Oregon State Bar
Sustainable Future Section

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The Business Case for Sustainability:

Six Reasons for a Company to Act

By Jared Kennedy

It has become increasingly common for sustainability practitioners to mention The Business Case when speaking of sustainability. So, what is the business case for sustainability? Why is it becoming more popular? How does one identify a sustainable business driver?

Most individuals and organizations have been introduced to the concepts of sustainability by what is commonly referred to as the ethical case. A collective conscience to conserve our natural heritage sprung up in the past fifty years, supported by well-known works such as Rachel Carson's Silent Spring and Donella Meadows' The Limits to Growth, exposing the extent to which human activity can create both short-term and long-term impacts on our living world. The ethical case for sustainability is a moral justification for making decisions based on the long-term ability of the planet to support those activities. The challenge of the ethical case perspective is that determining the operating parameters of a sustainable planet are the basis of an ongoing debate, which will not be resolved before we begin to reach the limits of what is functionally tolerable.

The business case for sustainability has been developed by practical parties seeking to bridge the gap between the long-term, global perspective of the ethical case and the recognition that businesses operate on short-term cycles and much smaller scales. Businesses and sustainability practitioners are demonstrating that a business can see immediate benefits from making changes to its operations that result in doing less harm to the environment. Their goal is to find a win-win solution--one in which an organization that has accepted the premise that some action must be taken in the sustainability arena is able to balance short-term business needs with the introduction of a longer-term perspective. The Dow Jones Sustainability Index has adopted this approach, with the ultimate goal of creating long-term shareholder value in light of risks associated with resource depletion and an increasingly environmentally-conscious consumer.

Businesses that adopt sustainable practices may create immediate and long-term benefit, irrespective of the ethical rationale for adopting those practices. Generally, there are six reasons businesses make changes to address sustainability: cost savings; risk mitigation; asset value improvement; brand awareness; sustainability as a driver of innovation; and employee engagement. Some of these drivers have a direct impact on a business' ability to grow revenues and increase market share, others can deliver immediate profit growth through cost savings, and some can impact both. Below are examples of activities for each of the six justifications:

1. Cost Savings through Sustainability

Qualifying for incentives, generally in the form of federal, state and local grant dollars or tax credits, for installing water and energy saving devices and demonstrating quantitative efficiency improvements.

Taking advantage of rebates offered by utilities based on public mandates for utilities to save energy and water.

Efficiency improvements to infrastructure with a targeted return on investment to recoup upfront costs, again mostly targeting energy, water and waste reduction.

Other sustainability-related initiatives can also be a basis for cutting costs, and at times from surprising sources. For example, the implementation of a composting program saved $80,000 per year in operating costs at the 38-story office building in San Francisco known as 425 Market Street.

2. Risk Mitigation

Anticipating government regulation. Governmental regulations are increasingly pro-environment, with the agencies responsible for enforcement taking a more aggressive stance on adverse impacts to the environment. The cost of continually modifying operations for compliance is often higher than making more comprehensive changes ahead of time.

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Avoiding litigation risks, which historically have been primarily focused on environmental contamination. Many resource-intensive businesses need assistance identifying potential risks ahead of time to help to avoid litigation and clean-up costs later.

Preparing ahead for resource limitation. Anticipating and planning for water scarcity, increases to energy costs, or availability of rare earth metals takes a long-term view of business viability.

The Securities and Exchange Commission now requires publicly traded companies to disclose environmental risks to investors in annual filings.

3. Asset Value Improvement

Physical improvements to infrastructure, such as upgrades to building equipment that result in reduced operating costs, will often increase the value of the physical asset, which can be very significant for businesses with illiquid assets such as real estate. For example, CoStar Group has been compiling real estate data demonstrating that green buildings carry a higher valuation and yield higher rents than their conventional counterparts.

Other green building characteristics, such as access to a day-lit workspace, good acoustics, and a healthy indoor environment, provide occupants with a better experience. Businesses are encountering increased demand for such spaces from their employees.

4. Brand Awareness

Being identified as a green or sustainable business is becoming a "must-have" in the corporate world. The Dow Jones Sustainability Index rates companies on their commitment to long-term environmental performance. Corporate social responsibility reporting has shifted from demonstrating community-based projects to identifying and quantifying internal environmental performance as well. And consumers increasingly choose green brands over their conventional peers, even at a cost premium for certain products.

5. Innovation Driver

Sustainability is becoming the design challenge of the 21st century. An executive team that engages in long-term thinking, including with respect to sustainability, may unlock hidden potential to revolutionize a product or industry. An oft-cited example in sustainable business is Ray Anderson, founder and former Chairman of Interface, Inc., who changed the carpet industry by creating a closed-loop process for making carpet tiles.

Biomimicry is a design approach that looks at mimicking how nature completes certain tasks to reduce waste or environmental degradation. This emerging field covers both tangible products and how businesses can organize more efficiently and operate more effectively.

6. Employee Engagement

Attracting and retaining the best employees requires more than paying a good salary and providing additional benefits. Research by human resources companies such as the Society for Human Resource Managers shows that the next generation of workers is increasingly seeking employment at companies that demonstrate a commitment to creating a healthy workplace and environmental stewardship.

There are many additional examples under each of these six business drivers that demonstrate the competitive advantage any business can gain from looking at their output and practices under the sustainability lens. Talking about sustainability at a business practice level is changing the way businesses engage with their customers and employees, resulting in higher quality products, better utilization of working capital, and healthier workplaces.

Jared Kennedy, formerly the Director of Operations for Brightworks Sustainability Advisors, helps businesses incorporate sustainability into their business plans.