

Sustainability Seek!

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PROFITABILITY AND SUSTAINABILITY: IS IT POSSIBLE TO HAVE BOTH?

Companies are beginning to see the benefits of sustainability in their business strategies, as opposed to being ‘forced’ to do something in this area as in the past. As the Harvard Business School puts it, today’s organisations have the potential to ‘do well by doing good’. In this article, Hannah Frost unpacks the business benefits of going green.

According to a study by McKinsey, 70% of companies say that they already have a formal governance strategy for sustainability in place. As younger generations continue to prize empathy and environmental credentials in their chosen brands, the demand for sustainability is set to increase.

The most apparent benefit of sustainability is that you help to address some of the global challenges that threaten the quality of life for current and future generations. However, studies show that sustainable practices can also increase your chances of corporate success too.

This is all well and good, but senior leaders will give sustainability lip service, not capital, if they do not see financial benefits.

Investors use environmental, social, and governance measurements to decide which businesses they should be spending money on. Additionally, studies indicate that the brands with the highest ESG ratings can have the best financial performance.

One report from McKinsey found that the main reasons to take part in a business sustainability initiative were to increase affinity with customers through shared values, develop new growth opportunities, and improve brand reputation. Let’s unpack those benefits.

IMPROVE BRAND IMAGE

Being a sustainable business can significantly improve your brand image and give you another point of differentiation to separate you from the competition. The National Marketing Institute found that over 50% of customers take a company’s environmental strategy into account when making buying decisions. Today’s consumers want to know that the purchases that they are making are doing something good for the environment or society. Let your audience know that you’re making a difference, and your chances for sales and brand affinity will skyrocket.

MINIMISE COSTS AND INCREASE PRODUCTION

The way your company handles things like water, energy, and waste can also save you some overhead costs too. If you replace your standard lighting in the office with more energy-efficient lighting, then your energy bills will go down significantly. Similarly, allowing your employees to work at home over cloud computing resources means that you don’t have to spend as much on physical real estate. The smaller your required office space is, the less you need to spend on things like rent, energy, heating, and other common overheads. At the same time, you benefit from a more productive team, because today’s employees are often more efficient when they have the freedom to work remotely.

IMPROVE EMPLOYEE RETENTION AND RECRUITMENT

Speaking of employees, the most talented staff members in the world today don’t want to work for a good wage alone. High-performing employees are attracted to organisations that are making a difference in the world. If you’re going to attract and retain talent from the Millennial and Gen Z demographics, then you’ll need to be able to show your future candidates that you’re giving something back to the community.

ENSURE YOU COMPLY TO REGULATIONS

With concerns like climate change, limited water, and global warming to consider, many countries are beginning to impose regulations on businesses to help save the environment. In the years to come, being sustainable won’t just be a choice that companies can make – it will be a crucial part of running a successful company.

ATTRACT MORE FUNDS AND INVESTMENTS

Investors are also beginning to recognise the value in companies with sustainability strategies. As it becomes more evident that today's customers want to buy from businesses that care about the environment, people with money to put into companies realise that they'll get a bigger return if they look for people who put the environment first.

So, can you become profitable and sustainable and reflect that in your revenue generation? Companies are pursuing sustainability in many different ways that create value.

GROWTH

Composition of business portfolios – Guide investment or divestment decisions at portfolio level based on sustainability

Innovation and new products – Develop sustainability-related products and technologies to fill needs of customers and your own company (R&D function)

New markets – Build a better understanding of sustainability-related opportunities in new market segments and geographies, and develop strategies to capture them

RETURNS ON CAPITAL

Green sales and marketing – Improve revenue through increased share or price premiums by marketing sustainability attributes

Sustainable value chains – Improve resource management and reduce environmental impact across your value chain to reduce costs and improve products' value propositions

Sustainable operations – Reduce operating costs through improved internal resource management (e.g., water, waste, energy, carbon, employee engagement)

RISK MANAGEMENT

Operational risk management – Manage risk of operational disruptions (from resource scarcity, climate change impact, or community risks)

Reputation management – Reduce reputation risks and get credit for your actions (e.g., through proper stakeholder management)

Regulatory management – Mitigate risks and capture opportunities from regulation

The onus lies with business leaders to figure out the right balance between short-term and long-term priorities. Popular notions of sustainability – reduce, reuse and recycle – need to evolve. Each one of us has to 'rethink' and 're-imagine' new possibilities of doing business.

Harmonic is a leading UK management consultancy. We enable clients to deliver fair and just transition of ESG, digital and organisational change.