The Sustainability Edge

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How to drive top-line growth with triple-bottom-line thinking.

With China, India and Southeast Asia fast becoming the world's largest consumer economies, the key elements of the Paris Agreement, a global effort to combat climate change that is due to come into force in 2020, are specially relevant to Asia. As technology and capital, the erstwhile constraining factors in the Asian growth story, become abundantly available, the use of resources in this region will accelerate, and naturally raise environmental concerns for Asia. Therefore, sustainability is more critical now than ever before.

The fact is, our planet does not have the capacity to provide enough resources for every person to live like the average person in the Western world. So while it took more than two centuries of industrial growth and development for the West to become aware of and adopt sustainable business solutions, these will need to take root in Asia much earlier in its development cycle.

And the ideal time is now.

The key to market leadership

Starting with the industrial revolution, the basis of competition among businesses has changed from functionality to quality, and later to building customer relationships through service bundling. Today, these strategies have become mere table stakes, ultimately leaving price as the choice discriminant, resulting in eroded margins and budget pressures. Unsurprisingly, many businesses see themselves entering a long, slow path of decline and dissolution.

Those that are able to keep their heads above the rising tide of price competition face other challenges. Resources are scarce and costlier; supply chains are global, less resilient and more exposed to reputational risks; and customers are more demanding and less trusting. Traditional tools are no longer sufficient to provide the competitive edge, while any new tool they innovate or deploy is copied and first-mover advantage is eroded thin within a short time.

It doesn't have to be this way. The key to market leadership today is sustainability. We define sustainability broadly, to encompass not just environmental protection and preservation, but any and all social interests that may be impacted by business interests, including those relating to communities, labour, gender, poverty and inequality.

Businesses that embrace this broad definition of sustainability can effectively drive their top-line growth through 'triple-bottom-line' or 'sustainability' thinking. Advocating and delivering triple-bottom-line outcomes—that of profit, people and the planet—to the company's many stakeholders will ensure long-term competitive advantage of the business.

Busting the myths

Until recently, businesses have been hesitant to adopt sustainability wholeheartedly. While efforts are often made under the umbrella of corporate social responsibility, the truth is that these values must permeate into the corporate culture and ethos of the organisation and become the basis of all functions—and across all partners—to create a truly sustainable business. This has not happened for several reasons.

First, a false dichotomy has been created in the belief that one has to compromise shareholder value in order to build sustainable businesses. We strongly disagree. In fact, there exists today a mountain of evidence that supports the contention that sustainability can contribute to the value of a business. To name a few, a 2015 report by the an investment research company Morningstar showed that long term returns of sustainable mutual funds outpaced that of traditional funds. And a report by the Carbon Disclosure Project evidences that companies leading the way in climate change management, by and large, deliver superior results in terms of profitability and stability. The S&P 500 Climate Change 2014 report also cites statistically significant evidence that climate change is linked to business performance. The truth is, businesses can make enough money and still contribute to improving the environment and community development. Countries and companies are gradually realising that one does not have to overexploit nature to make profits.

Sustainability is, in fact, a cost reduction strategy. In the United States, energy consumption is high because cars and gas are cheap. In contrast, Singapore follows strict laws regarding the number of vehicles on the road, regulating this through Certificates of Entitlement (quota licenses that grant the legal right to own and operate a vehicle in Singapore for a period of 10 years), electronic road pricing, and other incentives and disincentives.

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New technologies, especially information/digital technologies and information systems, are helping to significantly bring down operating costs. China is taking the lead when it comes to alternate (solar and wind) energy sources. The use of technology has become so cheap today that cost reductions give a competitive advantage that is difficult for others to replicate. The adoption of smart factories and smart power plants, not to mention the possibilities opening up with the Internet of Things, is helping to create a long-term competitive advantage for companies.

Equally effective, and quite the contrast, traditional methods can also help us to nurture nature. For example, farmers in Malaysia have adopted climate-friendly agricultural practices, where crops are cultivated and replanted in a way that replenishes the soil nutrients naturally, reducing the need for heavy chemical-based fertilisers.

Second, sustainability is often seen as the responsibility of governments, or even individuals—but not of businesses. However, sustainability is not, and cannot be, the job of the government alone. It is in the firm's interest to think beyond the shareholders' interests. Businesses have a key role to play, and can even take the lead through ownership and responsibility.

Finally, in our view, sustainability is a marketing problem. It has to be marketed aggressively and systematically within the company and across all its stakeholders. Within the company, it requires strong internal communication frameworks and a culture or mindset that is open to change and inculcates commitment toward sustainable business practices. We call this internal marketing. Additionally, companies must also actively engage in external marketing, across the value chain, roping in all their business partners and stakeholders. Enlightened companies do both.

So how do you market sustainability to your stakeholders?

The sustainability edge roadmap

We propose a sustainability roadmap for business leaders, which focuses on nine key stakeholder groups classified according to how they impact the business (Figure 1):

- Consumers, customers and employees constitute the first group of stakeholders who have a 'direct impact' and are already present in almost every business model. Their dynamic, fickle nature has forced companies to seek new ways to motivate and engage with these groups.
- Suppliers, investors and communities make up the second group that has an 'enabler impact'. Businesses that leverage these groups effectively can accelerate their sustainability journey and make it smoother.
- NGOs, governments and media, who we refer to as the 'indirect impact' stakeholders, have not, until recently, been seen as fundamental to driving profits in traditional business models; yet these groups are no less significant in affecting the long-term success of businesses.

In this article, we will focus on this third set of 'indirect impact' stakeholders. We shall show how businesses can proactively influence and shape the sustainability agendas of governments, the media and NGOs through partnerships and collaboration.

Engaging government

As mentioned earlier, the responsibility to create a sustainable future rests jointly on the shoulders of governments, societies and businesses, as no single entity can deliver it alone. The necessary and dramatic transition from a waste-based economy, one that is single-use, disposable and non-renewable fossil fuel-centred, to a more sustainable, renewable, circular economy will require joint private- and public-sector partnerships. A short-term outlook, be it for the quarterly financial results of a business or the election cycle of a government, must be replaced with a longer-term view that takes into account maintaining and sustaining the planet, and the future generations that will inhabit it.

SUSTAINABILITY STAKEHOLDERS' FRAMEWORK

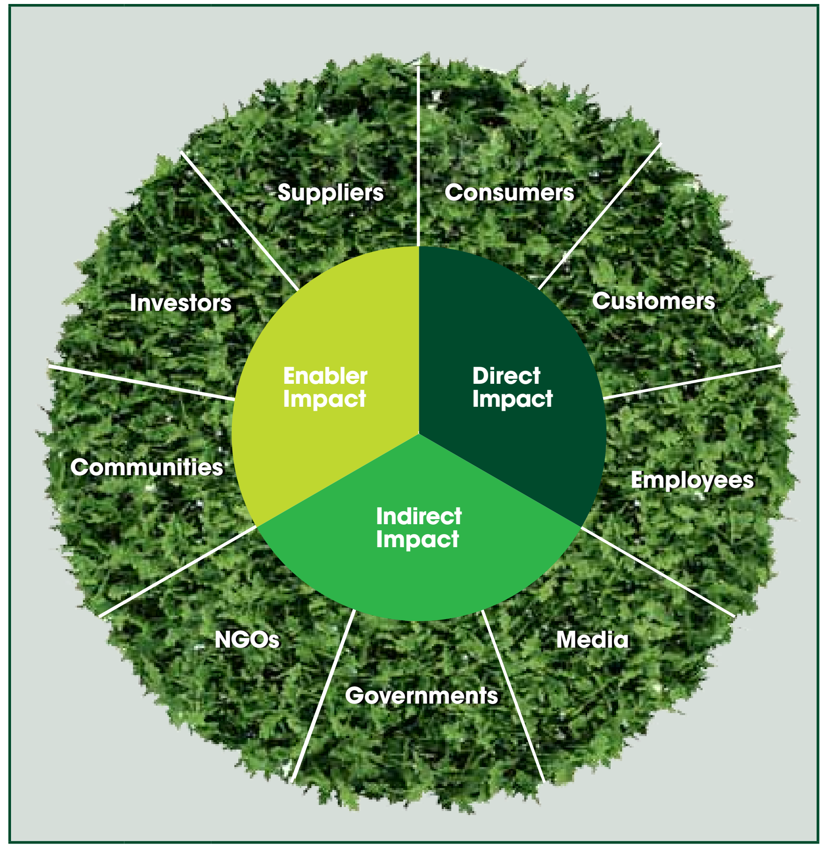

FIGURE 1

Source: The Sustainability Edge, Apte and Sheth, 2016

In the United States, federal government agencies like the Environmental Protection Agency (EPA), the Food and Drug Administration and the Department of Transportation provide incentives to companies to make more sustainable choices. The EPA, for instance, incentivises the use of combined heat and power technology through financial grants, tax incentives, low-interest loans, rebate programmes and feed-in tariffs. While these incentives are gradually leading to a behavioural shift, the onus is on businesses to leverage these initiatives for their competitive advantage.

State-owned enterprises in Sweden, Spain, India and China are moving toward a reporting system where companies have to report sustainability performance alongside financial performance. Changi Airport in Singapore is well-known for its environmental policy and sustainability efforts, be it the 900 plus skylights that allow natural light to flow into the buildings, over 3,200 artistic recycling bins depicting enlarged bottles, cans and newspapers across all three terminals, or the 870 hectares of reclaimed land. To reduce construction waste, recycled materials are used to rehabilitate the airport's taxiway pavements, while recycled concrete is used to construct roadways, pavements, drains and kerbs. Equally significant are Changi's efforts towards water and noise management.

Smart businesses need to collaborate with and lobby governments to bring forth legislation and incentives that promote sustainable consumption in a way that helps, rather than hinders their ability to thrive. In the 1980s, U.S. companies facing an onslaught of competition from Japanese brands spearheaded the movement toward quality products. Businesses proactively worked with the U.S. government to bring in the requisite legislative change and set up quality standards. In 1987, the Malcolm Baldrige National Quality Award was introduced to raise awareness about quality management. These changes benefitted not only the consumers, but also the industry as it helped weed out poor quality and unethical firms from the market.

Additionally, brands have operational power, marketing know-how and financial resources to bring together stakeholders, partners and even competitors to address key sustainability issues. In an effort to provide every American consumer with access to recycling infrastructure where and when needed, companies like Coca-Cola, Pepsi, Unilever, Procter & Gamble and Johnson & Johnson teamed up with Walmart and Goldman Sachs investment group to start a Closed Loop Fund. Launched in 2014, the Fund aims to commit US$100 million in recycling infrastructure between 2014 and 2019 by offering zero-interest loans to cities to invest in progressive waste management companies. This demonstrates how companies that compete for the same consumers can work together and with the broader stakeholder community to address societal needs through the wide reach of the government.

Leveraging media

The media and the press have huge influential power today. Yet most companies don't think of using them in a positive way, and are often either reactive to news or use the media only in the event of a crisis. Today, both traditional and social media tools can be used to galvanise communities through a well-crafted and supportive movement toward sustainability, which in turn gives progressive companies a competitive edge.

According to Megan Cunningham, CEO of Magnet Media Company, "In today's environment where social channels are available to everyone, every brand is a media company." She further explains that consumer attention is shifting from billboards, the press and linear television experiences to multichannel and omnichannel consumption, where everyone has all forms of media in their pockets.

One best-in-class example of a successful green campaign is Patagonia's full page advertisement in the *New York Times* in 2011. The ad was placed in advance of the traditional Black Friday shopping spree and featured a photograph of one of their jackets with the sign, "Don't buy this jacket". The ad discouraged sales on the biggest shopping day of the year, an unconventional move for a profit-making organisation like Patagonia. Because the ad was consistent with Patagonia's mission and values, and radically different from all the noise in advertising, it actually helped to increase the company's brand appeal and customer loyalty.

Savvy businesses can leverage the media to communicate sustainability strategies and stories, much like IBM's Smarter Planet website showcases, General Electric's Ecomagination Challenge to crowd-source clean energy ideas, and Starbucks' BetaCup Challenge to find sustainable alternatives for the eco-friendly disposal of the 58 billion paper cups it uses each year.

Companies can also develop values-aligned partnerships with the media to create a competitive advantage. Hewlett-Packard's (HP) closed-loop recycling of ink cartridges was the first of its kind in the industry. HP selected Oliver Russell to communicate its 15-step, complex closed-loop recycling process

in a simple and compelling way to consumers. The agency not only delivered on HP's mandate by simplifying the process into a six-step diagram with easy-to-understand images, but the strong partnership has helped to grow the sustainability practices of both companies over the past decade or so.

Partnering with NGOs

The debate has gone on for decades in the business world–are NGOs friends or foes? Scott Paul, Forest Campaign Director at Greenpeace once pointed out, "We have no permanent friends and no permanent enemies. It's not about what you have done but what you do next that's important...Any valuable relationship requires transparency, cooperation and willingness to listen to other perspectives." In a nutshell, confrontation should be replaced by cooperation.

A great example of this is the cooperation between Kimberly-Clark Corporation and Greenpeace in 2001, when Kimberly-Clark took the initiative towards safer manufacturing practices of its bleach-based products, Clorox being a prime example. The aim was to replace chlorine gas with a fully sustainable electrolytic process that converts the brine in seawater into bleach. While the process was in motion, Kimberly-Clark received a letter from Greenpeace demanding to know what the company was doing to prevent chlorine from sullying the oceans. As the eco project could not be made public for another 10 months, Kimberly-Clark took Greenpeace into confidence with a non-disclosure agreement announcing its intention to alter its manufacturing process, without giving details. Thus a potentially confrontational situation become collaborative–Greenpeace even offered the support of its resources, including its website and volunteers, to help publicise Clorox's new sustainability efforts. That kind of marketing could never have bought with advertising dollars!

The strength of NGOs lies in their deep reach to a broad segment of society that is normally excluded but probably would get impacted the most with environmental damage and doesn't always benefit from development. Two broad areas where cooperation between businesses and NGOs is often more fruitful are nature conservation and community development. In the U.S. for example, a full-fledged anti-smoking campaign was developed by NGOs as part of the school curriculum, through which teens put pressure on parents not to smoke.

In 2014, India enacted a law that requires private limited companies to spend at least two percent of their profits every year on CSR. The bill applies to companies with an average net profit of INR 50 million (approximately US$780,000) or above over a period of three years. Businesses can use this amount towards addressing community challenges in education, poverty, gender inequality and hunger. This has provided a fillip to the existing CSR activities among Indian businesses. Infosys, the global IT solutions company, provides expertise, fund-raising and financial support to the Indian NGO Akshaya Patra for its midday meal programme in schools. Companies like HCL Technologies and the Jindal Group have set up universities, and the Aditya Birla Group is working closely with Habitat for Humanity, a global NGO engaged in providing affordable housing for bottom of the pyramid families.

When it comes to developing sustainable business practices, companies should never feel that their hands are tied. In fact, if they are willing, there is a whole gamut of options through which corporates can nurture win-win relationships with the media, governments and NGOs.

Businesses do a great job of training professionals with leadership skills, technical skills and people management skills who are then able to effectively plan, manage and organise resources, and get the required results. Experts and professionals from the corporate sector, who are passionate about sustainability, can work with the media, governments and NGOs on a full-time basis. They are influential and can contribute a lot by providing expertise on sustainability. Just like Silicon Valley provides expertise to the federal government on cyber security, and television channels today have resident doctors, we also need to embed sustainability experts into these institutions, thereby creating a 'peace corps' of sustainability.

Forging pathways

Change is happening more quickly in the real world than in business school classrooms and most boardrooms. The only path remaining in today's environment to achieve long-run success is to fully embrace sustainability–practices that put a business in harmony with its ecosystem, its people and its environment–with all its stakeholders in a 360 degree circle of reciprocal engagements and shared successes.

The mantras of 'maximising profit by satisfying customers' and 'maximising shareholder value' are highly limited compared to what we propose: the sustainability paradigm shift of 'maximising benefits for all stakeholders as a source of competitive advantage'. According to Sisodia, Wolfe and Sheth, business success is about, "gaining share of heart, and not just share of wallet; it is about aligning stakeholder interests, and not just juggling them."[1] What tomorrow's business leaders need is a complete transformational change in business mindset, practices, strategies and tactics–a change that is possible only when businesses engage and energise all their stakeholders towards the same goals.

Business leaders have the choice to work and thrive at this 'edge' of sustainable engagement, forging a new path forward, or they can ignore the data, the market, and their own inner wisdom and fall off the edge as the ground shifts beneath them.

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The material in this article is derived from the authors' book, "The Sustainability Edge: How to Drive Top-line Growth with Triple-Bottom-Line Thinking" published in 2016.

Reference

[1] Sisodia, Wolfe and Sheth, "Firms of Endearment: How World-Class Companies Profit from Passion and Purpose", 2007.