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Q: "Sustainability" seems to be the latest buzzword in business, but how can environmental measures and social concerns improve business profit? In an environment of uncertain revenue growth and strong upward cost pressure, can the SMEs afford such measures?

A: The term "sustainability" has come to mean more than making profits and growing year on year. It is now inextricably linked with environmental and social concerns, and corporate social responsibility (CSR). How is this relevant for SMEs struggling to contain ballooning power and labour costs in an uncertain economic climate?

An alternative label suggested for sustainability is "enlightened self-interest". This implies that sustainability is neither solely about being green and charitable, nor solely about maximising profit. Instead, sustainability combines the three aspects of economic performance, environmental impact and social contribution.

The sustainable "sweet spot" for a business is where its activities do not deplete natural resources unnecessarily (or better yet, improve the environment), contribute positively to society and are profitable – because without profit, the other objectives cannot be maintained.

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Engage SMU profs

The keys to seeing the business possibilities in sustainability are focus and mindset.

SMEs typically focus first on costs. Factoring environmental concerns into a business will affect a company's cost structure, but that does not necessarily mean higher costs. Re-engineering production processes to reduce power and water usage, or packaging materials, will actually lower costs. So will refitting an office or factory with energy-saving devices and sensors.

Training employees will raise productivity, which effectively reduces labour costs. And the upfront costs for making such changes can be defrayed by attractive grants (such as the Productivity and Innovation Credit scheme, the Building and Construction Authority Green Mark Incentive Scheme for Existing Buildings and the Inclusive Growth Programme) aimed at helping SMEs manage power and labour costs and move on to the next level.

Koufu, an established food court operator in Singapore, used such funds to automate processes in its central kitchen, thereby enabling its staff to be redeployed more productively elsewhere (and reportedly adding 10 per cent to food sales through product improvements).

Koufu is one of many examples that sustainability initiatives can improve products and markets. Discontinuing existing products that are environmentally or socially unsustainable will pre-empt rising costs and negative public attention (while SMEs may not be well known, they may have high profile customers that are targeted by environmentalists).

Replacing such products may entail switching to raw materials from more expensive, renewable sources, but redesigned products which are ozone-friendly, or incorporate design or safety features for the young, old or handicapped, will create new value and new customers. Furniture manufacturers in Singapore are exploring the use of green materials, which will increase costs by about 30 per cent. While Asian customers may not care, these changes will open up big markets in the EU and North America, where more customers make buying decisions based on environmental and social criteria. This is similar to the situation SMEs face with ISO certification requirements, in order to break into new markets and target new customers.

SMEs also struggle with high employee turnover, given that they are unable to provide as attractive salaries and benefits, or as many opportunities for training, exposure and advancement, as the larger corporations.

However, the Gen Y employees now entering the labour market have shown that they are also looking for something else – specifically, employers who are willing to listen, be flexible and provide a greater sense of purpose. SMEs that give employees opportunities to achieve work-life balance and make a difference by involvement in social and environmental concerns (or even integrate such concerns into their jobs), will be better able to attract and retain the workforce they need.

Singapore Compact, which spearheads the CSR movement, reports that about half its 400 members are now SMEs, compared to 30 in 2005. Over the longer term, focusing a business around goals that include other objectives besides making profit will help to attract parties motivated by more than financial rewards. These greater goals make it more likely that parties will stay on board even in tough times.

Costs, products, markets and identity aside, the real issue is mindset. Sustainability is not about handicapping SMEs with more regulations and costs, but about enabling companies to profitably grow over the long-term by meeting the combined needs of owners, employees, society and the environment.

Investors appear to understand this very well. Funds earmarked for sustainable investment opportunities (usually described as Socially Responsible Investing – SRI) have been growing rapidly. SRI supported by the world's major institutional investors was estimated as at least US$5 trillion in 2008, of which US$300 billion was based on emerging markets and US$41 billion in Asia. SRI in Asia has been forecasted to rise to at least US$1.5 trillion by 2015.

Costs of power and labour can only escalate. The real question is whether the SMEs can afford not to be sustainable.

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