



Accelerate your sustainability impact

BRINGING SUSTAINABILITY AND PROFIT TO SMALL TO MID-SIZED BUSINESSES

Building the Business Case for Meaningful Change

INTRODUCTION

In its 20th anniversary report, Business for Social Responsibility (BSR) hailed sustainability's entry into the "mainstream," citing the work of businesses and institutions around the globe to create a thriving economy "within planetary boundaries." Where once viewed as simple risk mitigation, many companies now view sustainability as the greatest of all innovation opportunities, with widespread recognition of the profits and benefits to be made by addressing critical sustainability challenges. ¹

Today, businesses—large, mid-sized and small—face unprecedented national and global complexity and change. This change includes economic and political instability; increased strain on natural resources; the impacts—both direct and indirect—from climate change; increased costs for energy, raw materials and workforce benefits; increased federal, state and local regulations related to building codes, energy efficiency, and producer responsibility, with a noticeable shift from voluntary to mandatory guidelines in many parts of the U.S.; revolutions in technology; and an increased focus on corporate and community social responsibility. ²

Industry experts are calling many of these changes, such as resource constraints and economic instability, the "new normal," a scenario presenting strategic leadership opportunities for forward-thinking business leaders. The magnitude of this opportunity was underscored in a recent report, *The 3% Solution: Driving Profits through Carbon Reduction*, a report sponsored by Carbon Disclosure Project, McKinsey and Co. and World Wildlife Fund.

The U.S. corporate sector, excluding utilities, could capture up to \$190 billion USD present value in net savings in 2020 alone by reducing energy-related emissions by an average of 3.2 percent each year. Between 2010 and 2020, the U.S. corporate sector can realize up to \$1.26 trillion (PV) in savings. Unlocking those savings would require capital expenditures of approximately \$480 billion (PV), resulting in a net present value (NPV) savings of up to \$780 billion. ³

Even more significant, *The 3% Solution* report discloses that 79 percent of U.S. companies reporting to the Carbon Disclosure Project (CDP) saw a higher ROI from investments targeting GHG emission reductions than their average investment portfolio.

Small and mid-sized businesses can take advantage of this enormous economic opportunity in the same way large international businesses are already monetizing sustainable business practice.

SUSTAINABILITY AT A TIPPING POINT

As a strategic imperative, many large companies are actively seeking sustainable solutions as both a business strategy and driver of profit. A survey of 4,000 managers from 113 countries found that sustainability is nearing a tipping point. ⁴

The survey further revealed that:

- 70 percent say that sustainability was on the management agenda in 2011, and will stay there permanently.
- 67 percent said that sustainability-related strategies are necessary to stay competitive.
- 24 percent are “Embracers”... is this the tipping point?

SMALL AND MID-SIZED ENTERPRISES (SMES) TAKING ACTION

For small and mid-sized enterprises (SMEs), the current period of complexity and change presents even greater risks and opportunities. Research and case studies shared in this paper suggest that many SMEs may not only be ready, but are actively seeking to embrace policies and sustainable practices to protect themselves from risk, while improving their financial outlook. Their desire is to engage fully in these transformative times through sustainability opportunities. This shift corresponds to changing attitudes related to environmental and energy policies. ⁵

Though critical to a thriving, sustainable economy, small-to mid-sized businesses are considered a hard-to-reach market. Current obstacles include lack of awareness, misperception that sustainability comes at a high cost; belief that sustainable practices are relevant to large companies only; uncertainty around the process and “how-to,” not knowing who to turn to in a crowded and confused marketplace; and lack of funding. As any business person recognizes, investments are a natural and vital aspect of running and growing a business.

There are times and opportunities when an investment in sustainability practices are called for and the ROI ought to be calculated just as it would for other investments of money and staff time.

Among many companies, the myth persists that sustainability comes at a high cost. When considering the so-called “triple bottom line,” including social and environmental objectives, the assumption is that businesses have to compromise on the economic side. But they don’t and they shouldn’t. Instead, market forces are leading companies to embed sustainability along their life cycle value chains, making it a smarter way to do business rather than only a moral or regulatory obligation. ⁶

Despite obstacles in awareness, perception and other factors, studies and surveys suggest that many SMEs are poised and ready for transformation, in a noticeable shift toward monetizing sustainability. ⁷

THE BUSINESS CASE— KEY BENEFITS HIGHLIGHTED

Reducing costs, meeting customer expectations, engaging employees, and developing new products and services have become the standard rationale for business pursuit and engagement in sustainability. These practices help improve the bottom line and, in many cases, grow the top line. Increasingly, sustainability is taking on even more strategic importance, with linkages to supply-chain management, steady and affordable sources of energy, community relations and building brand value. ⁸ Many, if not all, of these outcomes hold true for SMEs, on a scale that equally impacts the bottom line.

Reduced Costs and Improved Profitability

There is now widespread recognition of the profits to be made in addressing critical sustainability challenges. Companies are also beginning to understand how a sustainability approach can be used to “future proof” business strategy in the face of greater volatility and uncertainty. The knowledge and stakeholder relationships developed in service of sustainability objectives are increasingly useful in market entry and product innovation, and in the development of new business models.

All this points to a crucial change: sustainability is a platform for innovation and business/organizational success, not a barrier to economic vitality. ⁹

MIT's Sloan School of Management, in its fourth year of research collaboration with the Boston Consulting Group, found that managers who say sustainability has caused their organization to change its business model are also more likely to say that the organization's sustainability activities have added to profits. Companies reporting profit from their sustainability efforts rose 23 percent in 2012, to 37 percent of the total. The study, based on a survey of 2,600 executives from companies around the world, also found that nearly half of respondents said their companies had changed their business model as a result of sustainability opportunities—a 20 percent jump in just one year. ¹⁰

Energize Employee Engagement and Productivity

By their very nature, sustainability programs call for crossteam planning, collaboration and execution, often leading to another invaluable benefit: improved employee relations and retention while attracting the best young talent. A landmark study conducted by the Society of Human Resources Management and BSR reported these results among companies with robust sustainability programs: ¹¹

- Improved employee morale—55 percent
- More efficient business processes—43 percent
- Stronger public image—43 percent
- Increased employee loyalty—38 percent

Nearly four out of 10 businesses (39 percent) reported calculating an ROI for their sustainability efforts, and among those, 47 percent calculated a positive return on their investment. Nearly half reported embedding sustainability into the everyday operations of their business. Larger businesses were more successful along the sustainability continuum, while those requiring more support tended to be smaller businesses. ¹²

Further, it was found that employee engagement is a leading indicator of financial performance. Organizations with engaged employees have a higher earnings-per-share growth rate than organizations in the same industry with a less engaged workforce. ¹³

Reduced Environmental Footprint

Beyond financial success, the “why” is critical: to have positive impact in our communities, nation and world. We all know that our environment is being depleted faster than it can recover and, as any business person knows, when you deplete your capital you risk going out of business. It is no different for the ecosystems on which all life—and our economy—depends. ¹⁴

Leading U.S. businesses are quietly squeezing big reductions of climate-changing emissions from their operations and supply chains—and saving money. With stakeholder criticism and other pressures building, more and more are also releasing climate data in financial reports and enlisting third-party firms to make sure it is accurate. They are doing it because it makes good business sense—whether it's top of the fold politically or not. ¹⁵

RISKS OF DOING NOTHING

As sustainability grows in importance and adoption, the risks of inaction sharpen. Here are some of the continued risks of business as usual:

Missed Opportunities/Getting Left Behind

As a wave of accessible, sustainable practices sweep industry and the economy, the risk of inaction means getting left behind—at a time when opportunities abound, and communities seek change and leadership from their business leaders. Customers, employees and other stakeholders are demanding change. Affecting many SMEs are supply chain sustainability assessments and scorecards, advanced by Wal-Mart and other major corporations beginning to drive action deep into supply chains.¹⁶

Increased Regulatory Uncertainty

Local, state and federal regulations are increasing regulatory compliance mandates in areas ranging from building codes and energy efficiency to recycling, e-waste management, water and energy demand management, emissions reporting and manufacturer/producer responsibility. Regulatory uncertainty carries serious risks for SMEs wanting to remain competitive.

Operational Risk Mitigation/Adaptation

Higher costs all around encourage sustainable management and behavior change

Isolation

Peer-to-peer collaboration is a key benefit of sustainability engagement. In multiple surveys, many SMEs report they could have initiated action before, but did not. Sharing the journey with others finally inspired action.

POSITIVE SIGNS, UPCOMING TRENDS AND FUTURE FORECASTING IN BUSINESS SUSTAINABILITY

The outlook for business sustainability looks positive, with more attention to how business operations and practices interface with the health of our planet.

Companies are taking stock of “natural capital”—the limited stock of earth’s natural resources. More than half of all CEOs surveyed included natural capital concerns in their companies’ business-risk evaluations. 49 percent consider natural capital a “material issue” directly linked to operations and regulations as well as reputational and financial risks.

Sustainability is becoming a matter of “risk and resilience.” Severe weather—causing direct and indirect disruption to operations and supply chain—in addition to constraints on energy, water and other resources, are drawing more attention from executives entrusted with long-term risk management. Businesses are factoring in climate change and resource constraints just like other risks as part of a broader, strategic view.¹⁸

Advancements in technology and communications are quickly transforming management of buildings and facilities, improving routine maintenance, electric demand, plug loads and lighting. Sustainability reporting is becoming more commonplace, often integrated with traditional financial reporting.¹⁹

Looking Ahead

Growing numbers of business people and communities are awakening to the zeitgeist of our era. The time for business as usual is over. The very real challenges and opportunities facing humanity and business need to be seen through new eyes and an open mind. The challenges of huge complexity, diminishing stocks and higher cost of all kinds of material (including food), the growing concern about fresh water for billions of people, and the very real issue of climate change are only surpassed by the real opportunities to prosper and—in the long term—flourish.

Sustainability is not a very sexy frame. Who wants to feel that their business, their marriage, their important relationships are “sustainable?” We’d all like to say that these aspects of our lives and businesses are “flourishing.” Sustainability is the journey towards creating a future where all life on earth will flourish forever. This 100-200 year vision is what most of us would like to think the future holds for next generations. This is not a short-term goal or vision.

However, our role and our mission must be to move our businesses, communities and lives towards the future we'd like to create for those who will call us their ancestors.

Embracing and embedding sustainable business practices into our operations and business model will offer us the real opportunities to thrive through innovative business thinking and action. Our employees, customers, new talent and all of our stakeholders are beginning to watch what we do. They will make their decisions whether to join us largely by determining whether we are meeting their expectations.

It is no longer simply about maximizing short-term profits at all costs. The myth that says, "It's the environment or the economy," "It's jobs or the natural

world," and "Sustainability will cost you money," is just that—a myth. It has been debunked by countless studies showing business and economic success by those who embrace this new thinking instead of clamoring for the past.

For the sake of your business, your family and community, it's time to re-think the role and purpose of business and what defines business success.

It is time to learn about, experience and fully engage with the real and deep benefits of sustainability as we journey toward a future we all yearn for.

For more information about how to embed sustainability into your organization or how to join a Sustainability Circle™ near you, email us at info@revsustainability.com

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End Notes

1. Business for Social Responsibility (BSR) 20th Anniversary Report, *Accelerating Progress*, October 2013. See also Harvard Business Review, September 2009 and September 2011.
2. Chris Lazlo and Nadya Zhexembayeva, *Embedded Sustainability: The Next Big Competitive Advantage*, Greenleaf Publishing, March 2011.
3. *The 3% Solution: Driving Profits Through Carbon Reduction*
<http://worldwildlife.org/projects/the-3-solution>
<http://www.youtube.com/watch?v=9wFTCr75TvA>
4. MIT Sloan and the Boston Consulting Group, *Sustainability & Innovation Global Executive Study and Research Project*, 2011 and 2012, <http://sloanreview.mit.edu/reports/sustainability-strategy/>
5. June 2013 poll by the American Sustainable Business Council found that most small business owners, or employers with fewer than 100 employees—regardless of political persuasion—support national goals for energy efficiency, clean energy innovation, limits on power plant emissions and environmental review of business loan applications. Among SMEs, the research revealed recognition that clean energy and related policies are better for their financial bottom lines. Vulnerability and disruption from recent natural disasters such as Hurricane Sandy and Midwest tornadoes, were also cited as influential factors.
6. Interview with Chris Lazlo, www.p2pfoundation.net, July 2012.
7. See, for example:
 - (1) Network for Business Sustainability.
<http://nbs.net/topic/sme/>
 - (2) Government of Canada SME Sustainability Road Map. http://www.ic.gc.ca/eic/site/csr-rse.nsf/eng/h_rs00174.html
 - (3) Pollution Probe of Canada. / www.pollutionprobe.org
8. Green Biz, Annual State of Green Business Report, 2013.
9. Business for Social Responsibility, 20th Anniversary Report, *Accelerating Progress*, October 2013.
10. MIT's Sloan School of Management and the Boston Consulting Group, *Sustainability & Innovation Global Executive Study and Research Project*, 2011.
11. *The 3% Solution: Driving Profits through Carbon Reductions*, sponsored by Green Biz, World Wildlife Fund, Hewlett-Packard and CDP, June 2013.
12. Society for Human Resource Management and BSR, *Advancing Sustainability: HR's Role*, May 2011. Other data illustrates sustainable business practices' positive impact on employees. In a 2010 Canadian study, Hewitt and Associates found that the more employees agree their companies are proactively pursuing worthy environmental and social goals, the more employees are engaged. Price Waterhouse Coopers' Global Survey: *Millennials at Work: Perspectives of a new Generation* (2009) found that a majority (88 percent) of qualified job applicants seek employers with values that match their own.
13. http://www.shrm.org/Research/SurveyFindings/Articles/Documents/11-0066_AdvSustainHR_FNL_FULL.pdf
14. Gallup Management Journal, Gallup Study: *Engaged Employees Inspire Company Innovation*, 2006. See also *Gallup State of American Workplace*, 2013, <http://www.gallup.com/strategicconsulting/163007/state-american-workplace.asp> .
15. Inside Climate News, *Major Corporations Quietly Reducing Emissions—and Saving Money*, September 2012.
16. Businesses are starting to apply the same level of scrutiny to their supply chains that they apply to their own operations, to both cut costs and to decrease corporation-wide emissions. Suppliers' greenhouse emissions can account for as much as 86 percent of a company's overall emissions, as reported in Carnegie Mellon University's 2008 study, *The Importance of Carbon Footprint Estimation Boundaries*.
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18. MIT Sloan Management Review, *Sustainability? Don't Go It Alone*.
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