

# For businesses, going green brings in greenbacks

January 30 2012, by David L. Chandler

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Nearly a third of companies now say that the adoption of sustainable practices has added to their profitability, according to a [new MIT study](#) — and manufacturing firms are in the vanguard.

Two-thirds of more than 2,800 companies surveyed by MIT Sloan Management Review say they have made sustainability a permanent agenda topic within their companies, up from 55 percent a year ago. And most respondents — based in 113 countries, and spanning a wide variety of sizes and industries — now see sustainability as “necessary to be

competitive” in today’s economy. The study was conducted with the help of the Boston Consulting Group.

“The purpose of the report was to get a high-level view of how organizations are thinking about sustainability, and what they are doing about it,” says David Kiron, executive editor of *MIT Sloan Management Review* and a co-author of the report. “The attention and investment we see indicate the here-to-stay nature of sustainability for organizations everywhere.”

Manufacturing companies seem to be leading the way in this new approach: The survey found a particularly strong commitment to sustainability among “resource-intensive” producers of consumer products, commodities, chemicals and automobiles, as well as in energy-related companies. Respondents said product development was enhanced by a focus on sustainability, with 25 percent of companies citing “improved innovation in products and services” as among the top benefits they derived through sustainability.

[Sustainable practices](#) help cut energy and commodity prices by reducing waste, and in some cases have transformed companies from pariahs to paragons in the eyes of environmentally aware groups.

For example, paper-products manufacturer Kimberly-Clark has moved from criticism over its cutting of old-growth forests to a top Dow Jones Sustainability World Index ranking among makers of personal products, thanks to a concerted company-wide effort to make sustainability a priority. In addition to curbing former unsustainable practices, Kimberly-Clark now aims to reach 25 percent of sales by 2015 from “environmentally innovative products” — such as a new kind of toilet paper without a cardboard tube at the center.

In this study, Kiron says, sustainability encompassed not just reductions

in energy use and emissions, but also more efficient use of water and natural resources; recycling of materials and careful attention to the full life-cycle impact of products, including their ultimate disposal; and attention to human rights in the treatment of employees and suppliers.

Kiron cites Starbucks' focus on improving the sustainability of its coffee cups — of which the chain uses billions every year. To find innovative ways of reducing the waste associated with disposable cups, the company has convened conferences at MIT in an effort to come up with more environmentally friendly approaches. “There isn't a hard line for them between environmental and social issues,” Kiron says. “It's all part of being socially responsible.”

The study makes clear that the more deeply ingrained sustainability is within a company's organizational structure, the more likely it is that these practices add to the company's bottom line. For example, companies that say they have profited from their sustainability initiatives are 50 percent more likely to have a CEO strongly committed to the programs, are twice as likely to have a separate reporting process for sustainability, and are more than twice as likely to have a chief sustainability officer.

Sometimes, internal efforts to improve sustainability can lead to new product offerings. For example, UPS improved efficiency by designing the shipping industry's most comprehensive tracking system. That made it possible to determine the exact carbon-emissions impact of each of the millions of parcels transported every day; the company now offers customers the option of paying a bit extra for a “carbon neutral” delivery, providing carbon offsets based on the actual path and types of vehicles by which a parcel travels to its destination. The service adds about a nickel to the shipping cost per parcel.

Another example of product innovation comes from automaker BMW,

which set up a sustainability team that quickly attracted some of the company's leading engineers. They ended up designing what they say is the world's first electric car designed for mass production from the ground up. While it may be years before the new division — dubbed “Project i” — actually contributes to the company's profits, BMW sees it as laying the groundwork for a leadership role in new automotive technology.

Sustainability turns out to have benefits for a company's relations with its own employees as well, the study found. “In terms of retention and recruitment, having sustainability present on your agenda really has some cachet,” Kiron says, making it easier to attract and keep some of the most talented people.

Robert Eccles, a professor of management practice at Harvard Business School who was not involved in this study, says the MIT study “is one that executives in companies in every industry all over the world should read, and it identifies many of the key issues that need to be addressed.”

Eccles also says the report's findings are congruent with those of research he has conducted with colleagues at Harvard and at [London Business School](#).

“The research I am doing with a number of collaborators strongly supports the findings of this survey,” he says. “We get similar results in contrasting 90 ‘high sustainability’ companies with a matched set of 90 ‘low sustainability’ ones. The high sustainability companies also have distinctly better financial performance over an 18-year period of time.”

But Eccles adds that in order to benefit corporate performance, sustainability must be paired with innovation. “Without innovation, simply committing to improve sustainability performance will likely detract from financial performance,” he notes.

Eccles cautions that challenges remain in interpreting these findings: While savings in energy, water and resource use provide obvious benefits, he says, “these are easier to demonstrate and quantify than reputational and brand benefits.” He adds, “While the article rightly notes that mainstream investors are becoming interested in [sustainability](#), this is not yet a trend and the markets still have their traditional short-term view.”

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Provided by Massachusetts Institute of Technology

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