

The Business Case for Sustainability

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The Sustainability Imperative

Fundamental changes in society and business are making sustainability and responsible corporate behavior an imperative rather than something a handful of “nice” businesses choose to do. Driving this change since the 1970s are the well-documented implications of rising energy costs and the increasing scarcity of other non-renewable raw materials. These pressures are now accompanied by a host of other drivers rapidly changing the business landscape and redefining what’s required for companies to be successful.

Success in coming decades will be measured by a corporation’s resilience to resource scarcity and global climate change as well as its response to changing consumer and customer expectations. Companies can expect to see new regulatory demands and investor requirements for sustainability. In this changing landscape, competitive position will depend on the ability to innovate continually while also managing corporate and brand reputations as transparency and corporate citizenship requirements escalate.

The marketplace is already responding to these changes. Consumers and customers are increasingly basing purchasing decisions on sustainability. A 2009 GMA/Deloitte Green Shopper Study discovered that sustainability considerations either drive or influence the buying decisions of more than half of the shoppers interviewed. A Boston Consulting Group, January 2009 Survey of 9,000 consumers in North America, Europe, China, and Japan found that more shoppers “systematically” purchased green products in 2008 than in 2007. Some 34%

of Europeans (up 2% from 2007) say they would continue to systematically look for and purchase green products. According to a complementary survey of more than a thousand U.S. consumers, nearly a third (32%) said they still look for or often buy green products. Wal-Mart, arguably the largest customer in the world, introduced their Supplier Sustainability Index in 2009 requiring their vendors to answer questions about key sustainability practices.

The regulatory landscape continues to evolve and drive change as well, from inevitable controls on CO2 emissions to the increased likelihood of new chemical regulations. Last fall, President Obama issued an Executive Order for all federal agencies to appoint senior sustainability officers. And across the globe, there’s a clear trend toward more stringent environmental standards as regulators in China, Brazil, and elsewhere seek to sustain economic growth while avoiding environmental disaster.



Investors increasingly use sustainability metrics to measure corporate performance and allocate assets based on a new set of risks, like global climate change and water resource scarcity. CalSTRS, the nation's second largest pension fund, managing over \$130 billion of assets, stated in early 2010, "as a long-term investor, CalSTRS wants to invest in well-managed companies that can address the physical risks of climate change and adapt to the changing regulatory and market realities of a carbon-constrained economy."

Institutional investors are also asking for improved quality and quantity of information on sustainability from their portfolio companies. For example, the Association of British Insurers (ABI), which represents insurers that control 17% of stocks listed in the UK, has issued Disclosure Guidelines on Social Responsibility. The ABI has made it clear that expects portfolio companies to provide information on an annual basis about how boards of directors evaluate and address environmental, social, and governance risks in the context of the entire range of risks and opportunities facing the company

In recent years, we have also seen multiple crises drive sustainability as a business imperative – crises related to our financial system, our energy sources, and global climate change. Businesses that fail to address these challenges will find it difficult if not impossible to thrive. Sustainability is clearly a smart business focus and we believe it needs to be an essential part of corporate strategy. Unfortunately, more than 70 percent of companies have not yet developed a clear business case for addressing sustainability, according to a new study by MIT Sloan Management Review and The Boston Consulting Group.

The Business Case for Sustainability

A number of studies convincingly demonstrate the business case for sustainability. This research clearly shows that responsible businesses not only perform as well as other businesses, but also in many cases outperform them based upon traditional financial metrics.

Improved financial performance

As early as 2002, Harvard Business School Professor Lynn Sharp Paine's groundbreaking book *Value Shift: Why Companies Must Merge Social and Financial Imperatives*

to Achieve Superior Results, claimed that responsible businesses actually perform better financially than those that are less committed to corporate citizenship. While critics of the book greeted its publication by questioning the methodology of the many studies Paine referenced, time has proven her to be not just correct, but visionary.

On October 27, 2005, a *Financial Times* report reinforced Paine's conclusion. FT determined that if an investor had bought stock in all the public companies listed in Milton Moskowitz's ranking of the 100 best companies to work for in 1998 when it was first published by *Fortune* magazine, and held that stock until 2005, the investor would have made twice the annualized return of the S&P 500 Index. If the investor had sold each year and reinvested in the new list, the investor would have made three times the S&P return.

More recently in January 2009, A.T. Kearney published an analysis titled "'Green' Winners: The performance of sustainability-focused companies during the financial crisis." As companies cut costs to get through the current global economic slowdown, there is often a temptation to abandon recent forays into sustainability. Yet, a new A.T. Kearney analysis finds that companies



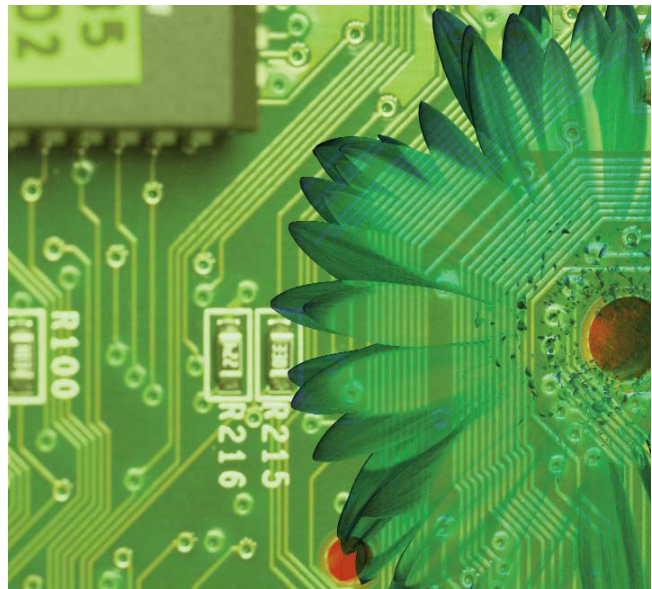
committed to corporate sustainability practices are achieving above average performance in the financial markets during this slowdown. In 16 of the 18 industries examined in the report, companies recognized as sustainability-focused outperformed their industry peers over both a three and six-month period, and were well protected from value erosion. Over three months, the positive performance differential across the 99 companies in this analysis worked out to 10 percent; over six months, the differential was 15 percent.

During 2009 sales growth of “green” household products dramatically outperformed traditional household products. Based on IRI data, “green” household products as a whole grew 71% compared to 2.5% for traditional household products. This data demonstrates that even in the face of economic uncertainty and high unemployment, consumer commitment to sustainable products is a trend that business cannot afford to ignore.

Influence the cost of and access to capital

A recent Time Magazine article, “Rise of the Ethical Consumer,” reported the steady increase in socially responsible investment funds, with growth from about 55 to 260 since 1995. Socially responsible investment (SRI) considers companies’ social, environmental and governance practices when making investment decisions. These funds manage an estimated \$2.7 trillion and account for approximately 11% of all money invested in U.S. financial markets. Approximately one out of every nine dollars the Nelson Information’s Directory of Investment Managers tracks is invested in socially responsible companies.

A December 2009 Social Investment Forum and Pensions and Investments survey found nearly 9 out of 10 US investment consultants believe that client interest in SRI will continue to grow over the next three years. Undoubtedly SRI funds are here to stay. Responsible corporations that manage risk, produce value and create long-term value will be more attractive to investors, a group with increasing concerns for sustainability. If the recent economic downturn is any indication of the challenges companies will face raising capital, a robust sus-



tainability strategy will help positioning, influencing the cost of and access to capital.

Reduce risk and have a positive return on business investments

In June 2009, McKinsey & Co. completed a report titled “Rebuilding corporate reputations - a perfect storm has hit the standing of big business.” As the report noted, “Senior executives are acutely aware of how serious today’s reputational challenge is.” Most recognize the perception that some companies in certain sectors (particularly financial services) have violated their social contract with consumers, shareholders, regulators, and taxpayers. They also know that this perception seems to have spilled over into business more broadly. In a March 2009 McKinsey Quarterly survey of senior executives around the world, 85 said that public trust in business and commitment to free markets had deteriorated. According to the 2009 Edelman Trust Barometer, those executives are reading the public mind correctly: 62 percent of respondents, across 20 countries, say that they “trust corporations less now than they did a year ago.”

Fortune has calculated that intangible assets—which ultimately measure an organization’s reputation—represent 75 percent of the total value of the average US business. Corporations with a strong sustainability strategy safeguard this value. Their transparent and ethical, social and environmental practices bolster rather than burden

their reputation. This allows responsible corporations to direct resources to brand building, ensuring talent and money are not diverted to lawsuits, legal fees and public relations as a result of an oil-spill, a salmonella outbreak, a lead scare or the like.

McKinsey notes that the breadth and depth of today's reputational challenge is significant and that "now more than ever, it will be action—not spin—that builds strong reputations." Companies that deliver on their environmental and social responsibilities will reduce their reputational risk, winning the trust of the public and the commitment of their purchasing dollars.

Attract and retain talent, improve employee productivity

Three-fourths of entrants into today's workforce evaluate firm's environmental and social responsibility records prior to choosing an employer of preference. To maintain a competitive advantage in the battle for talent companies must deliver a more robust package than ever before. And that holds not only for attracting talent but retaining it as well. The Harvard Business Review followed

30 large corporations over several years and found a positive correlation between an employee's positions on their company's sustainability initiatives and their workplace happiness. Employees who work for companies that align with their values perform better- they have better ideas, execute those ideas better, and even develop other people better. The payoff for attracting and retaining the type of talent capable of innovating in a challenging market goes right to the bottom line.

Summing Up

Sustainability presents a significant opportunity for any company – one that can drive differentiation and leadership and grow companies' revenue and reputation. There is a clear business case for sustainability: sustainability improves financial performance, influences the cost of and access to capital, reduces reputational risk, and helps attract and retain talent. Sustainability is no longer a "nice-to-do" but a "must have." The strategic integration of sustainability into operations and practices--creating long-term economic, social and ecological viability--will be the key to success in coming decades.



Bottom Line Sustainability Winners

A commitment to sustainability is an important part of being a good corporate citizen. Companies committed to sustainability understand that business success depends on taking the interests of all its stakeholders into account and considering both the immediate and long-term impacts of their operations on the communities in which they operate and the ecologies upon which they depend.

Cisco - Seizing new market opportunities

In 2005 Cisco discovered that about 80% of the equipment from their customer recovery program was in working condition. The material, once considered scrap with costs over \$8 million a year to dispose, became a resource for sale.

Their “value recovery team” transformed this waste into an asset finding internal customers to use the material for customer service and laboratory work. The team was designated as a business unit, set objectives, and composed a P&L. Following their progress a Harvard Business Review study found “the reuse of equipment rose from 5% in 2004 to 45% in 2008, and Cisco’s recycling costs fell by 40%.” The unit turned a profit that contributed \$100 million to Cisco’s bottom line in 2008.

GE - Increasing financial performance

GE has built much of their business model around sustainability. In 2005, GE launched Ecomagination, a corporate commitment to reduce greenhouse gas emissions and improve energy efficiency by creating energy efficient products.

Product innovations have helped curb GE’s own energy demands and reduce their operational expenses. Ecomagination’s new energy-efficient products saw revenue increases of 21 percent per year. Those revenues have now reached \$17 billion. In May 2009, GE unveiled GE Healthymagination. The healthcare division aims to increase its profits while increasing access of healthcare to underserved communities worldwide.

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Bottom Line Sustainability Winners *(Continued)*

Wal-Mart – Engaging Employees

Wal-Mart engages employees in sustainability through their Personal Sustainability Project (PSP) program. They draw the connection between the company's mission, to save people money so they can live better lives, and practices that foster long-term environmental, social and economic health.

Over 500,000 Wal-Mart employees have made and kept commitments to their PSPs. Inspired about business opportunities, employees have found new ways of creating products and services for customers to do the same. Wal-Mart's sustainability strategy has helped reduce costs and improve performance.

Best Buy- Enhancing Reputation

Best Buy leaders see the value of sustainability rising. Driven by employee and customer interest, they launched their "greener together" program, committing to take back consumer electronic wares for free.

Now the nation's largest electronic recycler Best Buy has found that sustainability makes good business sense, enhancing their reputation and their services. With a strategy to become "more than just a mover of boxes," CEO Brian Dunn admits in a December 2009 Fortune interview, the recycling program gets customers in the store where they learn about additional services to get better use out of their technology. Ultimately, a win for Best Buy and consumers helping reduce waste, capture residual value and provide savings.



Seventh Generation is a leader in corporate responsibility and sustainable business practices and is committed to being the most trusted brand of household and personal-care products for your living home. It derives its name from the Iroquois belief that "In our every deliberation, we must consider the impact of our decisions on the next seven generations."

For information on Seventh Generation cleaning, paper, baby and feminine personal care products, to find store locations, and explore the company's website visit www.seventhgeneration.com. To read more about Seventh Generation's corporate responsibility, visit the Corporate Consciousness Report at:

www.seventhgeneration.com/corporate-responsibility/2008.

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