Using the ‘Sustainability Lens’ to Identify Business Improvements

by Chris Hazen

Over the past decade, as more and more companies, including global giants like Alcoa, Johnson & Johnson, Toyota, and Kodak, have embraced the sustainability concept, many companies have, paradoxically, depreciated the role of the environmental manager. Many environmental professionals saw their budgets cut and their jobs marginalized or eliminated as their companies went through difficult economic times, while others, understandably pessimistic about their career prospects, migrated to diverse corporate functions, such as procurement, product development, marketing, and regulatory affairs.

The role of the corporate environmental manager is changing. It’s time for environmental professionals to move beyond the compliance issues that used to be their exclusive focus, and turn the “lens” that they have spent their entire careers polishing toward the business of their organizations. Environmental professionals, it’s up to you to lead the process of scrutinizing the full range of your company’s activities from the perspective of sustainability—before someone else finishes the job for you. This article describes how environmental professionals can use the “sustainability lens” to identify needed business improvements within their organizations and then “sell” them to management.

APPLYING THE SUSTAINABILITY LENS

For many years, business managers have asked themselves whether or not compliance with environmental laws was a sufficient investment in sustainability. Could businesses justify to their shareholders doing more than just comply, as long as future regulatory requirements are unknown? Or should businesses really be taking on the role of government in self-regulating or trying to balance the plethora of special interest demands on behalf of government? Meanwhile, environmental managers who championed the cause of “beyond compliance” often alienated senior management by suggesting that the beyond compliance goal was self-evident in its desirability—without carefully examining the business case for such activity.

The most widely cited definition of sustainable development comes from the Bruntland Commission Report: “[D]evelopment that meets the needs of the present without compromising the ability of future generations to meet their own needs.” (Our Common Future, Report of the World Commission on Environment and Development (WCED), Geneva, Switzerland, 1987.) A more business-focused definition might be: “Activities that meet the present requirements of business without compromising the ability of business to be competitive in the future.” Or to put this definition in the form of a question: What does your business need to do now so that it meets its current requirements and obligations without compromising its ability to compete in the future?

Each company will answer this question in its own way. Nevertheless, it is critical to build a credible and compelling business case for sustainable development.

BUILDING YOUR BUSINESS CASE

The next challenge is identifying the actions that your business needs to take to embrace sustainable development. Think of this as “polishing your lens.”


Generic Sustainability Issues

Generic issues affect society generally and are not unique to your own business. Large companies, in particular, often address these issues in response to external pressure—for example, from interest groups that view the company as a sort of “super-citizen” by virtue of the resources at its disposal. The groups present the company with what should be viewed as competitive proposals for the disbursement of a portion of its profits to worthy causes. What is often glossed over, however, is that donations addressed to generic issues may do very little to reduce business risk or enhance opportunity, while helping to expose companies to the criticism that they are trying to supplant the role of government.

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‘Inside-Out’ Issues
Value-chain impacts (or “inside-out” issues) result directly or indirectly from the activities performed as a result of the business of creating value for its customers by providing products and services. With Europe taking the lead, we have entered a new era of regulation in which indirect costs are being forced into product design and energy management decisions, due to the real or perceived value-chain impacts of such decisions. If your value chain has a material negative impact on people or the environment somewhere along the line, and you are not aware of it and/or managing it, your business risk is higher and your business may be on an unsustainable path.

‘Outside-In’ Issues
“Outside-in” issues are external issues that impinge on the business’s ability to compete. A simple example would be rising cost of resources such as energy or water, which will disproportionately impact a business that relies on these for the competitiveness of its product. These sustainability issues appear to be on the “outside” of the company, but may be having an increasing impact “inside” the company, depending on the type of business.

Sorting potential sustainability investments into one of the three preceding categories can help environmental professionals sidestep the debate over whether or not such investments undermine shareholder value. All three kinds of investments are likely to serve a purpose for the multinational corporation, but it is not uncommon for the value or objective of the investment to be confused or misunderstood even among those advocating the investment.

Six Principles for Building Your Business Case
Once you have categorized your sustainability issue, the following list of principles will help you frame it as a business improvement opportunity in today’s business climate:

1. **What is unique about the relevance of the sustainability issue to your business?** Be clear to management about the nature of the sustainability issue you propose to address, and why your company is uniquely positioned to address the issue, or uniquely vulnerable if the issue is not addressed. Prioritize proposals by the extent to which they can be uniquely linked to impacts on or from your company’s business model.

2. **Link to revenue.** If you can link your proposal to increased customer revenue, you have a compelling argument. Market research, whether customized to your company or generic for your industry, is an important part of building a business case, linking a sustainability initiative to revenue growth.

3. **Link to innovation.** Most growth-oriented companies put a high premium on innovation. The sustainability lens focuses attention on anticipating a subset of future market needs that demand evolution of new products or business models.

4. **Link to competitive advantage.** Most senior managers are intensely aware of what their peers and competitors are doing in core business operations, such as pricing, procurement, and product development. Competitor activity in environmental and sustainability management may be one of the most potent tools for obtaining management buy-in. However, it is important to ensure that you differentiate between the business models of your company and your competitors.

5. **Express environmental impacts/benefits in dollar terms.** Draw upon the lessons of the climate change debate and find ways to express environmental improvements in terms of dollars. Are these dollars “real?” Is there a current obligation to incur costs associated with the environmental impact?

6. **Know how your company calculates return on investment (ROI) and how business cases are presented.** Most companies have templates for presenting business investment proposals. Make sure your proposal either hits the goals for ROI set by your company or provides a compelling business case for why those should be waived now (e.g., for reasons not easy to calculate, such as brand value or reputation enhancement).
Remember that proposed business improvements should also align with your company’s other core business goals and objectives. With a succinct draft business case for an innovative business improvement opportunity in hand, the next challenge is getting senior business management buy-in.

SELLING YOUR INITIATIVE

A critical challenge facing corporate environmental professionals is helping their companies resolve the inherent tension between short-term investment and long-term benefits of investment in sustainability.

Good communication planning is essential. This, in turn, requires an understanding of the “buyer network” within your company. Environmental professionals who come from technical backgrounds don’t commonly think in this way. However, understanding the roles of different people and departments and “selling” to each of their needs is a critical skill.

If you are contemplating building a business case for any lasting business improvement, you need to know the role of each of the key buyers in the company, understand each buyer’s perspective, and address whatever it will take to gain their support for a particular proposal. In their book, The New Strategic Selling: The Unique Sales System Proven Successful by the World’s Best Companies (Warner Books, 1998), Stephen E. Heiman and Diane Sanchez characterize the technical buyer, user buyer, economic buyer, and coach. Managers need to identify who is playing each role with respect to their proposal, identify their needs, and address these in order for a proposal to be successful.

Selling makes some people feel uncomfortable. But in the field of general management, this same approach and thought process is commonly applied to any internal business initiative, whether a new product idea, manufacturing investment, branding initiative, or human resources program.

SUSTAINABILITY SUCCESS STORIES

Success stories alone are not necessarily the best source of guidance when it comes to identifying business improvement opportunities at a given company. However, below are some examples of successful business improvements viewed through the sustainability lens.

Product and Supply Chain Competitiveness

The most successful “product stewardship” programs are those driven by an underlying business goal of being a technology leader (i.e., tied to innovation) or meeting customer needs (i.e., tied to revenue and value). In the high-technology sector, for example, customer requirements increasingly include formalized environmental management systems, management of the presence of regulated chemicals in products, and the ability to provide an overall characterization of the product’s impact on the environment, including recyclability. Business cases for individual companies include extensive analysis of those requirements from specific customers. The result for one company was an industry-leading recycling program and phone calls from competitors asking for details of the program. Perhaps most important, the company experienced an improved position in cost negotiations with suppliers through its knowledge of the material changes required to meet its needs.

Workplace Competitiveness

Motivated by the interest of the investment community in its ability to characterize its role in greenhouse gas issues, one company fully re-designed employee work spaces to reduce the overall energy requirements of its corporate offices, while enhancing the working environment at the same time. The ROI is impressive: employees are enthusiastic about the changes and the company’s indirect carbon emissions through reduced resource consumption are significant.

A Competitive Edge on Due Diligence

Understanding legislation better than the competition, one chemicals company acquired a business in Europe. The company paid a perceived premium for the plant, but had understood better than the vendor that the company had spare carbon credits for the year under the European Union’s Emissions Trading Scheme. This provided a US$15 million premium for the new owners that, in retrospect, made the plant acquisition price look like a bargain.

Managing the Impacts of Globalization

The driver for one company was the realization that social responsibility issues (e.g., labor compliance, community engagement, management of nonregulated environmental impacts) in its growing manufacturing base in Asia were not being managed with the same level of attention or diligence that would ordinarily be associated with U.S.-based operations, which posed a huge risk to the company. The initial goal was to determine what specific issues posed the greatest risk to the company, then determine incremental efforts the company needed to take to most cost-effectively reduce its potential exposure to those issues.

SUMMARY

Most senior environmental professionals came of age in an environment where they could be highly valued—and highly rewarded—for keeping their companies out of regulatory trouble and not interfering with the broader business. They were the people who could understand the regulations governing a particular manufacturing site and evaluate the technical solutions available to comply with them. Success required a mastery of obscure details buried in technical regulatory documents, but didn’t necessarily require analysis of causality and underlying trends, or complex and compelling arguments for changes to day-to-day business processes. In 2007, compliance assurance skills are increasingly taken for granted. What is valued today is the ability to effectively read patterns and trends and anticipate the next “big issue” for your company—with sustainability an increasingly key lens to see these clearly—and, just as important, to get buy-in from your company to take the necessary steps to respond.