

The Business Case for Sustainability

Canadian Pollution Prevention Roundtable
Halifax
June 14-15, 2006

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Definitions

Sustainable Development: Meeting the needs of the present without compromising the *ability of future generations to meet their own needs.* -- Brundtland Commission, 1987 --

Corporate Social Responsibility: The overall relationship of the corporation with its *stakeholders*. Elements of social responsibility include *financial* performance, creation and maintenance of *employment, environmental* stewardship, *employee* relations, and investment in *community* outreach. -- Conference Board of Canada --

Corporate Social Responsibility: The commitment of business to contribute to *sustainable economic development* – working with employees, their families, the local community and society at large to *improve their quality of life.* -- WBCSD --

Sustainability: The *possibility that we all flourish forever.*
-- John Ehrenfeld, International Society for Industrial Ecology --



TNS 4 Systems Conditions

In a **sustainable society**, we do not ...

1. Mine and disperse **natural resources** at a faster rate than they are re-deposited into the Earth's crust
2. Produce **synthetic substances** faster than they can be broken down by natural processes, if they can be broken down at all
3. **Deplete or degrade natural resources** at a faster rate than they are replenished (over-harvesting trees or fish) or by other forms of **ecosystem manipulation** (paving over fertile land or causing soil erosion)

... and ...

4. **People** are not subject to conditions that systematically undermine their **capacity to meet their needs**

The Sustainability “3-Legged Stool”

Sustainable Development (SD) = Sustainability
= Corporate Social Responsibility (CSR)
= Triple Bottom Line (TBL) = Corporate Responsibility (CR)
= Environmental, Social, Governance (ESG)

Economy / Profits

Sustainable business

- Profits
- Taxes, R&D
- Jobs
- Expenditures
- Training
- Fair trade
- Core values

Environment / Planet

Eco-Efficiency

- Manufacturing efficiencies
- Operations efficiencies
- Product efficiencies
- Smart design
- Cradle-to-cradle, take-back
- Beyond compliance
- Restorative to nature

Equity / People

Ethical business

- Internal Employees
 - Human Rights
 - Health & Safety
 - Respect, Caring
- Local Community & **Culture**
- Rest of the World



The Smart Business “3-Legged Stool”

Asset Management

**Financial
Capital**

**Natural
Capital**

**Human
Capital**

**Manufactured
Capital**

**Social
Capital**

The Smart Community “3-Legged Stool”

Managed Growth

Economic Vitality

- Vibrant economy
- Job creation
- Business retention & expansion
- Efficient movement of people and goods
- Infrastructure for growth

Sustainable Natural Environment

- Enhanced environment
- Clean air, land & water
- Clean, efficient transportation and infrastructure
- Energy & water efficiency
- Greenlands securement

Healthy Communities

- Caring, safe & engaged communities
- Adequate food & shelter
- Housing choices
- Health care support
- Social and emotional well-being
- **Cultural** and faith diversity

5 Stages and Emerging Drivers

5. Purpose / Passion

- Passionate Founder / CEO

4. Integrated Strategy

- Business Opportunities – “Carrots”
- Risk Management – “Sticks”

3. Beyond Compliance

- Regulatory Threat
- PR Crisis

2. Compliance

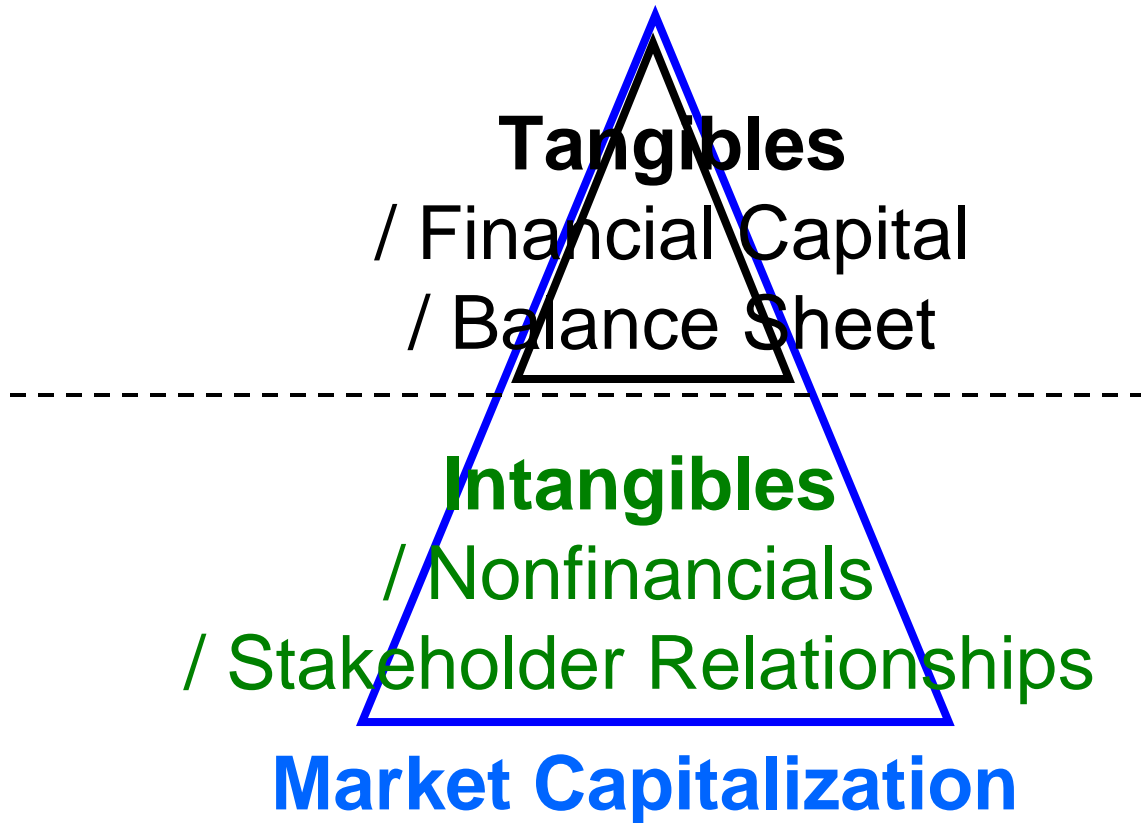
- Regulatory Pressure / Enforcement

1. Pre-Compliance

Proactive

Reactive

The Company Value Iceberg



The Company Value Iceberg: 1981

Tangibles / Financials

83%

Intangibles / Nonfinancials

17%

Market Capitalization

Arthur D. Little, *The Business Case for Corporate Citizenship*, 2002)

The Company Value Iceberg: 1998

Tangibles / Financials 29%

Intangibles / Nonfinancials / Stakeholder Relationships 71%

Market Capitalization

Arthur D. Little, *The Business Case for Corporate Citizenship*, 2002)

The Business Case

Tangibles / Financials

OPPORTUNITIES

Intangibles / Public Image
Stakeholder Relationships

RISKS

Regulators

Communities

Customers

NGOs

Competitors

Employees

Governments

The Media

Company Value

European Union

Supply Chain

Investors

Biosphere

The Perfect Storm

- **Oct. 27 – Nov. 1, 1991**

1. **Hurricane Grace ... near Bermuda**
2. **Cold front over the Great Lakes**
3. **Old warm front near Sable Island**

- All were dying out
- Energy from the 3 systems combined
- Worst storm in history ...100' waves
- **Sudden, unexpected, devastating**



“Perfect Storm” of Business Risks

10 Market Forces		5 Business Risks
5 Mega-Issues	5 Demanding Stakeholders	
Climate Change	Awakened Customers	Market Risks Balance Sheet Risks Operating Risks Capital Cost Risks Sustainability Risks + Difficult access to capital
Pollution & Health	Activist Shareholders	
Globalization Backlash	Civil Society / NGOs	
Energy Crunch	Government Regulators	
Erosion of Trust	Financial Sectors	

Carbon Disclosure Project

	2003	2004	2005	2006
Institutional Investors	35	95	155	211
Value of Assets Held	\$4.5T	\$10T	\$21T	\$31T
Companies Surveyed	Financial Times 500			1,800
Response Rate	47%	59%	71%	TBD

- 90% say climate change poses commercial risks and/or opportunities ... profit impact varies by sector
- 63% are assessing their climate risk and instituting strategies to reduce GHGs
- **5 Risks**, depending on sector and location: **Regulatory ... Physical ... Litigation ... Competitiveness ... Reputational**



Interesting Market Forces

1. **EU Market:** WEEE, RoHS, REACH, Sony example
2. **Carbon Trading:** \$22.3B in EU in 2005
3. **National Security:** Dependence on foreign oil
4. **US Cities:** 218 in *Climate Protection Agreement* to reduce GHGs 7% below 1990 levels by 2012
5. **US States:** 27 states suing EPA, 7 NE states in *Regional Greenhouse Gas Initiative* (RGGI)
6. **US Corporations:** 37 EPA's *Climate Leaders* program
7. **MBA Schools:** *Beyond Grey Pinstripes*, BGI, Presidio
8. **Reporting:** GRI, 64% of Global 250, Sarbanes-Oxley
9. **Public Awareness:** Magazines, newspapers, movies, books, TV programs, ads, gas pumps, energy bills
10. **Supply Chain Pressures:** Nike, Wal-Mart, GE ...

Public Awareness / Expectations



Images courtesy of Enbridge Gas



Wal-Mart

October 2005 Announcements by CEO Lee Scott

- #2 company in Fortune 500: \$315B revenue in 2005
- Reduce **GHGs from stores** by 20% by 2012
- Invest \$500M annually in **stores' efficient energy**
- Ask 60,000 suppliers to reduce **packaging**
- Reduce **waste** from stores by 25% in 3 years
- Increase **fuel efficiency in truck fleet** by 25% over 3 years; double it within 10 years
- Independently monitor **overseas suppliers** to make sure they meet social and environmental standards
- Increasing **diversity** in supply chain and 1.2M US workforce
- Ask Congress to raise \$5.15 **minimum wage**



GE “Ecomagination”

May 2005 Announcements by CEO Jeffery Immelt

- #7 company in Fortune 500: \$157B revenue in 2005
- 30% GHG intensity reduction by 2008
- 1% absolute GHG reduction by 2012 vs. 40% increase
- 30% better energy efficiency by 2012 over 2004
- 2x research investment in cleaner technologies, from \$700M in 2004 to \$1.5B in 2010
- Sell \$20B of 17 “ecomagination”-tagged products per year by 2010, up from \$10 billion in sales in 2004

5 Stages and Emerging Drivers

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Business Priorities

Productivity

Profit

Share Price

Growth

Leadership

Managing Risks

Speed to Market

Expense Savings

Brand Image

**Complying with
New Regulations**

**Attracting &
Retaining
Customers**

**Competitive
Advantage**

**Responding to Emerging
Market Forces**

Revenue

Governance

New Markets

**Attracting &
Retaining
Top Talent**

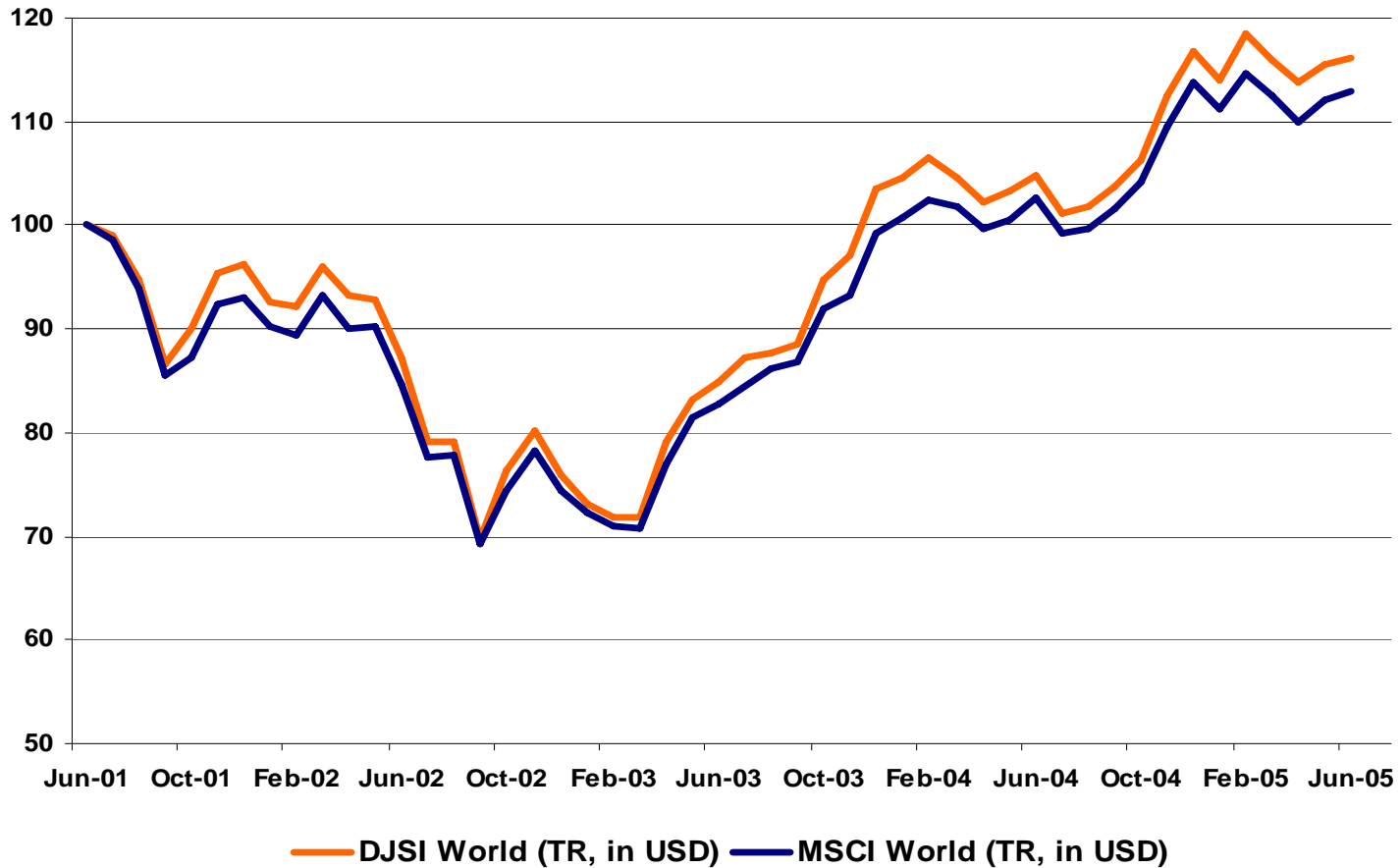
Motivation

Innovation

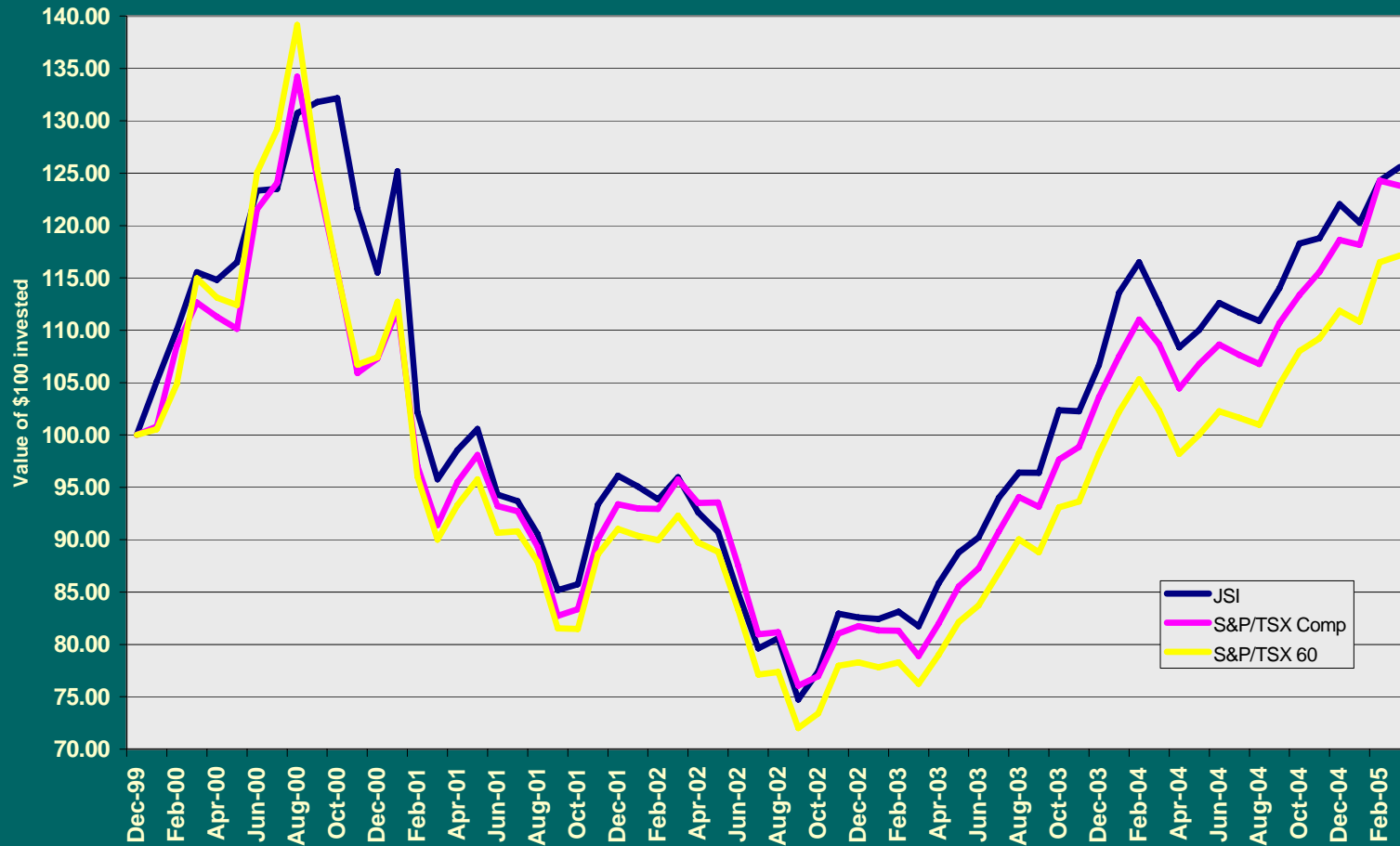
Market Share

0.00
8.00
1.00
1.00
0.00
3.00
5.00
9.00
8.00
1.00
5.00
0.00
0.00
3.00
5.00
6.00
4.00
6.00
9.00
8.00
1.00
7.00
7.00
9.00
8.00
0.00
8.00
1.00
5.00
9.00
2.00

Dow Jones Sustainability Index - 4 years



Jantzi Social Index



Source: Jantzi Research Inc.

Benefits to “SME Ltd.”

Revenue:	\$4,000,000	
Profit:	\$200,000	(5% of Revenue)
Workforce:	50	(43 + 7 Managers)
Avg. Employee Salary:	\$25,000	
Avg. Manager Salary:	\$55,000	

Potential profit increase: 66%

- + Energized employees
- + Improved corporate image
- + Competitive advantage
- + Positioned for the future



The Catch


1. Show senior leadership

- Include SD in vision / mission / strategies
- Avoid “green-washing” hype
- Visibly support SD: speeches, questions, actions

2. Educate the whole company

- Visibly sponsor and support the sessions

3. Establish an “SD Profit Center”

- Led by a top person
 - Reinforces that it is business strategy vs. a compliance or philanthropy issue
- 



6 Benefit Areas

- 1. Reduced electricity, fuel, and waste costs**
- 2. Reduced recruiting costs**
- 3. Reduced attrition costs**
- 4. Increased employee productivity**
- 5. Increased revenue / market share**
- 6. Reduced risk, easier financing**

**Usual
focus**



6 Benefit Areas ... % Improvement

1. Reduced electricity, fuel, and waste costs **-10%**
2. Reduced recruiting costs **-1%**
3. Reduced attrition costs **-2%**
4. Increased employee productivity **+6%**
5. Increased revenue / market share **+5%**
6. Reduced risk, easier financing **-5%**

... yielding a profit increase of +66%

What if ...

1. Reduced electricity, fuel, and waste costs **-10%**
2. Reduced recruiting costs **-1%**
3. Reduced attrition costs **-2%**
4. Increased employee productivity **~~+6%~~ +3%**
5. Increased revenue / market share **+5%**
6. Reduced risk, easier financing **-5%**

... yielding a profit increase of **~~+66%~~ +48%**

What if ...

1. Reduced electricity, fuel, and waste costs ~~-10%~~ **-5%**
2. Reduced recruiting costs **-1%**
3. Reduced attrition costs **-2%**
4. Increased employee productivity **+6%**
5. Increased revenue / market share **+5%**
6. Reduced risk, easier financing **-5%**

... yielding a profit increase of ~~+6%~~ **+56%**

What if ...

1. Reduced electricity, fuel, and waste costs **-10%**
2. Reduced recruiting costs **-1%**
3. Reduced attrition costs **-2%**
4. Increased employee productivity **+6%**
5. Increased revenue / market share **~~+5%~~ +2.5%**
6. Reduced risk, easier financing **-5%**

... yielding a profit increase of **~~+66%~~ +64%**

What if ...

1. Reduced electricity, fuel, and waste costs ~~-10%~~ **-5%**
2. Reduced recruiting costs ~~-1%~~
3. Reduced attrition costs ~~-2%~~
4. Increased employee productivity ~~+6%~~ **+3%**
5. Increased revenue / market share ~~+5%~~ **+2.5%**
6. Reduced risk, easier financing ~~-5%~~

... yielding a profit increase of ~~+6%~~ **+35%**

Tipping Point?

20% at Stage 4 or 5

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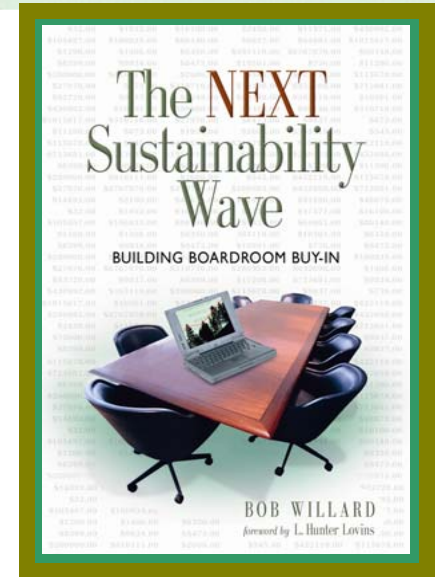
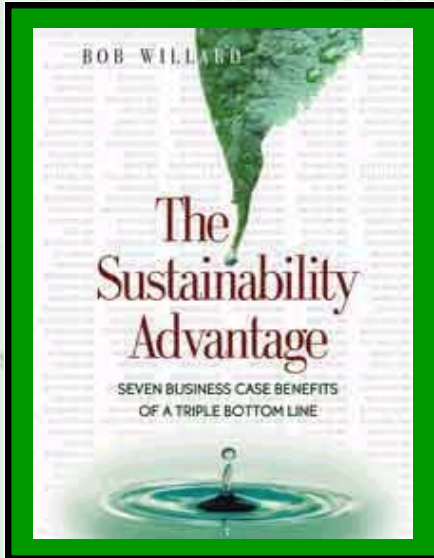
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