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**SUSTAINABLE
BUSINESS**

BRIAN CLEGG

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Financial Times Briefing on Sustainable Business

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Why do it?

- Why bother?

- Risks

- Costs

- Rewards

3

Why bother?

It is entirely possible that you may want to take a more sustainable approach to business from a base of altruism. Like the Quaker factory owners of the nineteenth century, you may believe that it is important for your workers to be educated, reasonably paid and to have decent living conditions. You may have children and be concerned about the kind of environment they are going to have to live in. And that could well be enough incentive in its own right for you to make the effort. But it is certainly not the only, or the most common, argument. Being more sustainable brings solid, bottom line benefits.

You will find that companies that are famous for their intense concentration on profitability – organisations like Wal-Mart, for example – are putting a lot of effort into sustainability. Why? They believe that it is the only option if they are to thrive. Wal-Mart has not suddenly become benevolent and cuddly. The company's management doesn't see sustainability as an opportunity to be generous, but rather as a vital part of achieving its 'licence to grow'. There is a threefold benefit to be gained from taking a more sustainable approach. First, some moves in this direction have simple, direct bottom line advantages. Reducing energy use, for example, doesn't just cut down on depletion of rare resources and reduce the emission of greenhouse gases, it saves your company money too.

Secondly, there's a pragmatic long-term view that makes sustainability the only logical approach. Just look at the word. Sustainable. The alternative? Unsustainable. Something that it isn't possible to continue to do. If you use up a natural resource faster than it can be replaced, eventually that resource will run out. That's simple economics. When it's gone, it's gone. And then you won't be able to sell the products that are derived from it any more. It is simple self-preservation to ensure that the raw materials for the products you want to sell continue to be available, whether by reducing demand, ensuring renewable resources *are* renewed or switching to a less scarce raw material.

Finally, there is the increasing desire for sustainability from practically every customer base, and from your wider stakeholders in the form of shareholders, local community, government regulators and so on. There is no doubt that many stakeholders who are important to your business want you to have a company that is more environmentally friendly and more responsible in its treatment of staff, suppliers and community. Few businesses can thrive by totally ignoring what the key stakeholders are looking for.

It is very difficult to quantify how much these stakeholder opinions drive sales in total but, as an example, Hewlett-Packard claims that in 2007, over \$12 billion of revenue was influenced by having the right stance on the environment and social responsibility. Like saving energy, this aspect of sustainability is not just about warm feelings, it's about hard cash too.

Is a single approach to sustainability right for everyone, in a 'one-size-fits-all' fashion? No. While every organisation, big or small, can gain some benefits from a commitment to sustainability, some factors will suggest the need to put a particularly significant or early effort into this field. Table 3.1 provides a quick checklist for you to assess your sustainability impact. Rate each category on a scale of 1

to 10, where 1 is very little and 10 is very much (ideally this assessment should be done for each operating country or region).

Table 3.1 Sustainability impact assessment

Big brand	Is your company a big name brand in this country/region?
Regulated business	Do you use or manufacture dangerous materials, operate in a market that is highly controlled, operate in conditions where customer safety can be put at risk or make a heavy use of energy?
Growth in regulation	Is your sector likely to be the next to become highly regulated? For example, are current regulations applying to the manufacture of your products liable to be extended so that you have more responsibility for products throughout their lifecycle, including disposal?
Big footprint	Does your business rely to a large extent on using limited natural resources, from minerals and oil to products from the rainforest?
Dirty reputation	Do you or your industry currently have a reputation for being damaging to the environment? Are you having problems in areas of social responsibility and community impact?
Carbon clients	Do you make heavy use of fossil fuels? Have you a high rate of carbon emissions when all aspects of your business are considered?
Valued for values	Is yours the sort of business where talent can pick and choose, and may be swayed by your company's ethical and sustainability track record?

This is obviously just a crude indicator, but with a maximum score of 70, any score over 30 suggests that sustainability needs to be a significant part of your strategy with a high priority.

Risks

The risk associated with sustainable business can broadly be divided into two: those risks associated with making changes to be more sustainable; and the risks that come if you do not take up the sustainability challenge.

The risks of taking a more sustainable approach are mostly cost-linked. These are risks of:

- increased cost from sourcing more selectively to be sustainable
- increased cost because of better pay and conditions for workers
- increased cost of new manufacturing processes
- increased cost of new packaging
- increased cost of taking a lifetime responsibility for your products
- increased cost of maintaining, monitoring and reporting on sustainability.

The risks of avoiding sustainability also have cost implications, but it is harder to allocate specific values here. Risks can come from the following:

- Customers – whose increasing awareness of sustainability can reduce the market for unsustainable products and services.
- Employees – not only are you likely to lose your best employees to other companies, but there may also be more risk of harm to employees with the potential for law suits and damages.
- The industry – competitors who take a more sustainable approach can not only benefit in PR terms, putting your business at risk, but can also encourage the introduction of regulation that can push unsustainable businesses out of the market.
- Location – risk from the location of your operations typically comes from either regulation or interference with the local environment, with ultimate costs to the business that may include operations being terminated. ‘Environment’ here can mean anything from a rainforest to being situated near housing.
- The media – on a regular basis both TV and newspapers will expose companies undertaking unsustainable activities, from using child labour to damaging the environment. Apart from any legal proceedings that ensue, this can result in massive damage to reputation.
- Your processes – most typically risk from your processes could be a health risk to employees and the local community (with a consequent danger of legal action and fines, or criminal proceedings) or environmental risk.
- A product or service – the key to identifying risk from a specific product or service is to examine the lifetime impact, considering not just, say, the potential hazards of the raw materials in a product, but also the cost exposure from disposal at the end of its life.
- Suppliers – it’s easy to think that your only exposure to risk is from your direct activities, and if suppliers act in an unsustainable fashion, this is their problem. Yet, as ‘sweatshop’ allegations to high street brands demonstrate, if your suppliers get it wrong, you will also face the consequences.

Each of the above factors needs to be considered in terms of environmental, social and political risk. It is tempting but dangerous to ignore all risks that aren’t easy to quantify. Just because the risks of avoiding sustainability are less straight-

forward does not mean that they are not important – many of them can wreck a company. As will become clear in the costs and rewards sections that follow, it is important to realise that although taking a more sustainable approach has inherent costs, it can also result in cost savings and increased revenue. It is not enough to look at risks and added costs alone.

Costs

The costs associated with taking a sustainable approach exist – it would be foolish to pretend that they don't. But they should be seen as necessary operating costs rather than a nice-to-have expenditure. It is important to make sure that your accounting procedures do not give sustainability costs higher impact than is necessary – for example, by applying them after taxation, rather than as expenditure that is offset before taxation. Costs include the following:

- More expensive sourcing – some (but by no means all) sustainable raw materials are more expensive than alternatives.
- Capital costs of new plant, buildings, etc. – but bear in mind this initial upfront cost will usually be accompanied by many years of improvements in running costs and other financial benefits. It is not a cost in isolation.
- Additional maintenance costs – in order to keep your operation sustainable it is important to keep plant and buildings operating well. This may involve additional cost over an 'only fix it if it breaks' approach.
- More effort in design – being sustainable involves putting more effort into the design of processes and products. The long-term benefits of this approach can be huge, but once again there are upfront costs from doing a better design job.
- Extra product costs – from production to packaging and disposal.
- Additional people costs – paying a living wage may involve increased costs for salaries, etc. However, this should be put alongside better productivity and retention, less sick time and improved company image.

Generally speaking, costs incurred in this way will almost all have associated benefits, many of them financial, from reduced waste, reduced energy use, better productivity and improved image and sales. The net result will often be a positive one overall – but there is an upfront cost involved.

Rewards

The benefits of taking a sustainable approach to business fall in a wide range of areas. They can be financial:

- Increased revenues
- Lower costs (operational and capital)
- Less administrative overheads
- Reduced cost of defence against litigation
- Reduced fines and other regulatory costs
- Improved stock market performance.

But they can also improve the effectiveness of the operation:

- Better yield from resources
- Reduced waste
- Higher productivity
- New and more efficient processes
- Better management of risk.

There are also human benefits, in terms of both customer response and employee satisfaction:

- Enhanced reputation
- New 'green' markets opened up
- Greater market share
- Different and better products
- Greater customer satisfaction
- Better motivation among employees
- Better relationships with community and other stakeholders
- Easier to make planning applications for growth as a result of better support from the community.



Briefing Lessons

Sustainability makes possible a wide range of benefits to a company. It can provide the following:

- **Altruistic benefits – reflecting a personal concern for people and the environment.**
- **A licence to grow – it is only if a company is seen to be sustainable that it is likely to be regarded as a good company to be moving into a particular area or market.**

- **Direct financial benefits** – by reducing energy costs, materials costs, fines, pollution charges and more.
- **The ability to continue** – by definition, if you don't act sustainably there will come a point where you run out of materials, resources or other limiting factors.
- **Regulatory compliance and stakeholder acceptance** – there is increasing pressure to be more sustainable from customers, shareholders, communities and governments.
- **Protection against risk** – there is a wide range of risks from increased costs to the danger that competitors will move down the sustainable route and become more competitive, or there will be regulation that gives them a competitive advantage.

Undertaking a sustainability impact assessment can make clearer your need for greater sustainability.

There will be costs associated with taking a more sustainable approach, but these can be balanced against expected savings and enhanced revenues.

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