



W H I T E P A P E R

# The Pivotal Role of Small & Mid-Sized Businesses in Driving Global Sustainability

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## SUSTAINABILITY IS BECOMING A MAJOR FACTOR IN GLOBAL BUSINESS

Incorporating sustainability (People, Planet, and Profit) into a business's corporate strategy can do more than altruistically save the planet (while that is certainly a real outcome of acting sustainably)—it can also drive growth and profitability. By reducing the onerous costs of fossil-fuel reliance in exchange for more earth-friendly, renewable energy solutions, incorporating energy-saving products, reducing wasted resources and transportation costs by buying locally, businesses can increase overall efficiency. In fact, many large corporations like Walmart have reported extraordinary savings by employing sustainable business practices. *"By slashing energy consumption by 7.4 percent in the third quarter of 2013, Walmart reported an annual savings of \$250 million at its annual Global Sustainability Milestone Meeting in February."*<sup>1</sup>

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## OUTSIDE PRESSURES ARE FORCING COMPANIES TO COMPLY WITH SUSTAINABLE BEHAVIORS

Large corporate businesses are also facing increasing pressure from governments, global exchanges and shareholders to incorporate and report on their global sustainable business practices. In fact, a recent report from Ernst & Young/Boston College Center for Corporate Citizenship on the "Value of Sustainability Reporting," noted that, *"as of 2012, the governments or stock exchanges of 33 countries have required or encouraged some level of sustainability reporting"*<sup>2</sup> and organizations like the Global Reporting Initiative and the US-based Sustainability Accounting Standards Board (SASB) are developing sustainability reporting and accounting standards to help public corporations disclose their actions to investors.

Furthermore, Deloitte reported in its 2012 "Drivers of Long-Term Business Value" report that, *"Growing shareholder interest is also evident in the number of shareholder resolutions filed targeting an ESG (Environmental, Social, and Governance) issue. The lead filers in 2011 collectively managed over \$500B in assets and in the 2011 proxy season, resolutions addressing social and environmental issues comprised the largest portion (40%) of all shareholder proposals that came to a vote."*<sup>3</sup>

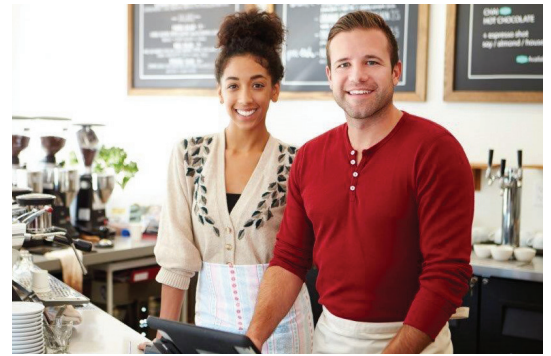
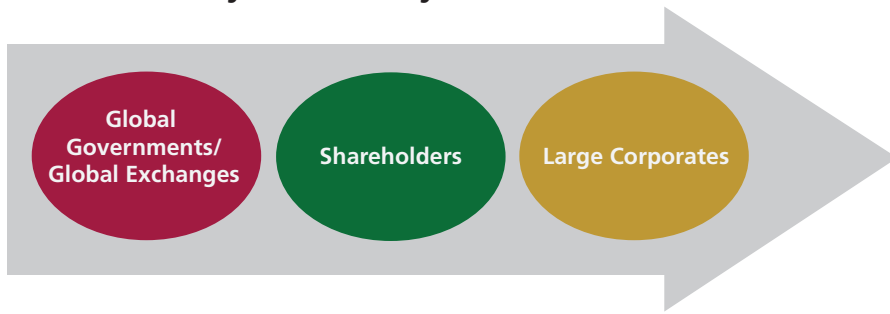
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## IN TURN, LARGE BUSINESSES ARE PRESSURING SMES TO ALSO BECOME MORE SUSTAINABLE

As large, public corporations face greater scrutiny and pressure to comply with sustainable business measures and reporting requirements, they in turn are pressuring their small and mid-sized suppliers and partners to act more sustainably and report on these behaviors—in a chain reaction. Large supply chain management and procurement officers are mandating that their SME partners report on their ESG/sustainability performance through complex, disparate scorecards. This process can be cumbersome and costly for SMEs as there are no standards requiring them to often comply with multiple requirements and policies.

On the converse, however, there are also positive benefits to both SMEs and the large corporates who can identify sustainable SMEs in their supply chains, not only from a regulatory and governance perspective, but also through what translates into 'good will' known as values-based sourcing. Values-based sourcing is the concept that large corporates who source from sustainable SMEs in their supply chain have greater intrinsic value and can greatly reduce the 'reputational risk' associated with perilous suppliers downstream who could conceivably cause great damage to the organization. When identified, these SMEs should be supported directly by the larger corporation whose best interest it is in for these SMEs to succeed and prosper.

# Sustainability Market Dynamics



*Small & Mid-Sized Businesses*

## CONSUMERS ARE ALSO INCREASINGLY CONCERNED WITH PURCHASING SUSTAINABLE PRODUCTS & SERVICES FROM SUSTAINABLE BUSINESSES

Not only are large companies facing regulatory and shareholder pressures to be more sustainable, but research shows that consumers are becoming increasingly concerned with the sustainable behaviors of the businesses they patronize. Many consumers believe that businesses have a duty to make society a better place, and a majority see businesses failing in this role.

Nielsen's 2014 Global Survey on Corporate Social Responsibility, indicates that, "55% of global online consumers across sixty countries are willing to pay more for products and services from companies that are committed to positive social and environmental impact." <sup>4</sup>

And multiple reports show that emerging market consumers are even more concerned than their developed market counterparts with purchasing sustainable products and services from sustainable businesses, reiterating that this is a global phenomenon which will only increase in the years to come as consumers become more aware of and impacted by the effects of global warming, food-related health risks, and failing ecosystems.

Fueled by a new "generation" of consumers who've seen first-hand the effects of ignoring sustainable business in exchange for profits, millennial consumers are even more concerned about the environment and social justice than prior generations. Per a recent Accenture Consumer Study, "The millennial consumer, coming of age economically and empowered by new technologies, is driving new expectations of business. People in every part of the world see the act of expenditure and consumption as a means to enhance health and livelihoods, boost community wellbeing, and shift the direction of the world." <sup>5</sup>



## THE GOOD NEWS ABOUT SUSTAINABLE SMES

Research shows that sustainable behaviors by SMEs are driven by the values and belief systems of their business owners. Most SMEs, however, have been slow to embrace sustainable business practices due to a lack of time or financial resources.

That dynamic, however, is changing as SMEs face greater pressure from their supply chains and procurement officers, as well as the almighty consumer, to comply. As SMEs become more educated about the opportunities available to save real dollars through renewable energy and energy efficient products, they will seek to embrace these alternatives. According to Jigar Shah—renewable energy thought leader and co-founder of SunEdison (the largest solar energy company in the world), *“the only way for the renewable energy sector to meet the \$300B in global revenue projections in 2015 is to market to SMEs. And it’s a win/win for both parties. SMEs can save on unpredictable, rising energy costs and help the environment at the same time.”*

Also, findings from a recent study by HealRWorld and the leader in global business credit data and insights, Dun & Bradstreet, that leveraged D&B’s proprietary Viability Rating™, have revealed that U.S. SMEs who are certified or otherwise committed to some aspect of sustainability in the HRW Global SME Sustainability Database™ are less risky when compared to the U.S. active business population in D&B’s database.<sup>6</sup>

These findings should have profound market implications increasing the flow of capital and other resources to sustainable SMEs who are not only helping our planet, but are proving to be sound business prospects.

**SME increases in sustainable behaviors can have a major impact on the world’s global economy. Let’s remember:**

- SME’s represent 99% of the world’s businesses, and employ 60-79% of all jobs & a disproportionately large share of new jobs in the U.S.
- SMEs are critical to global economies, especially in developing countries

And for those skeptics who think sustainability is for “tree-hugger” environmentalists who don’t care much about corporate performance, research shows, sustainability is not only good for our planet...it’s also good for business.

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HealRWorld is a social impact firm whose big data platform aggregates sustainability information (People, Planet, Profit) on global Small & Mid-Sized Companies (SMEs) to create insights, power products and foster positive change.



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