

Making the Business Case for Sustainability

Discussions concerning making a business case for sustainability are not new; in fact they've been around since the day after the sustainability movement started to really take root a decade ago. That said, considering the slow and on-going recovery of the economy, the discussion is worth revisiting.

I always start any discussion on sustainability by stating that the "1st Sustainability" must be economic. In order to address all other aspects of sustainability including the environmental and social (as well as financial), there must be the means (\$) to address them; even actions with the shortest of ROIs still require initial investment before return is realized. I would ask as we have this discussion that you please keep this in mind.

This discussion will outline some of the key points for making the case as covering each point in detail would require substantial focused discussion. There are two (2) primary mechanisms for making the business case: driving down costs and creating ROI (return on investment) via operational and workforce efficiencies, and generation of top line growth via enhanced recognition and reputation.

Driving Down Costs:

- Process optimization including reduced material inputs, energy efficiencies, waste reduction/elimination.
- Improved product quality and error rates.
- Expedited permitting.
- Cost savings through environmental operations and practices, e.g. water and energy efficiency, reduced raw material consumption, etc.
- Cost avoidance by minimizing risk (including reputational risk) and improving.
- Cost savings from improved recruitment and employee retention.
- Cost savings and real income from improved employee morale and productivity.

Generating Top Line Growth:

- Increase revenue through innovation and learning.
- Enhanced recognition and reputation.
- Improved customer loyalty.
- Improved access to capital.
- Improved Supply Chain Management.
- Enhanced strategic planning capability for the long-term.

What is discussed above is a pretty good start on a sustainability action plan, the question many have is how to sell it up the line. Demonstrate that the above do create added value, improved revenue and profitability. To do so, I would suggest that there are two (2) basic methodologies: direct and indirect.

But before discussing these I offer “Rule #1”: make your CFO and/or Finance Department your best friend (you’ll need to learn to speak each other’s languages). Nothing will stop a sustainability initiative faster than a CFO asking “where is the ROI from this?” and you not being able to effectively answer that question with legitimate numbers and data. Unless you have a background in finance, accounting or statistics, you’ll need their help in developing “proofs” that are near to bulletproof.

Direct Method (statistical/financial data)

This is the classic business case model:

- Analysis of impact on market share
- Present and long term cost savings
- Risk avoidance analysis
- Cash flow and capital for investment analysis
- All rolled up into a “Financial Pro forma”

Indirect Method (empirical data):

While the direct method is most desirable for many reasons, some of the proposed aspect of your sustainability initiative simply, at this time, can’t be easily analyzed in this manner. How then do you apply monetary value to initiatives that cannot be directly applied to the bottom line; and do so in a manner that will be accepted by financial types; multi-attribute utility analysis (MUA) (how’s that for a “say what”?). This methodology is in use by US Department of Energy (including NREL), USEPA, GSA, NIST, many academic institutions and many financial houses involved with sustainability.

To put MUA in more easily understandable terms, “MUA measures the impact of sustainability initiatives against specific accepted performance measure (metrics) and using “trade-off” models assigns impact in dollars.” There are several tools, ranging from fairly simple spreadsheets to complex computer- driven analysis available today. In addition, several universities and research organizations have undertaken studies to develop statistical data where only empirical previously has existed; for example the study of the impact of indoor environmental quality on personnel.

I will be the first to confess that I’m still learning the detailed use of MUA but have proven to myself that I can generate “proofs” with it that I can sell.

This is where I think we need to close this discussion – before it get as long and unwieldy as to be unreadable and more importantly not informative and not stimulating of further thought.

I need to give credit to the Harvard Business Review, Strandberg Consulting, Green Biz and many other organizations and publications for information that I have been able to absorb from the great many articles and papers written on this subject.

Stephen C. Beck, LEED® AP BD & C, IAQCP
Chief Sustainability Officer/Director of Science & Technology
LeChase Construction Services, LLC