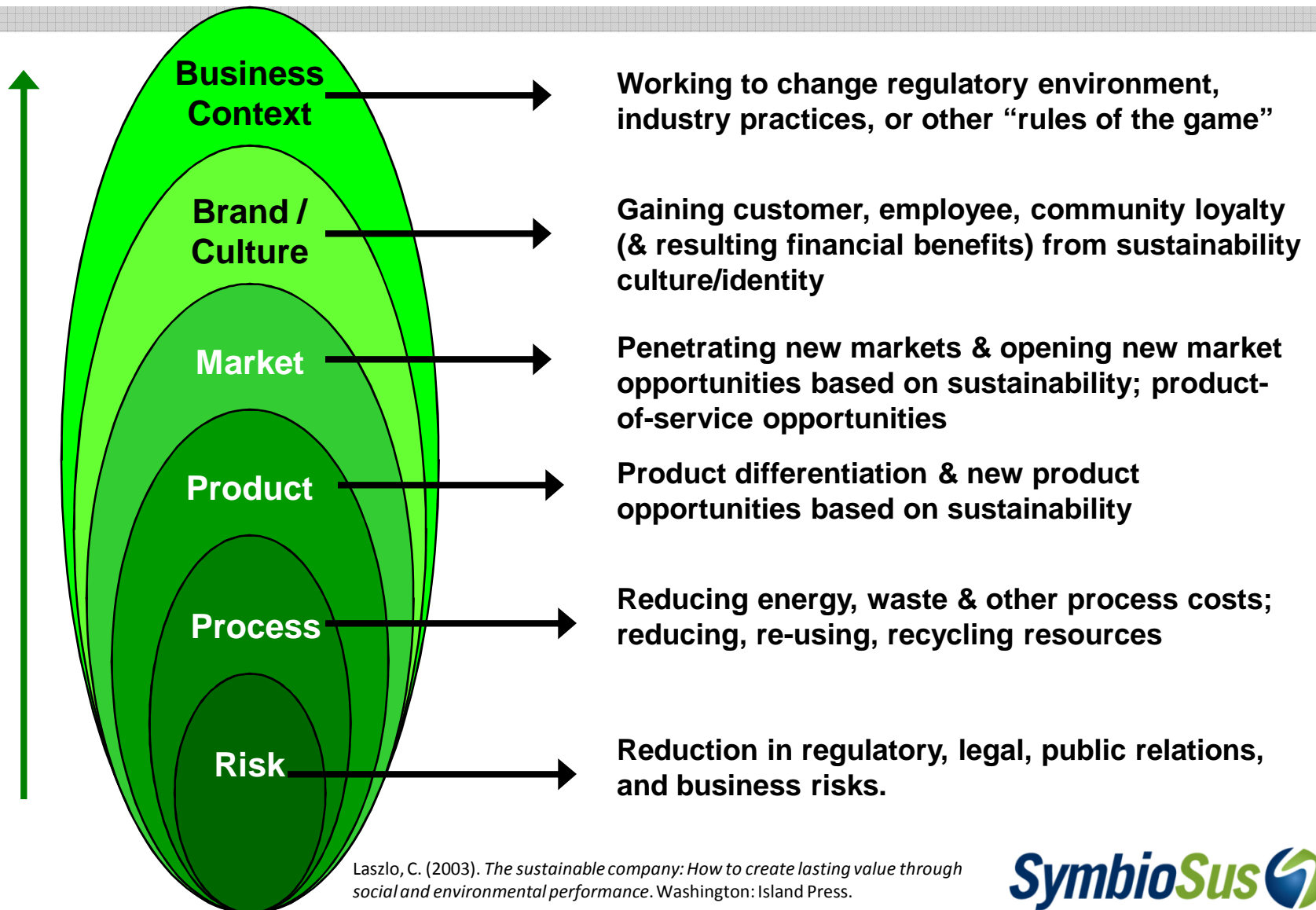
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More than anything, these situations call for the most efficient use of resources & energy, and minimization of waste – this is the heart of sustainability.



The business case for sustainability

6 sources of business value



Laszlo, C. (2003). *The sustainable company: How to create lasting value through social and environmental performance*. Washington: Island Press.



Risks & impacts of a lack of sustainability focus

Increased business risk & cost

- **Fines / compliance**
 - Pollution
 - CO2
- **NGO / shareholder resolutions**
- **License to operate**
- **Climate / Weather / Environmental damage & insurance risk**

Increased risk of lost revenue

- **B2B Customer demands**
 - Wal-Mart
 - U.S. Government
 - Many others
- **B2C Customer demands**
- **License to operate**
- **Climate / Weather / Environmental damage & insurance risk**

Increased resource scarcity & cost

- **Resource depletion**
 - Oil, water, others
 - Direct cost
 - Substitution cost
- **Forced substitution**
 - Government ban
 - REACH, RoHS
 - B2B customer ban
 - REACH, RoHS
 - Internal list
 - B2C customer ban
 - Demand for alternatives

Decreased ability to compete

- **War for talent**
- **Missed opportunity for 6 sources of value**
- **Lost competitive advantage**



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Company	Industry	Revenue	Potential Fine	% of Revenue
A	Air horns, valves, compressors	\$50.9 M	\$18,900	0.04%
B	Elect. Power generation equip.	\$38.2 M	\$56,000	0.15%
C	Tire flat-proofing systems	\$32.3 M	\$34,800	0.11%
D	Retail – clothing, home	\$10.5 M	\$192,400	1.83%
E	Plumbing, HVAC	\$7.7 M	\$21,900	0.28%

- Fines can have significant impact on small & mid-sized businesses
 - Proactive disclosure and action can mitigate impact
 - EPA waived fines due to proactive disclosure
-
- Price or tax for carbon advancing slowly, but likely to happen
 - Regional and other initiatives exist today
 - RGGI, WCI, Midwest GHG Reduction Accord
 - Chicago Climate Exchange
 - Carbon Disclosure Project & others



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Climate-related shareholder resolutions increasing dramatically

- 95 filed with 82 companies in 2010; up 40% from 2009²⁰
 - Filed by pension funds, labor, religious, other institutional investors & NGO's
 - Targeting larger companies now, but may expand downward
 - Relate to disclosure of material climate risks (per Jan 2010 SEC guidance), and risk/impact reduction plans & actions
- In 2009 season :²¹
 - 68 climate-specific resolutions (then-record, surpassed by 40% in 2010)
 - 28 went to vote
 - 6 achieved 30% or greater support
 - 1 achieved 46% support - Massey Energy
 - 1 achieved majority support (51.2%) – IDACORP
- Impacts you if you:
 - Are publicly-traded or aspire to be
 - Do business with larger publicly-traded companies or aspire to



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Many examples of impact on large businesses

- BP Deepwater Horizon disaster and deep water drilling
- GE and Hudson River PCB dumping – Phase 1 of cleanup has cost GE \$561M²² – 5% of 2009 profit (\$11B²³)
 - Cost to date doesn't include legal fees & much larger Phase 2
- Coke water controversy in India²⁴
 - Threatens license to operate, hurts PR, reputation & business

Local / regional impact on small & mid-sized business can have proportional impact

- Bans due to non-compliance or poor environmental / community citizenship



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May affect you financially even if not physically

- 2008 was 3rd most costly year on record for insurance industry, due to catastrophic damages, which they attribute to climate damage.²⁵
 - 2008 P&C costs were 3X 2007 and 5X 2006.²⁶
- Increasing risk of loss likely to result in
 - Increased premiums
 - Elimination / reduction of some types of coverage



Risks & impacts of a lack of sustainability focus

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Wal-mart Supplier Sustainability Assessment²⁷

- 15-question survey of 100,000 suppliers, launched July 2009
- So far: voluntary Future: ???

U.S. Government to ask 600,000 suppliers for Greenhouse Gas Data^{28, 29}

- At start: voluntary Future: ???
- May become a key selection criteria of General Services Administration

Kaiser Applies New Green Scorecard to \$1B Medical Supply Chain³⁰

- Demanding suppliers to provide more sustainable products
 - Includes medical and non-medical supplies
 - Kaiser estimated \$20 million in savings in 2009³⁰

Vast majority of major B2B customers demanding supplier sustainability

REACH, RoHS, WEEE regulations not just for businesses selling into Europe any more

- Supply chain partners impacted - can lose business if not compliant
- EU regulations beginning to be adopted in various countries



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Consumers increasingly demanding more environmental sensitivity – and will increasingly switch to a different company to get it

- Mitigated somewhat recently by economy

Consumer Green Confidence Index:³¹

- Measures combination of green purchase intentions, confidence in companies to provide green alternatives
- July 2009 (baseline): 100 April 2010: 106.5 Aug 2010: 101.4
 - Impacted by BP disaster, continued economic challenges

2009 BCG Survey:³²

- “73% of consumers considered it important that companies have good environmental records. Respondents said that companies should be clear about product risks and safety, provide information on environmental impact, have high ethical standards, and treat their employees fairly.”³²



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Lost revenue while off the market due to:

- Environmental or social non-compliance
- Climate / weather / environmental damage
 - Either one could range from short to long term impact



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Environment is ultimately the source of all resources.

- Oil, coal, natural gas, wind, solar, water, biomass energy
- Water, wood, metals, minerals, other raw materials, food products

In times of shortage, small and medium-sized companies will be at a disadvantage - 'back of the line.'

Small and medium-sized businesses less able to absorb price increases or substitution costs as resources become more scarce.



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Increasing numbers of off-limits materials/substances

- Governments / regulatory agencies
 - US
 - RoHS, REACH in EU
 - Not just for those doing business in EU anymore
 - Those doing business in EU or aspiring to
 - Current or aspiring supply chain partners of those selling to EU
 - Other nations starting to adopt EU standards
- B2B customer bans
 - May go beyond currently regulated substances
- B2C customer 'bans'
 - Customer demands, resolutions, actions, boycotts

Being proactive is most prudent, cost-effective strategy

- Understand basic requirements and primary risk areas
- Establish a proactive, organized, efficient, scalable management process
- Going 'beyond compliance' further reduces risk of nasty – and costly – surprises.



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- Missed opportunity for 6 sources of value
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Employees are increasingly seeking sustainability values in their employers

- Survey A: 81% of U.S. workers surveyed would prefer working for a company with a good reputation for environmental responsibility.³³
- Survey B: 88% of Millennials seek employers with high social responsibility values.³⁴
- Survey C: 79% of respondents said they wanted to work for a company that cares about its societal impact.³⁵
 - 64% said their loyalty is related to how socially and environmentally responsible their company is
 - 68% said they would refuse to work for a company that is not socially or environmentally responsible
- Example: Patagonia gets 900 applicants for every job opening.^{36,37}
- Cost to replace a lost employee estimated at 150% of annual salary³⁸
 - Study by Institute for Research on Labor & Employment, U.C. Berkeley



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Missed opportunities for 6 sources of business value

- Risk reduction
- Process improvement
- Product improvement & differentiation, new product opportunities
- New market opportunities
- Brand / culture improvements & company differentiation
- Business context – opportunity to ‘change the game’

Competitive advantage – get it or lose it

- Comes from base product / service and core operations
- Increasingly comes from the “how,” not just the “what”
 - Integrated sustainability thinking is:
 - A source of competitive advantage – that is often still “up for grabs”
 - Just good fundamental business



Why sustainability is even more critical in lean economic times

- Sustainability is primarily based on good business fundamentals
 - Risk reduction
 - Process improvement
 - Product improvement & differentiation
 - Market opportunity
 - Customer & employee loyalty
 - Resiliency
- Leaner times and leaner, more efficient operations may be the ‘new normal.’

2010 UNGC / Accenture Survey³⁹

Question	% of Respondents
Economic downturn raised importance of sustainability as an issue for top management:	80 %
Company reduced investment in sustainability as a result of the downturn:	12 %
The downturn led company to align sustainability more closely with core business:	74 %



Why sustainability is even more critical in lean economic times



“Our companywide waste elimination measures have put a cumulative \$405 million of avoided costs back into our pockets. Not only have these measures paid for themselves, they helped us ride out the deepest, longest marketplace decline – the ‘perfect storm’ of Y2K diversion of capital to computer systems, the bursting of the dot-com bubble, and 9/11 – in our industry’s history.”⁴⁰

-Ray Anderson, Chairman,
Interface Carpet

“Here’s the thing. Sustainability has given my company a competitive edge in more ways than one. It has proven to be the most powerful marketplace differentiator I have known in my long career. Our costs are down, our profits are up, and our products are the best they’ve ever been. It has rewarded us with more positive visibility and goodwill among our customers than the slickest, most expensive advertising or marketing campaign could possibly have generated. And a strong environmental ethic has no equal for attracting and motivating good people, galvanizing them around a shared higher purpose, and giving them a powerful reason to join and stay....They come and they stay, because we aren’t just making carpets. We’re making history.”⁴⁰

- Ray Anderson



How to make sustainability an investment, not a cost

1. Apply a sustainability lens to decisions and actions.
 - Think big picture, long-term, triple-bottom-line, and consider systemic impacts
2. Apply best-practice strategic planning
 - Assess, Plan, Implement, Measure, Report – Repeat
3. Seek low-hanging fruit – or ‘fruit on the ground’ – for early wins and to fund more complex steps
4. Integrate sustainability into daily actions – not a ‘bolt-on’
5. Get outside help if needed, but embed the learning in the culture
6. Engage your stakeholders – employees, business partners, customers, others
7. Whenever you question the value of sustainability to your organization, substitute the word ‘quality’ for sustainability
 - It’s about quality business fundamentals for the long term

“Done right, sustainability doesn’t cost. It pays.”⁴⁰

-Ray Anderson



Companies leading the way:

Example # 1: Stonyfield Farm

- Grew from a few people and 7 cows to WW leader in organic dairy products
 - Over \$300 million revenue, 27% CAGR for 18 years.⁴¹
- Maintained consistent sustainability vision from the start
- Best practices:
 - Organic raw materials (despite premium), small, local farmers, energy & resource conservation, carbon footprinting (starting in 1999 – way ahead of curve), recycling
 - Largest carbon impact: (1) milk production, (2) packaging, (3) transport, (4) facilities
 - Currently working to reduce methane production w/ flax-based cow feed
 - Healthier for cows, cheaper, and reduces methane
- Has attained ability to influence Wal-mart and entire industry (“level 6” value)



Companies leading the way:

Example # 2: NE business hotel

- ~ \$ 32 million revenue, 650 employees
- Operates somewhat autonomously within larger parent chain
- Undertook sustainability / energy efficiency actions
- Best practices:
 - Lighting retro-fit (T12 to T-8; MR-16 LED in halls, lobbies), upgraded boiler & controls, use heat & condensate re-use systems, electronic monitoring & management of energy & heat usage; currently exploring composting & other solid waste reduction actions
- Results:
 - Reduced energy costs by ~ \$ 160,000/yr (.5% of revenue)
 - Enhanced reputation and brand image



Companies leading the way:

Example # 3: NE local/organic-focused restaurant

- Under \$2 million revenue, 12 employees
- Started with lunch-only location; sold that (it continues same local/organic focus) to open full-service dinner location
- Best practices:
 - Focus on local & organic ingredients, but also keeping prices attainable for average diner
 - Community involvement – local art, music supported at venue
 - Operating as sustainably as possible
- Results:
 - Growing business despite economic challenges
 - Rave reviews, highly positive “brand” & reputation
 - Increasing impact in community and local restaurant industry
 - Proving that a food-service provider can succeed with this focus



Key takeaways

- **Increased business sustainability is critical – for environmental, social, and economic reasons**
- **It is particularly critical for small and medium-sized businesses**
 - Less ability than largest companies to withstand the impacts
- **Not integrating sustainability can result in**
 - Increased business risk and cost
 - Increased risk of lost revenue and profit
 - Increased scarcity and cost of resources
 - Decreased ability to compete
- **Done wisely, integrating sustainability is a source of**
 - Reduced risk and cost
 - Increased efficiency, profit, loyalty, and brand image
- **“Hope is not a strategy” - be proactive in integrating sustainability**
 - Assess, plan, implement, measure, report, and continuously improve



Thank you!

Questions / Discussion

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References

- ¹U.S. Census Bureau (n.d.). *Statistics about business size (including small businesses) from the U.S. Census Bureau*. Retrieved September 14, 2008, from <http://www.census.gov/eprd/www/smallbus.html>
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