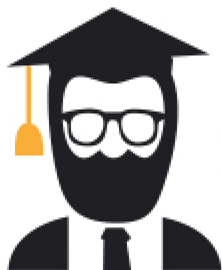

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The Sustainability Sweet Spot

How to achieve long-term business success

Andrew W. Savitz, with Karl Weber

"It's up to us to use our platform to be a good citizen. Because not only is it a nice thing to do, it's a business imperative. . . . If this wasn't good for business, we probably wouldn't do it."
—Jeff Immelt, CEO, General Electric[1]

Where Profit Meets the Common Good

Business leaders with a superficial understanding of sustainability think of it as a distraction from their main purpose, a chore they hope can be discharged quickly and easily. "We're responsible corporate citizens, so let's write a check to the United Way or allow employees to volunteer for the local cleanup drive or food kitchen and get back to work."

This approach reveals a fundamental misunderstanding. Sustainability is *not* about philanthropy. There's nothing wrong with corporate charity, but the sustainable company conducts its business so that benefits flow naturally to all stakeholders, including employees, customers, business partners, the communities in which it operates, and, of course, shareholders.

It could be said that the truly sustainable company would have no need to write checks to charity or "give back" to the local community, because the company's daily operations wouldn't deprive the community, but would enrich it. Sustainable companies find areas of mutual interest and ways to make "doing good" and "doing well" synonymous, thus avoiding the implied conflict between society and shareholders.

The vision of a company that renews society as it enriches its shareholders may seem remote, and for most companies it is. But we propose a way to think about your company's current operations that might suggest an avenue for moving in that direction.

Think about sustainability as the common ground shared by your business interests (those of your financial stakeholders) and the interests of the public (your nonfinancial stakeholders). This common ground is what we call the sustainability sweet spot: the place where the pursuit of profit blends seamlessly with the pursuit of the common good (see **Exhibit 1**). The best-run companies around the world are trying to identify and move into their sweet spots. And they are developing new ways of doing business in order to get there and stay there.

General Electric (GE) has long been considered an environmental scofflaw. It fought the U.S. Environmental Protection Agency (EPA) for years, trying in vain to avoid responsibility for

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Exhibit 1. The Sustainability Sweet Spot

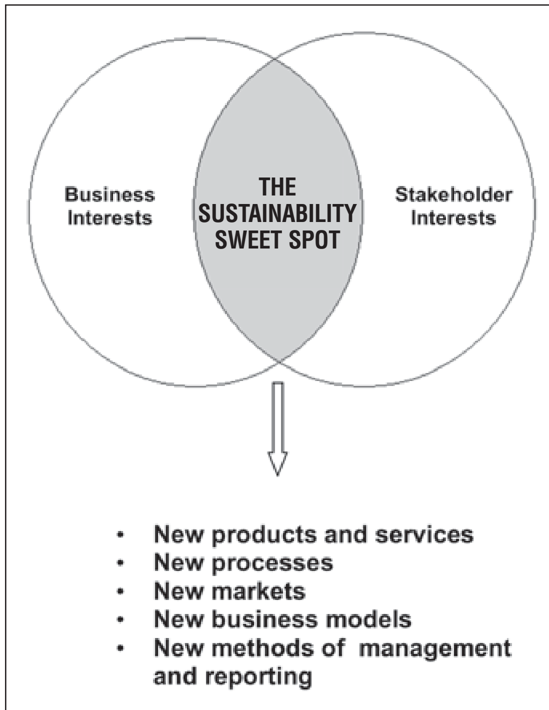
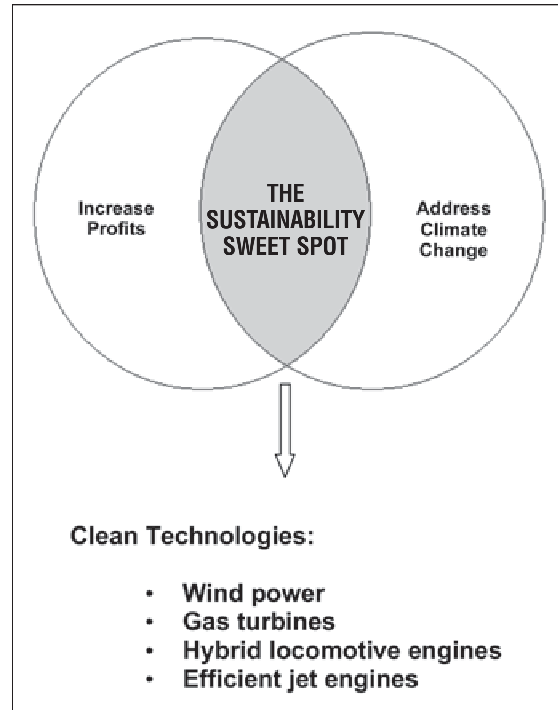


Exhibit 2. GE's Sustainability Sweet Spot



polluting the Hudson and Housatonic Rivers with over one million pounds of toxic waste.[2] Jack Welch, GE's CEO and chairman, personally led the attack, which included arguing over settled science and challenging the entire federal hazardous waste cleanup program as unconstitutional, tactics widely considered irresponsible.

When Welch retired, many of the flattering reviews referred to GE's environmental record as Welch's one black eye. Now Jeffrey Immelt, his successor, appears to be plotting a new course—not because he and the company are born-again environmentalists, but because being pro-environment is smart business for GE.

In 2005 GE announced an initiative called Ecomagination. It is a powerful example of finding and working toward the sweet spot. It's "action that goes beyond compliance to benefit both society and the long term health of the enterprise," according to Ben Heineman, GE's senior vice president of law and public affairs.[3]

Ecomagination's main thrust is to create clean technology to help GE's customers reduce their environmental impacts, primarily carbon emissions. GE has announced it will double its annual investment in clean energy technologies to $1.5 billion by 2010 and will also double its revenues from eco-friendly products during the same time period.[4]

Addressing climate change presents GE with a huge business opportunity. GE's wind energy business has already quadrupled in revenues since it was acquired in 2002 from Enron, and its fuel-efficient jet and locomotive engines and natural gas turbines are proving to be essential to customers needing additional ways to reduce their emissions.[5] GE has sold over $1 billion worth of wind and natural gas turbines to China since 2003.[6]

GE has found a significant overlap between its business interests and protecting the environment. And to expand the area of overlap, the

Exhibit 3. PepsiCo's Sweet Spot (Products)

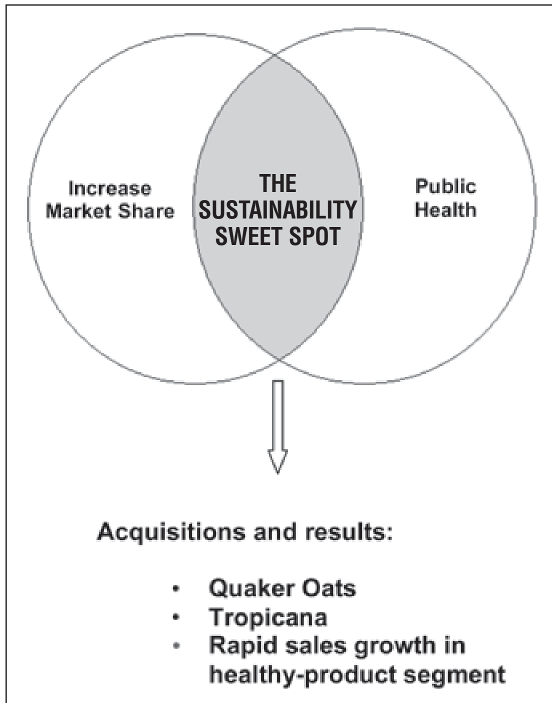
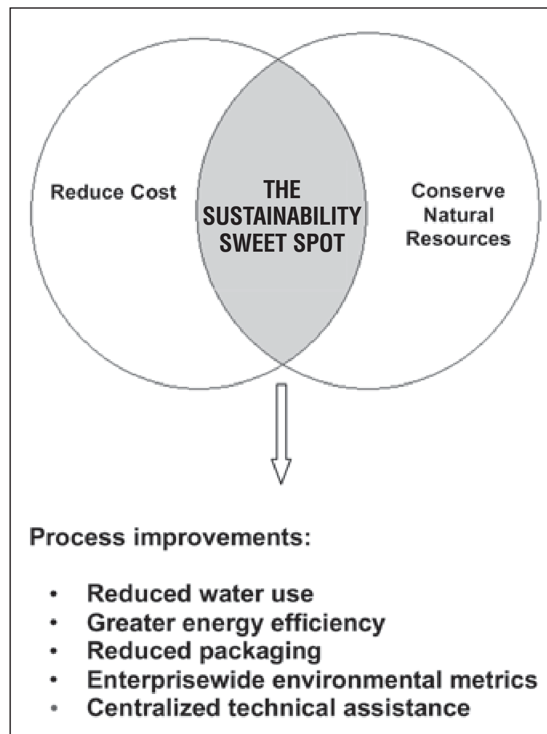


Exhibit 4. PepsiCo's Sweet Spot (Environmental Processes)



company appears to be saying that the time has come for climate change regulations that will ultimately impose carbon restrictions on businesses in the United States.[7] GE is thus working to nudge the circle representing stakeholder concerns closer to the circle representing its business interests. The bigger the overlap, the better for GE (see **Exhibit 2**).

GE's Ecomagination embodies the observation by Ian Davis, managing director of the management consulting firm of McKinsey & Company, that "large companies need to build social issues into strategy in a way that reflects their actual business importance."[8] GE has also spent large sums of money advertising Ecomagination, creating some suspicion that the campaign will be more hype than strategy—but that remains to be seen.

The overlap between winning increased market share and supporting healthier lifestyle habits is a sweet spot for PepsiCo (see **Exhibit 3**). If the idea of healthy products sounds like a stretch for a company famous for its sugary sodas and salty snacks, think again. Having purchased Tropicana and Quaker Oats, PepsiCo has made the healthy-product sweet spot the fastest-growing segment of PepsiCo's North American product portfolio by far, with 2004 revenue growth about twice that of its traditional products. Social responsibility has thus helped PepsiCo earnings per share grow at a prodigious 13 percent in 2004 and to surpass Coca-Cola in market cap for the first time in history.[9]

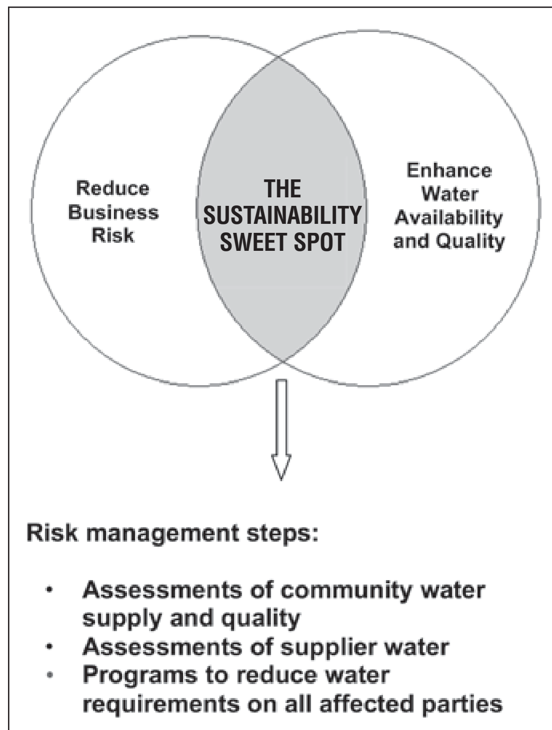
PepsiCo is working toward other sweet spots. Its business goal of cost reduction overlaps with a series of environmental improvements to reduce energy, waste, and packaging (**Exhibit 4**). Its goal of risk reduction overlaps with steps to address long-term water supply and quality concerns for communities in which its plants are located and for its crucial suppliers (such as farmers who sup-

ply corn for Frito-Lay brand chips) (**Exhibit 5**). These responsible actions will benefit the environment and PepsiCo's neighbors and business partners even as they increase shareholder value and put the company's operations on a more sound, sustainable footing for decades to come.

The sweet spot embodies the literal meaning of "sustainability," making your company *viable for the long term* by managing according to principles that will strengthen rather than undermine the company's roots in the environment, the social fabric, and the economy. A business that occupies the sustainability sweet spot (or that strives to fit as much of its activities into that favored zone as possible) should have real long-term advantages over its rivals.

Imagine a company that historically earns its profits from a finite resource whose extraction and use degrades the environment—providing oil or coal, for example, which exist in limited supplies and generate harmful pollution. Such a business isn't sustainable in the long run; either the resources or the social tolerance for pollution on which it relies will eventually run out. Costs will rise as supplies dwindle and as social concerns translate into higher taxes, additional cleanup costs, and increased liability.

Exhibit 5. PepsiCo's Sweet Spot (Risk Management)



If it were possible for such a company to shift its business so as to eventually supply clean and renewable energy (such as wind or solar power) or conservation services while maintaining or even increasing revenues, that would be a responsible and profitable choice.

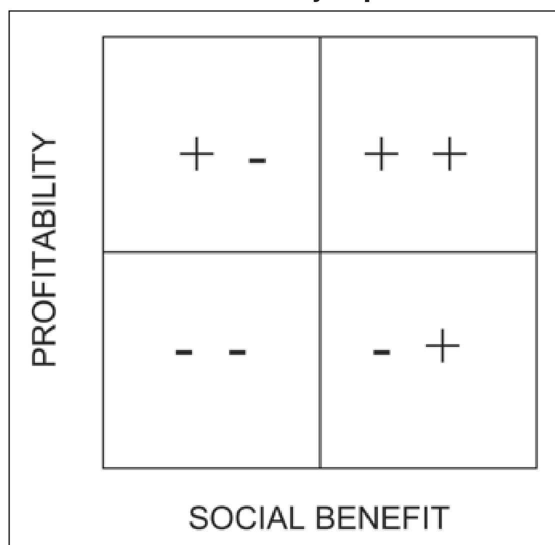
This is not a hypothetical case. British Petroleum (BP) adopted this long-term strategy when it rebranded itself "Beyond Petroleum" in 1998. BP has since reduced greenhouse gas emissions from its own production processes (saving an estimated $650 million thanks to improved efficiencies along the way) and has invested heavily in alternative energy sources, including solar power. BP is not yet sustainable by any means, but it is acting responsibly as it marches toward an ever larger sweet spot.

A Map to the Sweet Spot

Every action you take in business has two components: an impact on profits and an impact on the world. This can be represented by a four-celled matrix with two axes, which represent profitability and social benefit (see **Exhibit 6**).

The northeast corner of the map is conceptually similar to the sweet spot, where stakeholders' interests and corporate interests overlap. Your goal is to get as much of your business activity into that quadrant as possible. You want every business decision to push you north and east. The value of the map emerges when you use it to plot the location of various businesses or activities in order to determine ways to move them in a northeasterly direction, or to generate ideas for quantum strategic change.

Exhibit 6. The Sustainability Map



Suppose you own a business or manage part of one that is currently located in the northwest quadrant (profitable but not sustainable). Is it possible to devise ways of moving the business eastward (more sustainable) without moving south (less profitable)? DuPont has done so by moving from the chemical business toward the soy protein business without sacrificing revenues or profits. If you have a business in the southwest corner (neither profitable nor sustainable), can you find ways to base a turnaround on moving both north and east?

Your goal should be to develop strategies and change operations to move toward the northeast corner of the map. For example, an energy company that profits from burning dirty coal could devote its short-term research dollars toward clean-coal technology and its long-term effort toward a future in which most energy is derived from such renewable sources as solar, wind, hydroelectric, and geothermal power. Both initiatives embody migration toward the northeast corner of the map, where both profitability and social benefit are high.

Both small and large companies have changed their businesses to move further toward the northeast corner of the sustainability map.

Country Lanes is a tiny U.K. tour company that offers day trips and holiday travel, by bicycle or on foot.[10] Patrons must somehow find their way to the rendezvous point at which the tour begins. Country Lanes recently redesigned all its tours to begin at railway stations, with the result that 85 percent of their customers now use rail travel to get there. This has eliminated a million miles of automobile travel and 328 tonnes of carbon dioxide emissions per year. Business is up because customers now find it easier to get to the tours. Country Lanes also supports local business by encouraging its customers to spend money on snacks, drinks, and lunches from neighborhood pubs and shops.

When Toyota revealed its intention to create a new form of gasoline-electric car, one that would capture and use braking energy, the company was derided as an environmental do-gooder that would surely lose money. "We wondered if anyone would want one," admitted Takehisa Yaegashi, the senior Toyota engineer now known as the father of the hybrid.[11] Today Toyota can't manufacture the Prius fast enough to meet demand. The car is peppy, durable, and easy to drive, and gets up to 52 miles per gallon of gas in city driving. Waiting lists are 16 months long in some parts of the United States and Japan. Over 120,000 of the hybrids were shipped to the United States in 2005, more than doubling the previous year's figure, and hybrid versions of Toyota's Highlander and Lexus SUVs have entered the market.

Toyota now views hybrids as a central part of its strategy to become the number-one car manufacturer in the world and break into the Big Three in the United States. The company recently announced that it will focus on selling one million hybrid vehicles a year worldwide (including 600,000 in the United States) by early in the next decade.[12]

Toyota made two bets at once: that both the price of gas and concern about air pollution

would rise. Winning either bet might have made the car a success, but Toyota appears to have won both, making the Prius a worldwide phenomenon. The car is both good for Toyota's shareholders and good for the environment—a remarkable example of finding the sweet spot.

"Prove It!"

Many businesspeople find the simple logic behind the sweet spot compelling, but others require proof that sustainability creates financial benefits. They seek an assurance that's as good as gold—incontrovertible evidence that they can and will make more money practicing sustainable management than they will with good old-fashioned, short-term, profit-only thinking.

Exemplary environmental performance, long considered a proxy for good management, is now being touted by investment advisers as a measure of value.

Let's start then with the testimony of those that help companies create gold. Goldman Sachs, Deutsche Bank, Credit Suisse, Banco do Brasil, and 15 other multinational investment banks recently reported the following:

> [We] are convinced that in a more globalized, interconnected and competitive world the way that environmental, social and corporate governance issues are managed is part of companies' overall management quality needed to compete successfully. Companies that perform better with regard to these issues can increase shareholder value by, for example, properly managing risks, anticipating regulatory action, or accessing new markets, while at the same time contributing to the sustainable development of societies in which they operate. Moreover, these issues can have a strong impact on reputation and brands, an increasingly important part of company value.[13]

Empirical evidence includes the share prices of companies listed in the Dow Jones Sustainability Index and the FTSE4 Good Indexes, two listings of sustainability companies that have outperformed various market indexes. Companies that belong to the World Business Council for Sustainable Development outperformed their respective national stock exchanges by 15 to 25 percent over the past three years. From 1999 through 2003, the Winslow Green Index of 100 "green-screened" companies increased in value by over 73 percent, whereas the members of the comparable benchmark Russell 2000 Index increased by less than 17 percent.[14]

"Companies pursuing growth in the triple bottom line tend to display superior stock market performance with favorable risk-return profiles," according to John Prestbo, president of Dow Jones Indexes. "Thus sustainability becomes a proxy for enlightened and disciplined management—which just happens to be the most important factor that investors do and should consider in deciding where to buy a stock."[15]

Exemplary environmental performance, long considered a proxy for good management, is now being touted by investment advisers as a measure of value—perhaps of hidden value, the savvy investor's favorite kind. UBS, the Swiss-based investment bank, recently opined, "Environmental performance indicators appear to be a possible indicator of strong operational performance. Strong environmental indicators in the presence of below-average profitability may signal an investment opportunity, in our view."[16]

It cannot be proved that sustainability is the reason behind the strong market performance of the companies that have embraced it, but when similar results continue year after year, the correlation implies causation. (As Henry David Thoreau,

the American essayist and philosopher, famously remarked, "Some circumstantial evidence is very strong, as when you find a trout in the milk.")

Those seeking the gold standard should recall that the cases for such strategic initiatives as Total Quality Management, Six Sigma, and reengineering were not proved before thousands of businesses invested billions of dollars in them. These concepts won widespread support because of case studies that illustrated their effectiveness, endorsements from well-known business leaders, their resonance with the *zeitgeist* of their times, and eventually (in some cases) because of financial results. The initial evidence supporting those programs was largely anecdotal, but, as Travis Engen, recently retired CEO of Alcan, once observed, the plural of *anecdote* is *data*.

Like most business strategies, sustainability is not a guarantee of financial success. It requires commitment, resources, and a change of direction, which entail costs and risks. The real question, as with all important business decisions, is this: Is sustainability a good bet for me and my company?

Sustainability is quickly becoming mainstream. Socially responsible initiatives, from the Prius to natural foods, from green buildings to eco-friendly clothes and cosmetics, from wind power to the beneficial reuse of industrial waste, have migrated from being considered heretical, to impractical, to visionary, and finally to common sense—usually as soon as they begin to turn a profit. Eventually they become part of business as usual, their controversial origins all but forgotten.

When Ralph Nader first began to argue that cars could be made much safer, he was dismissed by Detroit and most of the public as an agitator and a nutcase. Now all car companies strive for increased safety, and some, such as Volvo, have made it the centerpiece of their marketing.

Can a sustainable business strategy enhance profitability? Of course, but when it does, it usually travels on our mental maps from the space now labeled "sustainability" into the one more simply known as "good business."

Three Ways Sustainability Enhances Your Business

Whether you find or even look for the sweet spot, the principles of sustainability can improve the management of your business in three fundamental ways—by helping you *protect* it, *run* it, and *grow* it.[17]

Protecting the Business

Protecting the business includes reducing risk of harm to customers, employees, and communities; identifying emerging risks and management failures early; limiting regulatory interventions; and retaining the explicit or implicit license to operate granted by government or by the community at large.

Biotechnology giant Monsanto made a concerted push into the field of bioengineering crops in the mid- to late 1990s. Monsanto's genetically modified (GM) seeds were supposed to offer farmers enormous competitive benefits—corn containing natural insecticides, and soybeans able to withstand potent weed killers. Monsanto had a powerful sweet spot proposition: that its pioneering efforts would give the company a leading position in a major new marketplace and provide a powerful new weapon in the battle against world hunger. "Monsanto is in a unique position to contribute to the global future," declared biodiversity advocate Peter Raven.[18]

Whether you find or even look for the sweet spot, the principles of sustainability can improve the management of your business in three fundamental ways—by helping you *protect* it, *run* it, and *grow* it.

But Monsanto executives failed to work with stakeholders in their development of the new initiative—a core principle of sustainable business. Monsanto dismissed early critics of GM products

as antitechnology fanatics and failed to mount a concerted effort to educate consumers about the science behind genetic engineering.

Monsanto consequently found itself beset by a variety of attacks. A British scientist claimed that rats eating GM potatoes failed to grow properly, and a Cornell University study published in 1999 appeared to show that Monarch butterfly caterpillars died after ingesting pollen from bioengineered corn. The accuracy of both claims was quickly challenged, but public fears about "Frankenfoods" now seemed to be bolstered by science.

Several European supermarket chains, as well as American natural-food retailers, announced that they would remove GM foods from their shelves, and major food companies, such as baby-food maker Gerber, vowed to keep their products free of GM ingredients. Embarrassingly, even the staff canteen at Monsanto's own U.K. headquarters announced it would ban GM food from its menu "in response to concern raised by our customers."[19]

Running the business includes reducing costs, improving productivity, eliminating needless waste, and obtaining access to capital at lower cost.

Nonengineered soybeans began to sell at a premium over their modified counterparts—a sign that the market was rejecting GM foods. By the end of 2000, the stock market valued Monsanto's $5 billion-a-year agricultural business unit at less than zero, despite billions the company had invested in highly advanced science over the previous decade.[20]

Today the entire biotech industry is still struggling to win acceptance for bioengineered products in Europe and around the world—largely because of Monsanto's early failure to consider the demands of sustainability before launching this major business initiative.

Running the Business

Running the business includes reducing costs, improving productivity, eliminating needless waste, and obtaining access to capital at lower cost.

Eco-efficiency is a basic component of sustainability that applies to running your business. It means reducing the amount of resources used to produce goods and services, which increases a company's profitability while decreasing its environmental impact. The underlying theme is simple: pollution is waste, and waste is anathema because it means that your company is paying for something it didn't use. Given the clarity of this logic, it's amazing how few companies have diligently pursued eco-efficiency.

Consider the financial benefits from eco-efficiency enjoyed by STMicroelectronics (ST), the Swiss-based firm that is one of the world's largest manufacturers of semiconductors, with 2003 revenues of $7.2 billion and close to 46,000 employees worldwide. ST earmarks 2 percent of its annual capital investments for environmental improvements. The resulting efficiencies have trimmed the company's electricity use by 28 percent and its water use by 45 percent, with cost savings of $56 million in 2001, $100 million in 2002, and $133 million in 2003. Energy conservation projects pay for themselves within 2.5 years on average—an extraordinary return on investment. CEO Pasquale Pistorio notes, "This proves the validity of the stance we have taken for years: ecology is free."[21]

Growing the Business

Growing the business includes opening new markets, launching new products and services, increasing the pace of innovation, improving customer satisfaction and loyalty, growing market share by attracting customers for whom sustainability is a personal or business value, forming new alliances with business partners and

other stakeholders, and improving reputation and brand value.

Sustainability is a powerful engine of economic and business growth, driving innovation and new technologies. In 2004, $5.8 billion was spent on "green building" initiatives, the design and construction of eco-friendly, healthy, and efficient buildings.[22] Entire new businesses have developed in support, including energy-saving home appliances, low-flow toilets, ultraefficient heating, solar heating and electricity, and superefficient cooling and insulation systems.

The sustainability mind-set is also helping companies think creatively about how to gain access to vast new markets that were once dismissed as unprofitable or even impossible. Significant businesses are being built at the "bottom of the pyramid," among the four billion people living on less than $2 per day, who collectively represent enormous untapped buying power. Companies that figure out how to sell goods and services to the poor will reap huge rewards in the decades to come and create new opportunity for those in need.

C. K. Prahalad, the business consultant who, along with Professor Stuart Hart, has studied opportunities at the bottom of the pyramid, explains how companies that respect the rights, needs, and interests of the poor can create new business models that in turn create economic opportunity for business and society.[23]

Prahalad cites Casa Bahia, a Brazilian retailer with sales of over $1.2 billion and over 20,000 employees, which operates exclusively in the *favelas,* or shantytowns, where the poorest people of Brazil are found; Annapurna Salt, a Unilever brand that has captured a significant share of the market in India, Ghana, Kenya, Nigeria, and other African nations with small, low-priced packages of iodized salt specifically designed to help combat rampant iodine deficiency disorder among the poor; and Hindustan Lever Ltd., the largest soap producer in India, which has achieved sales of over $2.5 billion through innovative production, packaging, and marketing techniques that reach into many of the smallest and poorest villages in the subcontinent. This is pure sweet spot, creating profit while providing access to needed and affordable consumer goods, thereby stimulating economic growth and improving the quality of life.

It takes ingenuity and creativity to find ways to reach customers at the bottom of the pyramid. But the effort is worthwhile, not just because of the sizeable profits to be earned in the short run but because of even greater long-term benefits to companies that win the patronage and loyalty of this huge group of consumers at the start of their march toward middle-class status—a transition that bottom-of-the-pyramid programs will help accelerate.

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Additional Business Benefits of Sustainability

So far we've focused on the hard side of the case for sustainability—the direct and measurable costs, primarily financial, of ignoring your stakeholders and their concerns, and the economic benefits that companies are enjoying by managing themselves or producing goods and services to assist others in the pursuit of the principles of sustainability.

There's also a soft side, one that turns on opportunities and risks that may be harder to quantify: company reputation, employee satisfaction, customer goodwill, and the value of being considered a leader in your industry.

Wegmans, a privately held grocery chain with sales of $3.4 billion in 2004, was named the best

company to work for in America by *Fortune* magazine.[24] The company offers higher-than-average wages, high-end training programs, college tuition assistance, and, perhaps most important, jobs designed to empower workers to make decisions to help customers. Wegmans' commitment to these practices is expensive: the company spends 15 to 17 percent of sales on labor costs as opposed to the industry average of 12 percent. Wegmans has also spent over $54 million in tuition assistance over the past 20 years.

But employee satisfaction creates sizeable financial benefits for Wegmans. The company's costs related to turnover (for example, unemployment insurance, severance, training, lost productivity) are 6 percent of revenues compared to the industry average of 19 percent, which translates to a savings of approximately $300 million per year, far more than needed to cover the costs of the programs.

Many situations arise, especially in the short term, where being sustainable imposes additional costs or redirects money away from shareholders and toward other stakeholders.

Moreover, the family-owned company is thriving in the face of competitive pressure from companies like Wal-Mart and Costco, and sees its employee retention programs as fundamental to its success. Wegmans' margins are double those of America's four biggest grocery firms, and its sales per square foot are twice the industry average.

Hard Cases

Unfortunately, sustainability isn't always an easy win-win. Many situations arise, especially in the short term, where being sustainable imposes additional costs or redirects money away from shareholders and toward other stakeholders. Some of these situations are resolved as being in the long-term interest of shareholders, but others represent genuine, perhaps permanent conflicts of interest between shareholders and other stakeholders. These are the hard cases.

Many companies try to avoid those situations by seeking new sweet spot opportunities or concentrating on activities that will move them closer to the northeast corner of the Sustainability Map. But avoidance isn't always possible. The realities of the U.S. automobile industry, for example, include both consumer demand for gas guzzlers and a cost structure that currently makes big cars more profitable than hybrids. It's impossible, not to mention highly unsustainable, for a company to act against its own financial interest. Demanding that the car companies or their executives do so is, to put it kindly, counterproductive.

There's a useful distinction between being *sustainable* and being *responsible*. The responsible action is for the automakers to meet the current demand for SUVs while working to alter consumer preferences and preparing to make hybrids profitable. Thus, when Bill Ford Jr. publicly describes the environmental downsides of SUVs and works to make the hybrid Ford Escape a winner in the marketplace, his behavior can be considered highly responsible even though his industry, his company, and his main products are not yet sustainable.

Similarly, we can't expect, nor do we want, the energy companies to give up on oil and gas production today because extracting and burning fossil fuels is unsustainable in the long term. But we can and should expect them to work hard to help society make the transition to renewable energy sources—as BP is doing, even while it maintains a high percentage of its current operations in oil and gas extraction.

Hardest of all is when there is *no* sustainable or responsible action to be taken. If, for example, genetically modified food is conclusively proved to be dangerous for consumers and bad for the planet (like leaded gasoline or asbestos-based insulation), the only responsible approach for companies in that business will be to close down their

operations as fast as possible while trying to mitigate the adverse impacts of doing so. Any other choice would be socially irresponsible, making them the legitimate target of activists, responsible businesses, and society, while at the same time exposing their shareholders to ever-growing liability risks.

Concluding Thoughts

We believe that sustainability enhances profitability for the vast majority of companies. It serves as a road map for doing business in an interdependent world. It offers new ways to protect your company from environmental, financial, and social risks, to run your company with greater efficiency and productivity, and to grow your company through the development of new products and services and the opening of new markets. It provides intangible benefits that include an improved corporate reputation, higher employee morale, and increased customer goodwill. Sustainability will set you and your organization on the path to long-term success.

For More Information

For further discussion of the many reasons why sustainability is becoming a crucial factor in twenty-first-century business success, see our book *The Triple Bottom Line* (published by Jossey-Bass, a Wiley imprint), from which this article is adapted.

We also invite readers to visit The Triple Bottom Line blog at http://getsustainable.net/blogfiles/blog.html.

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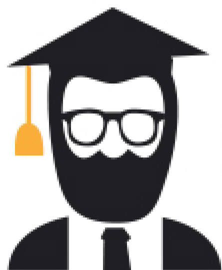

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