WHITE PAPER

Sustainability

The Essential Strategy Needed for Your Business to Survive and Thrive

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White Paper

Sustainability – The Essential Strategy Needed for Your Business to Survive and Thrive

Introduction

One of the hottest buzzwords in business today is "sustainability." But what does sustainability mean and how important is it to your business?

Boston Consulting Group (BCG), partnering with MIT's Sloan School of Management on a global sustainability survey of more than 1,560 business leaders (69% of whom lead companies with less than 10,000 employees) found that, while companies may have differed in how they defined sustainability, "they are virtually united in the view that sustainability, however defined, is and will be a major force to be reckoned with – and one that will have a determining impact on the way their businesses think, act, manage, and compete."[1]

What Does "Sustainability" Mean?

There are many definitions of sustainability, ranging from the highly technical to the familiar "going green." And these definitions have evolved as our collective understanding of what sustainability should mean has deepened. While many academics and business consultants define sustainability in terms of pursuing the so-called "triple bottom line" of economic, social and environmental goals, a more realistic approach for small- and mid-sized businesses is to define sustainability in terms of what is realistically possible for their own firm's goals, capabilities and resources. At a minimum, the widely recognized definition of sustainability is "development that meets the needs of the present without compromising the ability of future generations to meet their own needs."[2]

A 2010 Deloitte Consulting review observed that sustainability, at bottom, must be highly tailored to each sector, and, indeed, to each individual company in order to serve as a springboard for practical action.

Why Sustainability Matters to Your Business

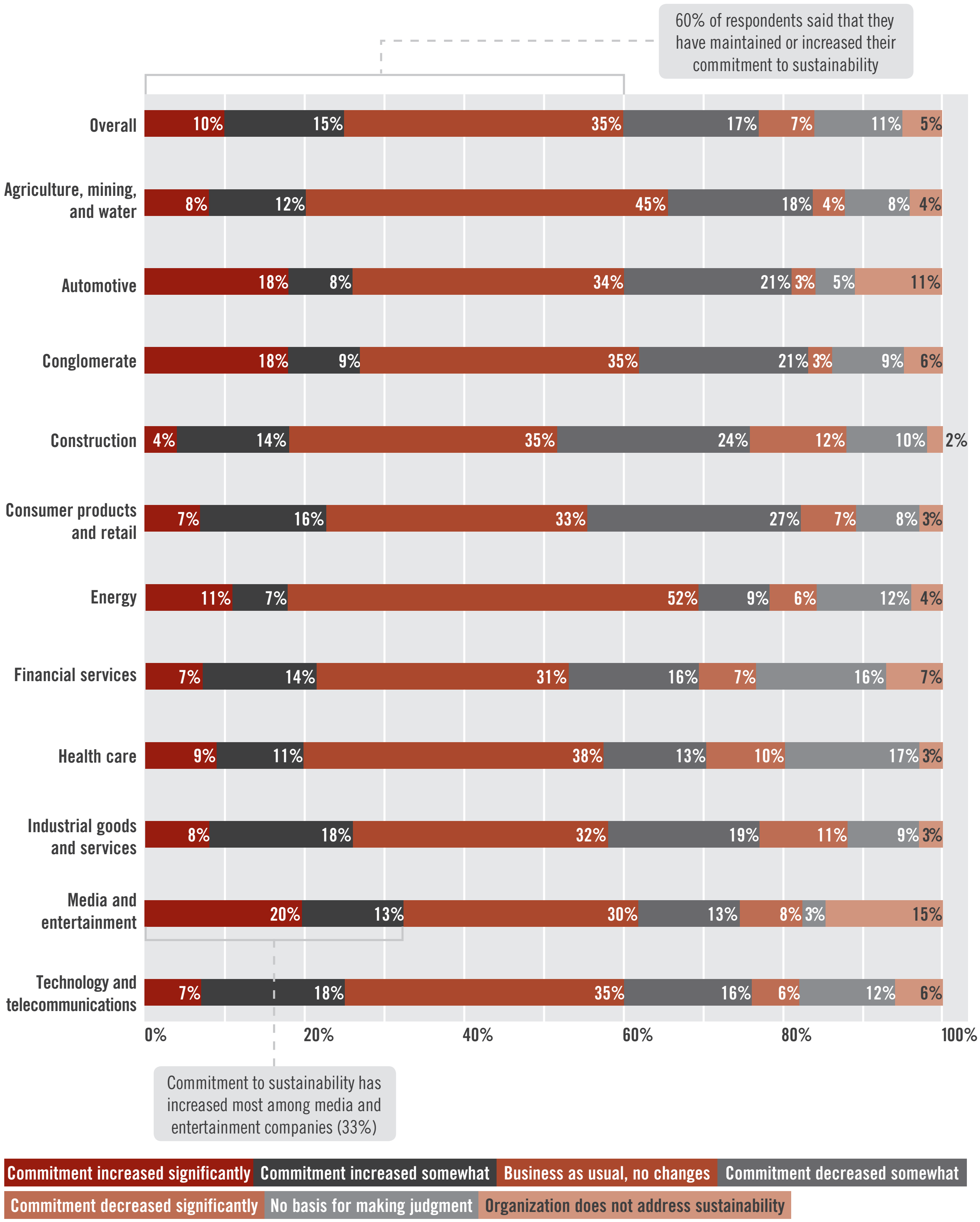
While few would argue that pursuing sustainability is a noble goal, the current difficult economic environment would seem to push sustainability initiatives fairly far down on the list of priorities for businesses. However, developing and implementing a comprehensive sustainability strategy is fast becoming a business *necessity* for several key reasons:

- **Government Regulation** – Escalating public and governmental concern about climate change, industrial pollution, food safety and natural resource depletion are leading governments to intervene with unprecedented levels of new regulations and policies.
- **Globalization** – Economic development and rising living standards in the "BRIC" countries – Brazil, Russia, India and China – means greater competition for increasingly scarce resources. Globalized workforces and supply chains have also created environmental pressures and related business liabilities.
- **Competition** – Thousands of companies are placing strategic bets on innovations in energy efficiency, renewable power, resource productivity and pollution control.
- **Consumer Concerns and Employee Interests** – Consumers and employees are increasingly demanding that companies produce products and/or deliver services in a more eco-friendly and socially responsible manner and are rewarding such companies through greater loyalty, embracing new products, and some willingness to pay higher prices for premium products and services.

Interestingly, the BCG survey found that 92% of respondents indicated that sustainability-related issues are or would soon have a material impact on their businesses, and that less than 25% had pulled back on their commitment to sustainability during the economic downturn.

At Respondents' Companies, the Downturn Has Had Little Effect on the Commitment to Sustainability

How has the current economic downturn affected your organization's commitment to addressing sustainability issues?



Note: Data reflect 1,560 responses from business leaders; because of rounding, the percentages for some industries do not total to 100%.

Source: Accenture

A BNA Graphic/accaa101

In short, environmental issues are increasingly encroaching on businesses' capacity to create value for customers, shareholders and other stakeholders, and, "managers can no longer afford to ignore sustainability as a central factor in their companies' long-term competitiveness."[3] In the preface to his Release 2.0 paperback edition of *Hot, Flat, and Crowded*, Pulitzer Prize-winning New York Times columnist Thomas L. Friedman, reflecting on the global financial crisis and resulting severe worldwide economic downturn of the past two years said that he believes that the crisis in the financial markets and the natural world, "make an even more compelling case that the forces making our world hot, flat and crowded pose the greatest challenge for our generation – and that rising to that challenge could actually be our greatest economic opportunity."

A May 2010 Harvard Business Review piece observes that business history is marked by periods of relative stability punctuated by fundamental shifts in the competitive landscape that create inescapable threats and game-changing opportunities. Sustainability is an emerging business megatrend – like electrification and mass production – that will profoundly affect companies' competitiveness and even their survival.

(See Appendix A for a list of sustainability-related issues and trends likely to affect different industries in the coming years.)

Building a Framework for Sustainability and Challenges

Sustainability and Profitability are not Mutually Exclusive

Reviewing data of 275 companies examining the effect of sustainability strategies and initiatives on business success, Accenture Consulting found that the companies ranked highest in sustainability leadership significantly outperformed their peers in terms of shareholder returns. *Importantly, Accenture found that, at worst, focusing on sustainability had no negative effect on a company's performance, i.e., high performance and sustainability were highly compatible business goals.*[4]

Accenture identifies four "value drivers" that all tended to be addressed by sustainability leaders, suggesting that sustainability and high-performance are indeed very compatible goals:

- Growth – Leaders take advantage of opportunities to tailor new products and services to meet the needs and preferences of their environmentally conscious consumers. For example, computer maker Hewlett-Packard introduced energy-efficient PCs and notebooks, achieving both revenue growth and a licensing agreement to promote a technology that will generate electricity at twice the efficiency and half the cost of regular solar panels.
- Profitability/Cost Reduction – Leaders take advantage of ways to achieve cost reductions through sustainability. HP's consolidation of 85 data centers into six netted energy cost savings of approximately $30 million. Diageo, a large spirits distiller, switched from aluminum kegs to recyclable plastic that is 27 times lighter, thus reducing the energy needed to transport them by 27 times. And Johnson Controls' migration to using more recycled lead for batteries saved the company approximately $500 per ton.
- Positioning for future growth and longevity - Sustainability leaders rarely invest in "one-off" projects or initiatives. Rather, they seek opportunities that not only address current challenges and priorities, but also help position them for long-term advantage. For example, Sharp Electronics invested $4 billion in a factory that will enable it to become the world's largest manufacturer of solar panels, positioning itself for what is projected to eventually be a $1 trillion market by 2040.

Companies that adopt sustainable business strategies and practices drive value by growing revenue through new products and services, reducing costs through efficiency gains, managing operational and regulatory risks more effectively, and building intangible assets such as brand, reputation and collaborative networks with customers, competitors and suppliers. As Accenture notes, "a company's commitment to sustainability influences brand loyalty among consumers as well as how the company is perceived by shareholders, investors and regulators." Thus, for example, Diageo's sharing of rum distillation cleansing technology with a competitor led to its earning a license to establish operations in St. Croix, a major rum producing center.

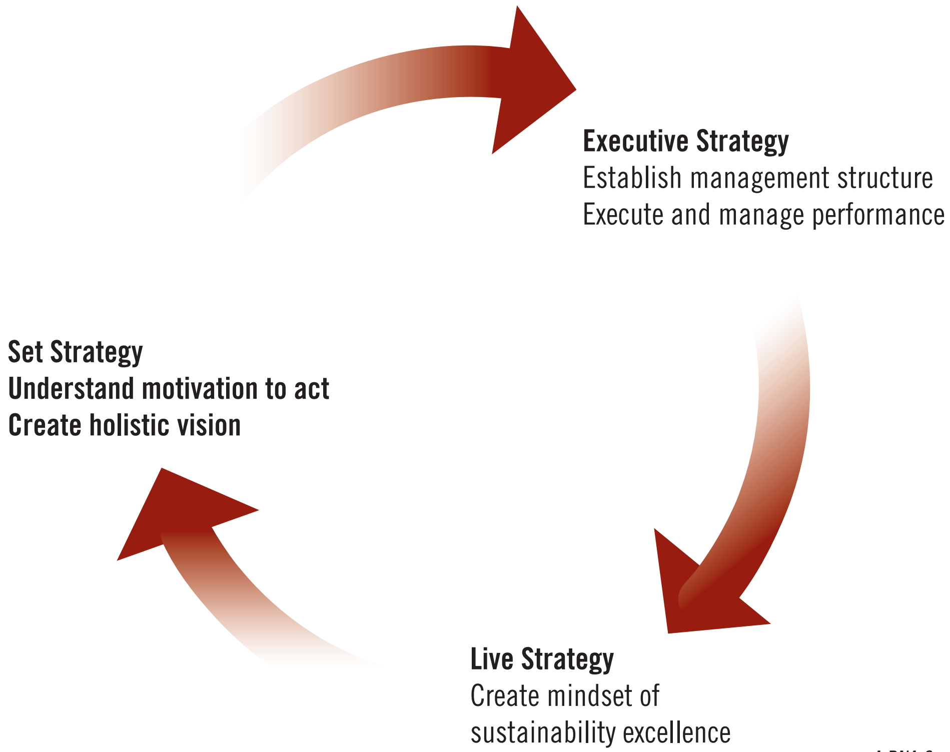
Developing a Framework for Success

If one accepts the proposition that developing a sustainability strategy is a business necessity, the next question becomes how best to create and implement a successful strategy. BCG identified three major reasons why companies struggle to address sustainability more effectively:

- A lack of good information on which to base decisions
- A lack of a clearly defined business case for value creation
- A lack of effective execution of the sustainability strategy

Accenture believes that there are three crucial steps that a business must follow to establish and maintain a framework for success with regard to sustainability:

- Develop a strong and actionable strategy for sustainability
- Prioritize the "drivers" and execute the strategy
- Develop the capability to maintain long-term focus and commitment to drive a sustainability culture across the business



Source: Accenture *A BNA Graphic/accaa101*

Establishing an effective strategy means gaining an understanding of why the business needs or desires to pursue a sustainability strategy in the first instance. You should ask questions such as:

- What is the primary catalyst that is driving the decision?
- Are regulatory and compliance issues a prime concern?
- Is a primary concern to win more business/keep existing customers?
- Is a primary concern to build brand image and reputation?[5]

A successful business will be aware of the current issues and risks and also be able to "read the tea leaves" and discern the future trends and concerns of its customers and suppliers and be willing to take a leadership position (especially if competitors are unwilling or unable).

An effective strategy will mean that a company has identified several sustainability initiatives to pursue. However, Accenture has observed that many companies fall behind their competitors mainly because they do not know which initiative to pursue first. Thus, a company should prioritize the drivers described above that are the most critical/least critical to the business and pursue the sustainability initiatives associated with the specific driver. Accenture notes that companies that fail to recognize the importance of a particular value driver may skip opportunities associated with that driver in favor of other initiatives that do little to encourage better business performance.

As part of its sustainability strategy, Walmart created "Sustainable Value Networks" comprised of company employees, outside experts, academics and governmental officials that focus on a strategic issue. One such network that focused on fleet logistics developed a transportation strategy that has improved efficiency by 38%, thus saving the company more than $200 million per year and cutting its greenhouse gas emissions by 200,000 tons per year.

As important as developing and executing on sustainability initiatives may be, managing for long-term success is no less important. Thus, firms should integrate sustainability objectives into day-to-day management. For example, the Dow Jones Company has incorporated sustainability objectives into its compensation models, performance reviews and other management processes.

Dispelling the Myth that Sustainability is Only for the Largest Businesses

Although there may be broad consensus that pursuing sustainability initiatives is the right thing to do socially and as a business necessity, many small and mid-size companies believe that pursuing sustainability initiatives now will simply add to their costs and will not deliver immediate financial results to their bottom line. Many companies also believe that only the largest companies can afford to invest in sustainability initiatives. In 2009, Patty Caulkins, Xerox's Vice President for Environment, Health, and Safety, commenting on small businesses' inability to put sustainability into practice in a meaningful way, sought to dispel two key perceptions: (1) environmental issues were better left to "Big Business" to fix; and (2) "I simply can't afford to "go green."

Addressing the first perception, Caulkins observed that, "sustainability has inspired a tidal wave of exciting green developments that range from recycling, renewable energy and hybrid cars to the redesign of products, packaging, factories and manufacturing processes." Importantly, Caulkins noted that, "in all of these efforts, businesses – large and small – play a vital, transformative role. It's not size that matters, but identifying smarter ways to go green." Addressing the second perception, Caulkins explained that sustainability initiatives can make a quantifiable contribution to both the environment and the bottom line, including improvements in employee morale, customer loyalty and brand image. Observing that it was really a matter of scale and practice, Caulkins pointed to the hotel industry's promoting the practice of asking guests to consider less frequent changing of sheets and towels, which saves energy, water and soap (environmentally friendly and reduces a hotel's costs) and makes guests feel like they are making a contribution (building customer loyalty and brand image).

Government Programs and Incentives and Private Financing Opportunities Abound

While payback periods continue to shorten and the total economic benefits to be derived from sustainability initiatives become clearer, up-front costs nevertheless can be significant. Luckily, the financing and tax incentives available to businesses at the federal, state and local level to help encourage energy efficiency and other sustainability measures continues to increase. For example, the American Recovery and Reinvestment Act of 2009 (ARRA) includes several tax credit and grant programs designed to stimulate investment in sustainability measures. Other countries such as China, the European Union and the United Kingdom also have created initiatives targeting energy efficiency, transportation, construction, waste water treatment, electricity grid infrastructure and renewable energy.

Closer to home, states, localities and the energy industry itself also have become an important source of creative financing and partnership. For example, the city of Palm Desert, California maintains a program that provides property owners with 20-year loans for energy efficiency that are repaid through property tax assessments. San Diego Gas and Electric maintains a program that provides 100% financing terms for energy efficiency that small and medium-sized customers receive with loan repayments being made on their regular utility bill.

In 2008, Cowgirl Creamery, a San Francisco-based maker of award-winning organic cheeses with $8 million in sales sought financing to build a cheese-making operation to increase production and improve quality. Enter New Resource Bank, which opened in 2006 on the theory that helping businesses like Cowgirl were good for its own bottom line. Complaining that, "a bank has never been excited about us," co-founder Sue Conley observed that she was "really taken aback when New Resource said they'd like to work with us."

Practical Sustainability Measures that Can be Implemented Now

As previously noted, at its core, sustainability means doing what is realistically possible in terms of an individual firm's goals, capabilities and resources. While smaller businesses may not be able to dedicate entire departments and budgets to sustainability initiatives like GE or Wal-Mart, there are still plenty of practical and affordable steps that can be taken.

To help jump start the process of focusing on sustainability as a business value, provided below is a non-exhaustive list of sustainability measures that virtually any business can implemented now:

- **Reduce transportation costs** – using mapping technology and other type of route planning techniques can help drivers avoid traffic and reduce the number of trucks needed – saving on fuel, maintenance, vehicle replacement and personnel costs.
- **Reduce energy costs** – consolidate all utility billing data in a single place where all parties can review it; in de-regulated markets, choose the lowest cost provider for your usage patterns; find billing errors; claim all available carbon credits; take advantage of all utility rebates and incentives; perform an energy audit to determine whether energy can be used at off-peak rates.
- **Office equipment** – consider replacing desktop computers with laptops, which use 40% less power; shift from CRT to LCD monitors; switch from single-purpose printers to multi-purpose machines; default to double-sided printing, which can reduce paper use by up to 40%; use recycled laser ink cartridges; replace equipment with Energy Star certified equipment.
- **Outsource payroll and human resources functions** – using third-parties to provide comprehensive human resources outsourcing solutions can reduce paper, personnel, and even the office space needed to deliver management of human resources, employee benefits, payroll and workers' compensation.
- **Water conservation** – use smart sensors, smart meters and software to collect and analyze data regarding water usage; install low-flush toilets, restricted use faucet and shower-heads
- **Recycling -** Increasing recycling and use of recycled materials in manufacturing.
- **Reduce paper use** – switching from paper with 35% post-consumer content to 100% recycled paper can save a law firm the equivalent of 260 trees, 24,000 gallons of water, and enough electricity to power 3.5 homes per year.

Sustainability-Related Issues and Trends Likely to Affect Industries in the Coming Years

Industry	Key industry issues to be addressed by an effective sustainability strategy
Utilities	• Emerging smart grid technologies will allow consumers to better manage their consumption of electricity by, among other things, shifting the brunt of energy usage to non-peak hours. As a result, consumers will be charged less and utilities companies will generate less revenue. • Carbon-trading permits will potentially provide utility companies with an ancillary revenue stream. • The emergence of small-scale technologies, which is predicted to drive greater distribution of power generation, will call for more complex business models. • Utilities will be increasingly judged by their ability to achieve carbon efficiencies. • Renewable energy sources will be critical components of strategies to not only reduce emissions, but also achieve industry and government targets.
Retail	• Heavy carbon-emitting suppliers and transporters will likely pass along their rising carbon costs to retail companies. • Rising sea levels might interrupt the predictable flow of materials from overseas suppliers.
Telecommunications	• Telecommunications will need to integrate alternative energy sources as primary energy sources. • Product differentiation will be increasingly based on lower total cost of ownership.
High-tech	• Opportunities for growth will arise in servicing the low-carbon economy with solutions such as smart grids. • High-tech companies will face increasing demand for the tools that help users measure, manage and improve their energy/carbon efficiencies. • Heavy carbon-emitting suppliers and transporters will likely pass along their rising carbon costs to high-tech companies. • Rising sea levels might interrupt the predictable flow of materials from overseas suppliers. • High-tech companies will face increasing upstream supply chain risks in areas related to water conservation, agricultural commodities and chemicals.
Financial Services	• Carbon trading and other emerging environmental trading opportunities are emerging. • Significant funding will be required by other industries looking to take advantage of carbon reduction opportunities.
Consumer Goods	• In an era of increased carbon regulation, consumer goods companies will face pressure to lower their carbon footprints, and also refine their packaging, labeling and pricing practices. • Heavy carbon-emitting suppliers and transporters will likely pass along their rising carbon costs to high-tech companies. • Consumer goods companies will need to educate consumers on the benefits of sustainable products.
Automotive	• Heavy carbon-emitting suppliers and transporters will likely pass along their rising carbon costs to automotive companies. • Rising sea levels might interrupt the predictable flow of materials from overseas suppliers. • Manufacturers will face greater regulations and tougher vehicle emissions standards. • Automotive companies will face increasing upstream supply chain risks in areas related to water conservation, agricultural commodities and chemicals. • Fuel efficiencies will reduce consumers' total cost of ownership and become a competitive advantage for manufacturers.
Energy	• Carbon-trading permits will potentially provide energy companies with an ancillary revenue stream. • Energy companies will need to accelerate the transition from fossil fuels to alternative sources of power. • Carbon expenses are likely to be significant. • Emerging environmental regulations and greater public scrutiny will place even more pressure on energy companies to adopt sustainable business practices. • Carbon efficiency will become a key competitive differentiator.
Metals & Mining	• Companies in the metals and mining industry will face more stringent regulations and greater scrutiny of direct environmental impact. • Carbon efficiency will become a key competitive differentiator. • Governments and lenders will look more closely at a company's environmental performance when granting extraction rights.

Source: Accenture *A BNA Graphic/accaa101*

Conclusion

Discussing the sustainability megatrend, the Harvard Business Review observes that, "like the IT and quality megatrends, sustainability will touch every function, every business line, every employee. On the way to this future, firms with a clear vision and the execution capabilities to navigate the megatrend will come out ahead. Those that don't will be left by the wayside."[6]

Outsourcing non-core functions, like HR and payroll, is a smart move for companies looking to focus on sustainability by streamlining their operations. ADP TotalSource has the solution: comprehensive, tightly integrated HR services delivered by a team of experts led by a Human Resources Business Partner. Anchoring the ADP TotalSource solution is My TotalSource, our powerful HRMS that provides robust, secure online management tools that boost productivity and greatly reduce paper consumption.

[1] *"The Business of Sustainability: Imperatives, Advantages, and Actions," The Boston Consulting Group (September 2009).*
[2] *Brundtland Commission Report of 1987, "Our Common Future."*
[3] *Lubin and Esty, "The Sustainability Imperative," Harvard Business Review (May 2010).*
[4] *"Driving Value from Integrated Sustainability: High Performance Lessons from the Leaders," Accenture (2010).*
[5] *Id. at p. 10.*
[6] *Lubin and Esty, "The Sustainability Imperative," Harvard Business Review (May 2010), at p. 9.*

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