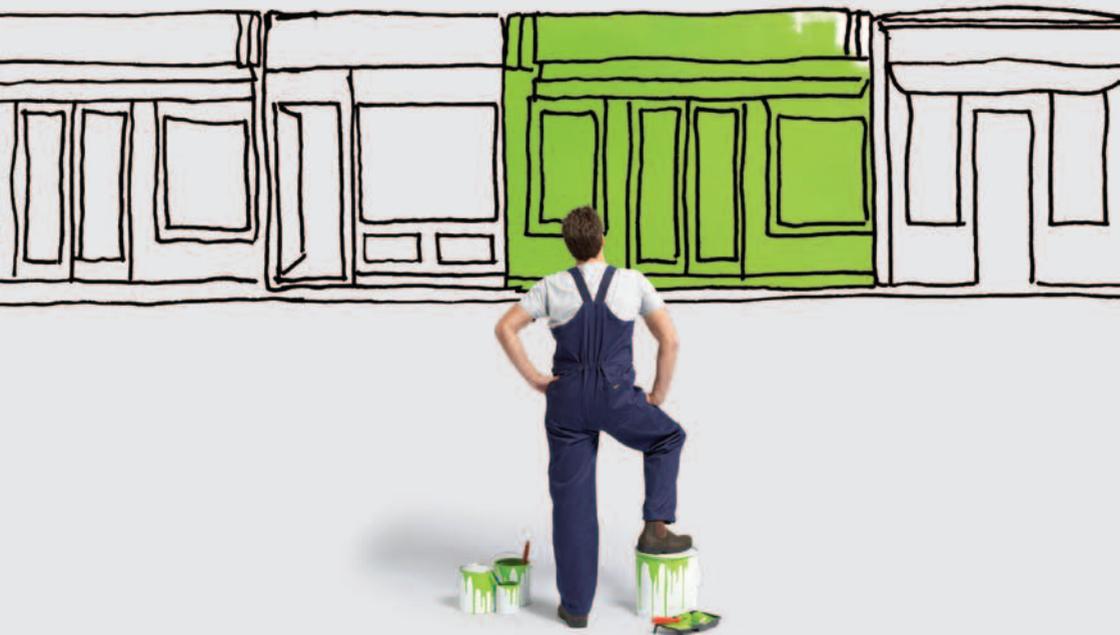


Understanding the bottom line



'It makes good business sense
to pay attention to the social and
environmental bottom line.'



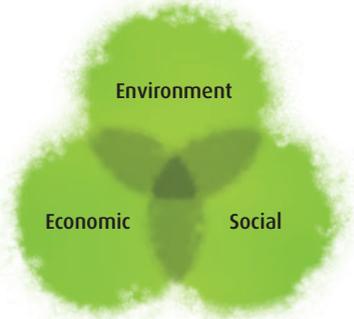
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Sustainability: a turning point for your business

Sustainability is defined as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs.'¹ Sustainability is simply ensuring that economic, environmental and social developments go hand in hand.

1 Report of the *World Commission On Environment And Development: Our Common Future*, The Brundtland Commission, United Nations, 1987

The three elements of sustainability



Being sustainable means taking into account the impact your business has on the environment and communities in which it operates. By paying attention to the social and environmental bottom line, you can run your business in a more efficient and effective way. This can have a positive impact on your financial bottom line and it makes good business sense.

Sustainability expert John Elkington coined the term 'triple bottom line' and argued that there should be three bottom lines:²

1. The 'profit' bottom line which is a measure of the traditional 'profit and loss' financial bottom line.
2. The 'people' bottom line which is a measure of how socially responsible a business has been.
3. The 'planet' bottom line which is a measure of how sustainable and environmentally responsible the business has been.

This book focuses mostly on helping businesses to understand environmental sustainability and how to adapt it to your business so you can start making changes and saving money by using fewer resources straight away.

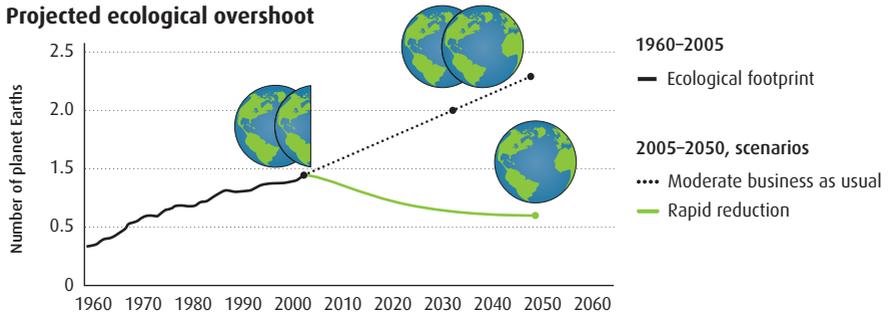
All of us understand the basic concept of living within our means. If we spend more than we earn then at some point we hit the wall financially. However, when it comes to the environment and our use of its resources, the people of the world are not living within their means.

According to the Global Footprint Network, we currently use the equivalent of 1.4 planets to provide the resources we use and to absorb the waste we produce.³ This is not sustainable. Using more resources than the planet can generate is called an 'ecological overshoot'.

2 *Cannibals With Forks: The Triple Bottom Line Of 21st Century Business*. John Elkington, Capstone, 1997

3 See www.footprintnetwork.org

Projected ecological overshoot



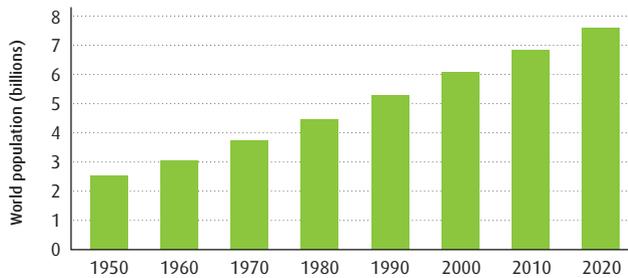
Source: *Global Footprint Network*⁴

Based on estimates from the United Nations on resource use and population, the Global Footprint Network predicts that between 2035 and 2050 we will reach the point where we need the equivalent of two planets to support us. If you ran your business the way humanity runs the planet, you'd go bust very quickly. Indeed, on its current trajectory, one could say that humanity is well on the way to environmental insolvency.

The fundamental issue is that as the world's population increases and consumerism continues to grow, the demand for the planet's limited resources will also increase.

In 1950, global population stood at 2.55 billion people. In 2010 it is more than 6.8 billion and by 2020 it is estimated that it will be 7.6 billion and will exceed 9 billion in 2050.⁵

World population growth since 1950



Source: *US Bureau of the Census Total Midyear Population for the World*.

See www.census.gov

4 See www.footprintnetwork.org

5 Total Midyear Population for the World. See www.census.gov (US Census Bureau)

The 1950s signalled the beginning of a consumer spending boom that started in the USA and quickly spread across the globe. This consumer-led boom generated major improvements in the quality of people's lives but it also changed the way we interacted with, and impacted on, the environment.

Case study: Sensis – Sustainability Strategy and Green Office Champions

The team at Sensis believe *how* they do business is just as important as what they do. They are committed to a sustainable future, which means they make decisions that consider the environment and community impact, as well as the cost. Sustainability is now integral to everything Sensis does.

Sensis introduced the Green Office program in 2003 to encourage employees across the country to make simple changes in the office to lessen the company's impact on the environment.

Green Office Champions around the business encourage their co-workers to 'Switch Off', 'Use Less' and 'Recycle'. They have implemented programs such as the 'Turn it off' campaign, where they undertook an audit of computer monitors after hours and left a small reward for people who had switched their monitors off. This campaign generated talk among employees the next day and provided an incentive for people to turn their monitors off at the end of the day. This not only saves Sensis money, it also reduces the company's environmental footprint.



Today, it means that the world is living on ‘environmental credit’. At some point, future generations are going to have to pay a price for the over use of our natural resources. Indeed, our current use of oil could also lead to us running out of easily accessible fuel.

The number of vehicles purchased each year has increased from less than 10 million in the 1950s to more than 50 million in 2007.⁶ At the same time, oil consumption has increased by tens of millions of barrels per day.⁷ In addition to using up the world’s limited supply of oil, this has led to increased exhaust emissions that harm humans and contribute to global warming.

This is the only planet we’ve got and as businesses, we can play a key role in making sustainable use of the resources that it gives us. A failure to do so is a failure of common business sense.

Sustainability and your business

Managing your business sustainably means managing it in a way that maximises the bottom line but optimises environmental, economic and social benefits for society as a whole.

The initiatives which sit under such a sustainability strategy are what many large businesses call ‘corporate responsibility’, ‘corporate social responsibility’ or ‘corporate citizenship’. It’s about businesses taking into account the needs and expectations of the environment and communities in which they operate.

Business is changing

A 2008 IBM worldwide survey⁸ of senior executives highlights this business shift towards sustainability. 68 per cent of business respondents said they were implementing sustainability “as an opportunity and platform for growth” and more than 50 per cent said their companies’ sustainability activities were giving them an advantage over their top competitors.

This is an extremely positive development. But for any such sustainability strategy to succeed, it also has to be backed and driven by the leaders of the business.

Despite this positive shift, nearly two-thirds of businesses questioned by IBM admitted they didn’t fully understand their customers’ concerns around sustainability. Understanding and responding to your customers on this issue is vital for your business relationships. As it currently stands, only 17 per cent of the IBM survey respondents said they really engaged and collaborated with customers regarding their sustainability activities.

6 See www.worldwatch.org

7 See www.earth-policy.org

8 *Attaining Sustainable Growth Through Corporate Social Responsibility*, IBM Institute for Business Value, IBM, 2008. See www.ibm.com/ibvcsrstudy

The report also highlighted the need to involve employees in any sustainability initiatives. A key reason for this is your customers will increasingly be asking your employees about the actions your business is taking for the community and the environment. Properly educated, your employees can be wonderful ambassadors for your business. However, the IBM survey showed that only 27 per cent of businesses engaged their employees on their sustainability initiatives.

KPMG's international survey about Corporate Social Responsibility reporting

In 2008, KPMG interviewed the 100 largest companies by revenue in 22 countries about their corporate social responsibility reporting. In total, 2200 companies were surveyed.

KPMG found that 80 per cent of the world's 250 largest companies now published CSR reports. This compared with only 45 per cent in Australia.

However, Australia's 2008 CSR reporting rate was nearly double that of 2005, showing real growth in this area of corporate accountability.

The main drivers for corporate social responsibility reporting were reported to be:

- ethical and economic considerations
- reputation or brand
- innovation and learning
- employee motivation.

In his introduction to the report, Lord Hastings, KPMG International's Head of Citizenship and Diversity stated that CSR reporting is now "becoming the norm instead of the exception within the world's largest companies."

KPMG in Australia has developed a good practice guide for companies and organisations who want to prepare such sustainability reports. Go to www.kpmg.com.au to download a copy.

What do Australians think about businesses and sustainability?

There is a large range of research and examples that shows Australians want companies to be sustainable and want products and services that are environmentally sound.

Australians are also sceptical; companies claiming to be sustainable need to be honest and open in their communication.

How big is the SME sector in Australia?⁹

According to the Australian Bureau of Statistics (ABS), the SME sector accounts for 73 per cent of trading businesses in Australia. It employs more than 4 million people or 42 per cent of total employed persons. These business entities are broken down as follows:

CATEGORY	EMPLOYEES	NUMBER
Micro-enterprises	0–4	1,699,277
Small firms	5–19	228,313
Medium-sized firms	20–199	78,304

It is estimated that SMEs contribute 46 per cent of the value of Australia's domestic production.

In 2008, Unilever Australia commissioned AMR Interactive Research and Newpoll to look at Australians' attitudes towards corporations and sustainability. It found:¹⁰

- 90% wanted Australian businesses to invest more in sustainable practices
- 72% thought companies had a broad responsibility to act responsibly
- 81% thought companies could still make a profit while being environmentally responsible and taking the welfare of their workers into consideration
- 64% thought companies needed to focus on sustainability to maintain their future profits

9 See www.abs.gov.au (ABS Sources: Cat. No. 8165.0, Cat. No.1321.0, Cat. No. 8155.0, Cat. No. 6202.0, Cat. No. 81550.0)

10 *Sustainable Australia?*, Unilever, AMR and Newpoll, 2009. See www.unilever.com.au

- 69% believed that businesses needed to prove their sustainability credentials in order to maintain future profits
- 75% believed there was a need for more sustainable products
- 37% said they were sceptical about the sustainability claims found on products
- 71% said they hadn't bought a certified or sustainable product because they hadn't noticed them.

The Net Balance / Australian Fieldwork Solutions (AFS) SME Sustainability Index

The Net Balance / AFS SME Sustainability Index was compiled from interviews with 800 decision makers from across 14 industries, with companies that employ five to 199 people.¹¹

When asked which challenges they considered a major concern for their businesses, compliance and economic sustainability issues scored highest:

- maintaining revenues – 74%
- finding the right talent for your industry – 70%
- meeting government regulations – 55%.

However, the results also suggest that some Australian SMEs were not yet fully aware of the cost saving benefits that come from improving the efficiencies of their operations. 6 out of 10 SMEs did not consider energy efficiency a major concern when it came to saving money, yet this is one of the easier money-saving actions businesses can implement as part of their sustainability strategy.

There's an old saying that 'waste is another word for lost profit', yet only a third of SMEs had a major concern about managing their waste. And despite the extensive media coverage about the need for businesses to reduce their greenhouse emissions, only 25 per cent of SMEs said this was a major concern.

The survey did, however, uncover some positive indications. On the recruitment front, 26 per cent of organisations nationally said a 'sustainable image' helped them to recruit the best employee talent. The Index found that 'finding talent' ranked as one of the top priorities for SMEs with 70 per cent of companies surveyed saying it was a major concern for them.

11 See www.netbalance.com/reports/SME-Report.pdf

On a very positive note, 65 per cent of SME managers said they wanted to take action on climate change. Of particular note was that one-third of SMEs were not strongly concerned about climate change but were willing to act, with a further 32 per cent both concerned and willing to act.

The breakdown is shown in each quadrant below.

SME interest in sustainability



Source: Net Balance / AFS SME Sustainability Index¹²

The research showed there was a gap between perception and reality when it came to how SMEs saw themselves on environmental issues. Asked if their business was 'environmentally friendly', 72 per cent of those surveyed indicated that they were. However, the term 'environmentally friendly' is open to broad interpretation. When the actions they claimed to be undertaking were reviewed, less than 15 per cent were actually undertaking relevant activities that are sustainable enough to be considered environmentally friendly. Clearly there is still a long way to go.

According to the Index, those SMEs that had undertaken sustainability-related actions had experienced cost savings. Furthermore, 70 per cent of SMEs surveyed said they were moving forward on sustainability-related initiatives.

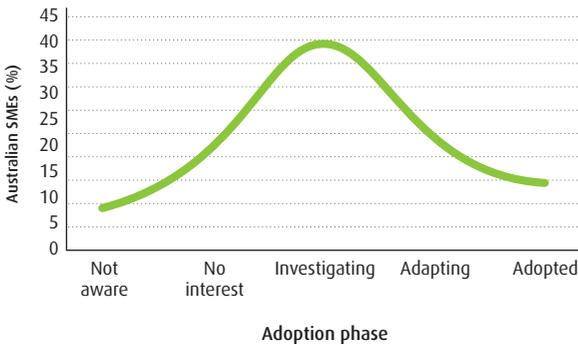
12 See www.netbalance.com/reports/SME-Report.pdf

Those who were experiencing success were very positive about the sustainability results that were being obtained. New business opportunities, manufacturing efficiencies, improved employee morale, cost savings and resource savings were just some of the benefits outlined by SMEs interviewed by AFS.

The Index showed that more than half of all SMEs were being influenced in some way to become more sustainable. The major influencers for SMEs were their internal cultures or promoters offering sustainable alternatives.

Sustainability adoption curve

Self-assessment – October 2009



Source: *Net Balance / AFS SME Sustainability Index*¹³

The results also show more than one in five SMEs were being pressured directly by customers (including government procurement) to be more sustainable.

How will sustainability benefit my business?

Embracing environmentally sustainable practices in the workplace goes hand-in-hand with many benefits for SMEs:

- the public is behind the need for social and environmental change
- the public want change that is driven by government and businesses
- the public want to see leadership that brings about real and measurable change
- change represents new opportunities

13 See www.netbalance.com/reports/SME-Report.pdf

- change can be a driver for good
- change can create new jobs
- change encourages new ways of designing and manufacturing products
- change inspires innovation
- saving resources can also save you money.

It is reasonable for Australians to want the same lifestyle and opportunities they have right now, but, as the Unilever research noted earlier reveals, they want business to fix the problems caused by their current lifestyles. This is where the opportunity lies. Businesses that respond to this concern with a price-sensitive quality product or service that makes a difference will stand a better chance of getting a sale.

Case study: Toyota Prius – the petrol/electric hybrid car

Prior to the release of the Toyota Prius petrol/electric hybrid car, there was no real environmental alternative car that had mainstream appeal and potential.

Even though the Toyota Prius is more expensive than similar-sized cars, Toyota has sold more than 1.5 million of the vehicles worldwide and 13,000 in Australia since the car first went on sale in 2000.¹⁴

All companies need to look at the potential for change within their own organisation. Within the markets currently serviced by your business, what is your 'Prius equivalent' product or service that your business could offer that your competitors aren't? Companies who take such change seriously stand to improve their reputation and commercial opportunities from 'first-mover' status – particularly as the corporate sector increasingly moves towards a more sustainable way of operating.



14 Figures represent sales at January 2010

Sustainability benefits for SMEs

1. Contain costs

Being as efficient as possible in your use of energy and other resources reduces your overheads as well as input costs. By doing so, when the prices of those commodities go up, you are not as exposed to price fluctuations.

2. Improve relationships with suppliers

Reducing the environmental and social impact of your supply chain is a joint journey that you undertake with your suppliers. When SMEs set out on this journey, they tend to build closer and more positive relationships with their suppliers.

3. Attract and retain employees

Due to the education they've received at school, younger people tend to be far more aware and 'savvy' about social and environmental issues than older people in the workforce. If your business is serious about attracting and retaining the younger, socially aware employee, then they need to see your business is serious about sustainability.

Case study: Barb de Corti – investing in the environment with ENJO

In 1994, Barb de Corti set up a business distributing the ENJO fibre cloth that cleans with water only. She liked the chemical-free microfibre products so much she invested her life savings of \$40,000 to become Australia's sole ENJO distributor.

Today, many homes use the product and the business turns over \$100 million every year. With more than 1000 consultants directly selling the ENJO range, the business is generating sales from households who want to do something practical to help the environment.

4. Reduce risk

Cost-cutting in the 1990s led to some companies being exposed as using overseas suppliers who used child labour, cheap labour or unfair working practices. Knowing where the goods and services in your supply chain are coming from is vital if you want to minimise threats to your corporate reputation.

By minimising your use of energy and resources, your business doesn't just save money. You also reduce the risk of being caught out by price hikes or supply shortages.

5. Increase market share

SMEs that are proactive on environmental and social issues are attractive to larger companies that have a sustainable procurement policy. If your business is supplying larger companies then there is significant potential in this space to 'go green' and benefit through increased market share.

The general public is emotionally engaged on the issue of the environment. If your business can provide a good or service that is price compatible but has a lesser environmental impact than your competition, then you can potentially increase your market share.

How to boost your environmental performance

What makes for a high-performing organisation? In the past, such an organisation was defined solely by the success of its financial bottom line. But in today's world, a high-performing organisation is one that is:

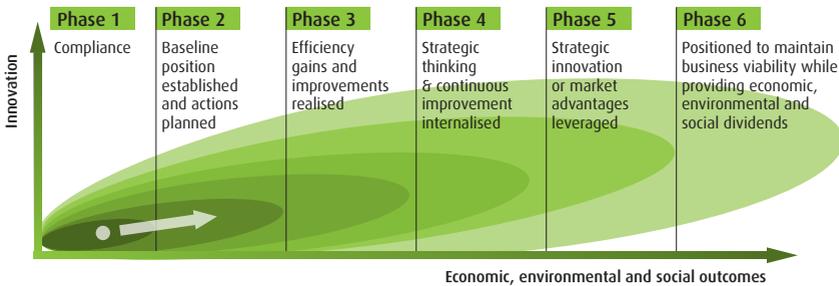
- responsive to its customers' needs and wants
- responsive to the environment in which it operates
- resourceful in times of scarcity
- adaptable in times of change
- beneficial to others through its own prosperity.

On all these measures the small or medium business can be more than a match for a far larger corporation. Just as a small car can accelerate, turn, stop or reverse in much less time than a semi-trailer, the agility of a smaller business can make up for its lack of mass. These characteristics convey the SMEs' competitive advantage in a fast evolving business environment. They also demonstrate why SMEs are perfectly positioned to take advantage of the shift towards a more sustainable way of doing business.

Phases of sustainability

Sustainability is often described as a journey rather than a destination. The Queensland Government's Department of Environment and Resource Management¹⁵ present this journey as a six-step 'sustainability evolution'.

Corporate sustainability evolution



Source: Queensland Government, Department of Environment and Resource Management

The graph shows the path towards sustainability is also about continuous improvement.

Beginning the journey can introduce your business to a wide variety of productivity enhancements and new efficiencies. Cost savings can be identified from doing more with less, such as by being more efficient in your use of energy, water and other resources. New innovation and opportunities can arise through proper engagement of stakeholders and employees. In short, companies that embark on this journey can end up better positioned in the marketplace and future-proofed from a legislative and environmental perspective. Their business image can be enhanced and in the process, employees can also become more motivated and loyal.

Changing technology, new developments and legislation mean new opportunities and challenges will come up which will impact any plans your business puts in place. But remaining adaptable and responsive to a changing roadmap is vital if your business is to take full advantage of the potential of becoming a truly sustainable business.

15 See www.derm.qld.gov.au/environmental_management/sustainability

Sustainability: a risk-management approach

Bringing a risk-management approach to sustainability helps a business identify and prioritise what it should do. It also helps a business align sustainability actions with business goals and practices – it shows what is relevant to you and what you can control.

For example, the current government, consumer and business response to environmental concerns create the following risks that every business should consider:

- changing input costs (energy, water, waste, raw materials)
- tightening of environmental legislation and regulation
- customers wanting 'greener' products and services
- inability to meet the requirements set out by 'green' tenders
- revocation of regulatory licenses and permits.

Top tips to reduce the environmental risks and liabilities for SMEs¹⁶

1. Walk around your site with a fresh pair of eyes and try to identify things that 'don't seem responsible'. It's important that you address them before they address you.
2. Get an expert to undertake a risk assessment of your business to identify possible non-conformances or potential future liabilities.
3. Obtain licenses and consignment notes from your waste contractors.
4. Identify, record and monitor what legislation, permits or licenses apply to your business.
5. Identify, record and monitor other requirements to which your organisation subscribes. For example, do you have any contracts that require you to fulfil specific environmental criteria?
6. Ensure your contractors are environmentally responsible and compliant on your site.

16 Tips courtesy of Brett Miller, Senior E&S Consultant at Business SA. See www.business-sa.com