

The Business Case for Sustainability

**AAPA Harbors, Navigation & Environment Seminar
Vancouver
June 6-8, 2006**

**Bob Willard
bobwillard@sympatico.ca
www.sustainabilityadvantage.com**



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

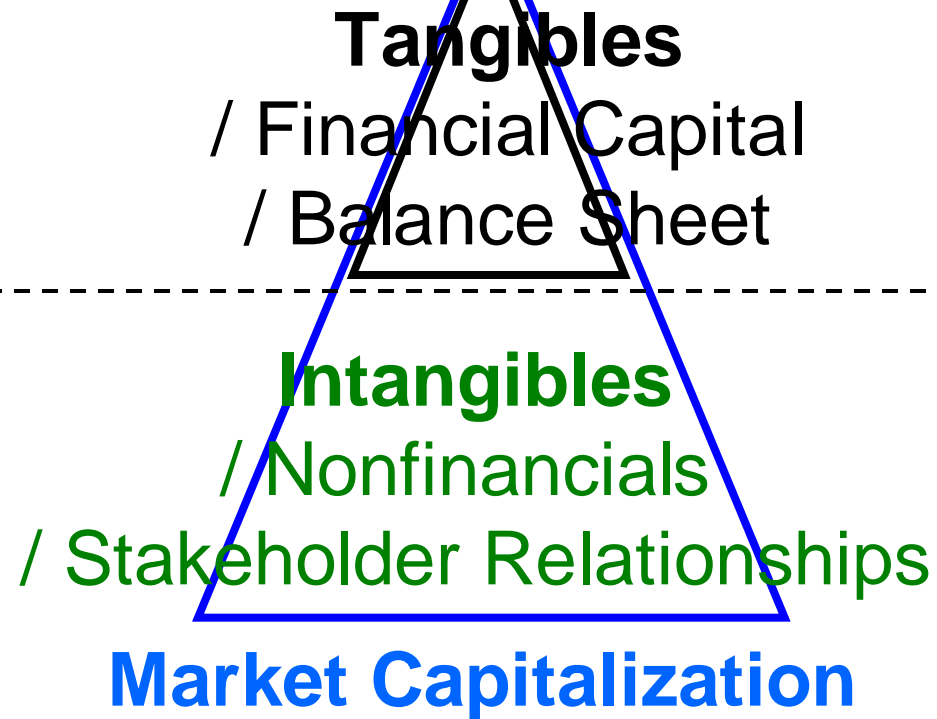
- Regulatory Pressure / Enforcement

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

Tangible / Financials

OPPORTUNITIES

Intangibles / Public Image
Stakeholder Relationships

RISKS

Regulators

Communities

Customers

NGOs

Competitors

Employees

Governments

The Media

Company Value

European Union

Supply Chain

Investors

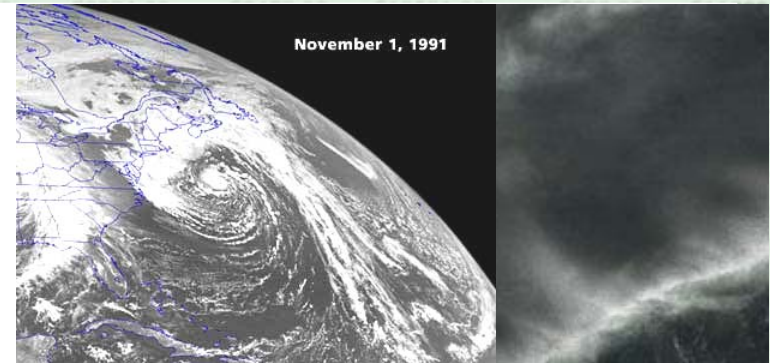
Biosphere

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 States:** 27 states suing EPA, 7 NE states in Regional Greenhouse Gas Initiative (RGGI), California
5. **US Cities:** Climate Protection Agreement by 218 mayors from 39 states representing 44M Americans: GHGs 7% below 1990 levels by 2012
6. **MBA Schools:** *Beyond Grey Pinstripes*, BGI, Presidio
7. **Reporting:** GRI, 64% of Global 250, Sarbanes-Oxley, MD&A
8. **Supply Chain Pressures:** Nike, GE, Wal-Mart



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
- 



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**

10 Market Forces

10 Market Forces

5 Mega-Issues

5 Demanding Stakeholders

Climate Change

Green Consumers

Pollution & Health

Activist Shareholders

Globalization Backlash

Civil Society / NGOs

Energy Crunch

Government Regulators

Erosion of Trust

Financial Sectors

Reputation / License to Operate

Sea Change Of Rising Expectations



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

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**

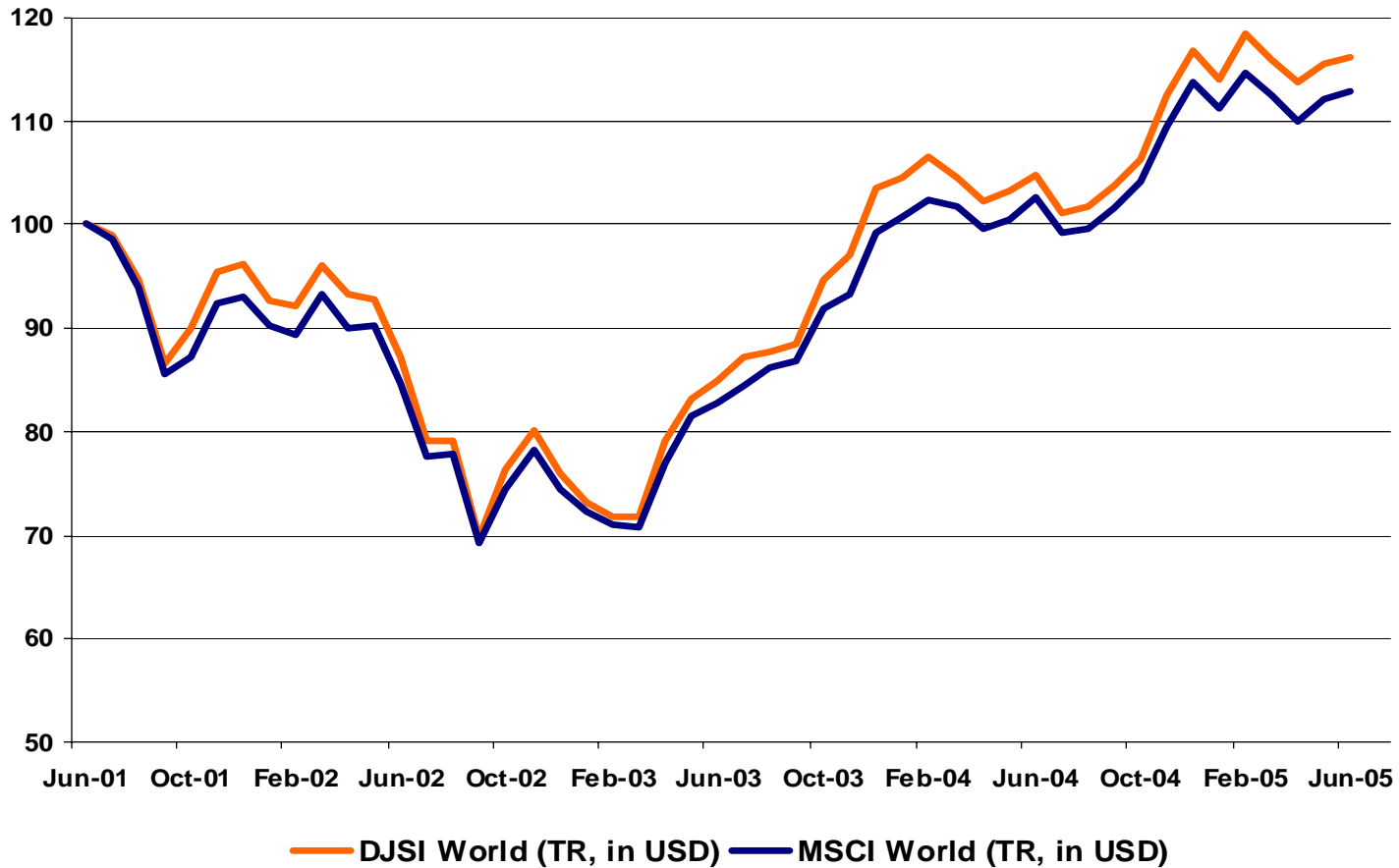
Motivation

Innovation

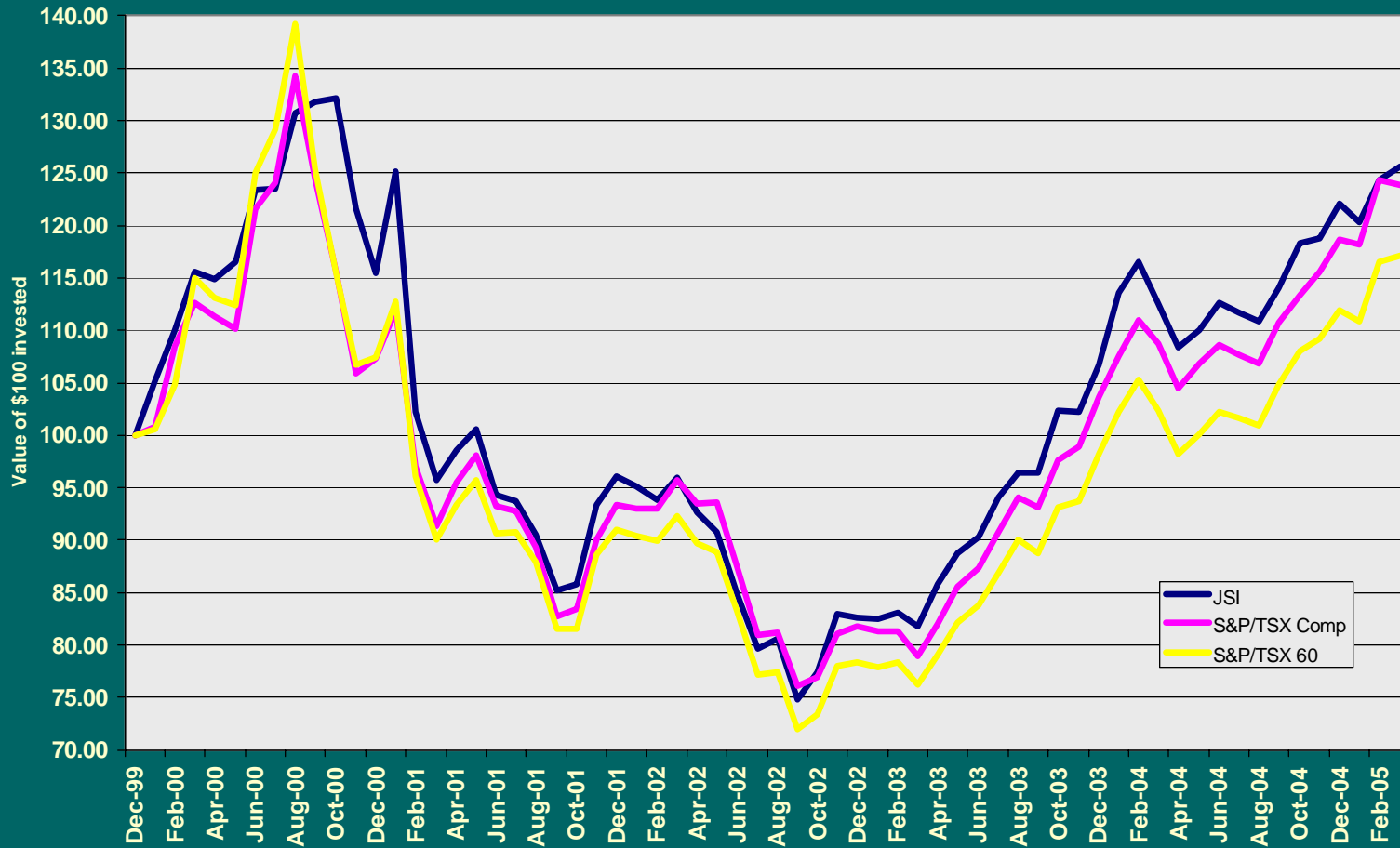
Market Share



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

5. Purpose / Passion

- Passionate Founder / CEO

4. Integrated Strategy

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

3. Beyond Compliance

- Regulatory Threat
- PR Crisis

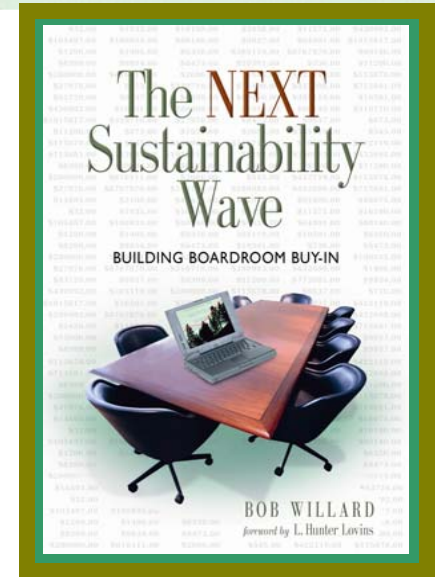
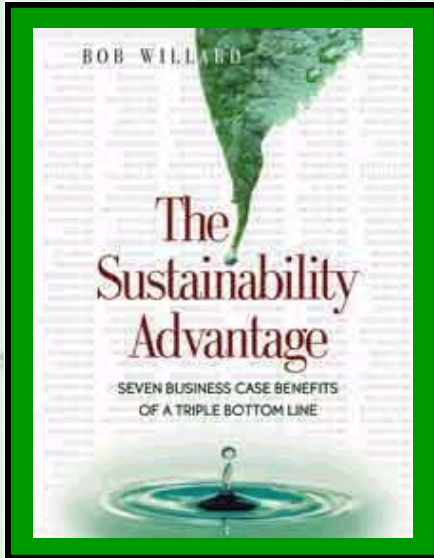
2. Compliance

- Regulatory Pressure / Enforcement

1. Pre-Compliance

Proactive

Reactive



The Business Case for Sustainability

**AAPA Harbors, Navigation & Environment Seminar
Vancouver
June 6-8, 2006**

**Bob Willard
bobwillard@sympatico.ca
www.sustainabilityadvantage.com**