Creating Small Business Sustainability Awareness

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Abstract

"Going Green" has global implications and is often seen as a costly endeavor by small business managers. In many instances, managers do not even consider sustainability. The purpose of this paper is to create an awareness among small business managers and owners that "Going Green" or sustainability is not only healthy for the environment but also healthy for the bottom line. Before an organization can address sustainability issues they must become aware that efforts to support the environment and the subsequent reporting of results should be part of corporate policy. Using GLATE analysis facilitates that awareness. An organization should (1) be aware, (2) take action, (3) monitor, (4) make adjustments and (5) report on the results of sustainability efforts. This paper addresses the first phase, awareness.

Keywords: Corporate Governance, Sustainability, Environment, Small Business Management

1. Introduction

Sustainability reporting, a term almost unheard of a few years ago, is becoming an important component of corporate reporting. According to a 2008 KPMG survey, approximately 80% of the worlds largest 250 corporations engage in some form of sustainability reporting. This is up from 50% just three years ago. Sustainability reporting is dominated by large, publicly held companies. It may be argued that only large companies have the resources needed to measure and report on such non-specific concepts as carbon foot printing and energy conservation. To accept this argument implies that there is no financial benefit to reporting on environmental responsibility. Michael Muyot, as quoted in Financial Executive, of CRD Analytics states that, "a lot of these corporations came kicking and screaming to it, but they had to. Since they've gotten through the process, they've found it a benefit. They've all found ways to make money from it." (2009, p.37) The literature is replete with reasons why companies should engage in and report on social responsibilities. So why are small and medium sized companies hesitant about becoming "Green" and including sustainability reports as part of their overall corporate reporting?

It is not difficult to accept that smaller companies, however defined, do not have the necessary expertise, resources, necessity or commitment found in larger companies. These constraints need not prevent more companies from participating in the increasingly common practice of going "Green" and reporting on corporate social responsibility. A smaller company, as discussed in this paper, is one that perceives itself as not having the expertise, resources or regulatory requirement to report on sustainability. Also, this paper focuses on one industry, specifically the publishing industry. Each industry faces both common and unique challenges. The process of sustainability involves two major components, adjusting the business model and the subsequent reporting of the results. One possible approach leading to going "Green" begins with examining variables represented by the acronym GLATE. The subsequent discussion focuses on smaller companies and efforts to go

"Green." While some emphasis will be placed on sustainability reporting, most of the advantages of sustainability for small businesses are due to the reduced costs associated with adapting the business model.

2. GLATE Analysis

By changing the way smaller companies do business, they can "Go Green", become environmentally and ethically responsible, and increase their return on investment, thereby helping to ensure continued success. Management dominated by "Baby Boomers" must be cognizant that they must meet the expectations of a market comprised primarily of Generation Y participants. In short, there is a potential generation gap between management and their stakeholders and consumers. Companies must be first adaptors of new technologies and markets. Business models must adapt to meet these challenges. This paper uses a GLATE analysis approach to discuss the first steps to analyze what factors management need to address.

Generation Y

Logistics

Accountability

Technology

Environment

Each of the above considerations (GLATE) contributes to the awareness that organizations can no longer ignore environmental concerns. Quite the contrary, firms can profit from using a GLATE analysis and adapting their business models to address those concerns.

2.1 Generation Y

According to The Department of Education, this generation is the first to have been born with the Internet. It was not discovered during their lifetime, but has always been a part of their lives. They are the largest group in history since the "Baby Boomers", and it is imperative that corporate management recognizes and aims to accommodate such a large target market. The GLATE phenomenon exists when executive managers in their late 40's and 50's are managing businesses that provide services for this new Y generation that are now in their teens and twenties.

One must realize that Generation Y is being referred to as "Screen Agers", because everything they do involves the use of a screens, being e-mail, text messaging, Blackberry's, iPhones, video, social networking, or reading books on Amazon's new Kindle, wireless reader book purchasing and reading devices. This generation expects companies to be eco-friendly, meaning they are conscious about how a firm's activities and processes affect their lives and the lives of others in society. Generation Y expects firms to do the "right thing", and firms must comply, so they are perceived by society as being responsible and ethical companies. The challenge now is for 20th century management to operate in the 21st century, so Generation Y, their most potential lucrative target market, is not turned off, boycott their products, or lose market share.

2.2 Logistics

Logistics is defined by Wikipedia (2009) as "the management of the flow of goods, information and other resources, including energy and people, between the point of origin and the point of consumption in order to meet the requirements of consumers." It also includes the entire supply chain of a business. The supply chain of smaller businesses may be simpler and therefore easier to monitor for eco-friendly vendors.

We must examine how firms can identify eco-friendly improvements in their approach to logistics. By utilizing today's technology, firms can manage and deliver their goods and information more efficiently, thus reducing operating expenses, immediately contributing to the bottom line. While the GLATE analysis applies to all industries, obvious industries to examine and exemplify the need to "Go Green" are publishing and advertising. These industries must rethink paper and pixels, as their survival depends upon it. The publishing industry is realizing the benefits of going on-line as postage, the cost for paper and ink, and gasoline for distribution increase their costs to the consumer. They can no longer pass the costs along as consumers have become more cost conscience. While we focus on a specific industry, small businesses in all industries can use the same analysis to become aware of the benefits of sustainability.

Statistics show 525 consumer magazines folded in 2008, along with 87 more through March 2009. Is it due to the economy, or using business models that are out of date or touch with current technology? It is a combination of both; due to the recession many retail companies have cut their overall budgets, including print advertising. Due partially to tighter economic times, firms have realized the advantages of online advertising, being eco-friendly, and reaching their realized target market of Generation Y. Krol (2009) contends that companies should focus on a mix of both online innovation and a reassessment of the fundamental advertising, circulation and distribution models. Simply put, businesses are adjusting their outdated business models to meet new challenges.

Paper represents the largest environmental impact attributable to the traditional publishing process. Some alternatives to traditional publishing include, going digital and using recycled paper. Mark Gough, the Environment and Health & Safety Coordinator at Reed Elseiver states, "We were traditionally a paper publisher, and we are moving more and more online. More than 50% of our revenue now comes from online journals and information platforms."(Miller, p. 30) The company has a target to reach 70% from online revenue." But before we believe that going digital is without environmental impact, we should consider the following observation by Gough, "that before you think digital is the answer to our environmental crisis, you have to remember that it takes vast data centers to store this content and huge amounts of computer power to run the software behind the online tools that make the content so useful to consumers. He says that the company is seeing an average increase of 20%-25% in energy usage from its data centers each year as it moves more publications online." (Miller p. 30) Despite the increase in energy consumption Reed Elsevier still experienced a 13% decrease in overall carbon emissions.

2.3 Accountability

Statistics show that publishers still generate a great bulk of their revenues from offline print products (0%-12%). They still must continue to generate significant revenues with the transition to the Web. "Going Green", in any way, does not happen overnight and the benefits will be substantiated by end of period accounting data. It is similar to the actions taken by the Fed, in response to the faltering economy. The Fed's actions will prove effective, as well as private firm's transition to more efficient, eco-friendly forms of advertising. Any actions taken must be given reaction time to realize and recognize their benefits.

As the economy improves, and firms increase their advertising budgets, we will begin to see publishers realize a greater percentage of revenue from online advertising. Publishers have now realized that declining circulation is also due to easier consumer access to news, information, and entertainment. An analysis done by Barclays Capital, the investment banking division of Barclays Bank PLC, found that US advertising growth is most prominent in the digital/internet arena as presented in the Table 1.

Today, most publications compliment their print editions with websites. The future of the industry and a more profitable way of doing business lies with digital publishing. Currently digital editions compliment print versions. The future is in digital editions where the entire magazine is online along with advertisements. A New York based company, Zinio, LLC; a full service digital publishing and distribution company is capitalizing on this new trend.

Due to the recession, in an effort to cut costs, many companies are re-examining the way they do business and their business models. They are discovering the advantages of digital publishing and advertising and could result in substantial growth. Publishing companies have analyzed data and determined that a 10% conversion from paper to digital publishing can increase profits by as much as 40%. A survey on reasons why digital readers choose this option revealed the following. The number one reason being, "Environmentally friendly", supporting companies need to change the way they do business and "Go Green" to realize profits today.

Also the advantage to advertisers is the use of direct hyperlinks to their company websites, where goods and services can be purchased. It enables a company's to see the return on their on-line investment dollars with quantifiable key performance metrics about the number of consumer purchases from electronic advertising and allows firms to collect purchaser information to enhance future marketing campaigns. Behind television commercials, magazines and on-line advertising have the greatest influence on purchaser decisions. The combination of the second and third contenders should produce substantial results.

Based on the quarterly 10K filing of Time Warner (TWX) for the period ending September 30, 2009, their consolidated revenue from advertising was down from $5,763 to $4,943 (millions) or a decrease of 14%. The significant attribute is that advertising from publishing represents 28% of their total advertising revenue and was down from $1,783 to $1,321 or by $462 (26%). It was a greater dollar amount and a greater percentage decrease than any other business segment. See Table 3.

To demonstrate an industry phenomenon, one only need to review the results of Meredith Corporation, which distributes and circulates published magazines through it's National Media Group. The company primarily deals with publications for women, sold individually at newsstands, supermarkets, and drug stores. The consolidated and segmented revenue results are provided in Table 4. Edgar, the financial SEC reporting database, reported that "Total magazine advertising pages and magazine advertising revenues were both down 5 percent in the quarter. While advertising revenues at the majority of our titles were down double-digits on a percentage basis, ad revenues at our women's service titles increased by 5 percent in the current quarter. Among our core advertising categories, food and beverage, non-prescription drugs, and household supplies showed strength while demand was weaker for the home, direct response, and prescription drug categories." (2009)

This company has identified and isolated the declining factors and has recognized the offset with the increasing factors due to their special niche market, it's women customers, who may not be part of Generation Y. This again demonstrates the use GLATE analysis. For overall strategic management of the company, consolidated operations should produce positive results, while eliminating negatives in any business segments. As part of the magazine publishing industry, they have the potential to gain from the electronic publishing revolution that is currently taking place.

2.4 Technology

Companies like Cisco (CSCO) have used the technologies of small electronic publishing companies like NXT Bookmedia, www.nxtbook.com and Texterity, www.texterity.com to meet short-term goals, while being cost efficient. For example, Cisco retained the services of Texterity to publish and distribute it's quarterly magazine to all customers and associates of Cisco. With an international client base, timely delivery around the globe was of key importance. Also, with Cisco being an information system giant, quality of electronic publication was a concern of top management. Texterity met the demand and Cisco demonstrated the effectiveness of e-publication, as it was an advertising revenue driven publication and incurred no expense to Cisco.

Now as we recognize weakness in the publishing giants income statements, they will have to take appropriate action or risk declining revenues. According to a press release on December 8, 2009, "NEW YORK, Dec. 8 /PRNewswire/ -- Conde Nast, Hearst, Meredith, News Corporation and Time Inc. today jointly announced that they have entered into an independent venture to develop open standards for a new digital storefront and related technology that will allow consumers to enjoy their favorite media content on portable digital devices." (2009)

This will be a new digital platform, for readers with portable Internet devices to access their favorite reading material from anywhere, anytime. With textbook publishers exploring e publishing, students may even study or do homework on the road. The technology to support industry leaders in this developing market has yet to be discovered and deployed.

2.5 Environment

Recycling has long been practiced in the United States. Today, over half of the material used to make paper is recovered waste. Paper products are the largest component of municipal solid waste, making up more than 40% of the composition of landfills. In 2006, a record 53.4% of the paper used in the US (or 53.5 million tons) was recovered for recycling. This is up from a 1990 recovery rate of 33.5%. The US paper industry has set a goal to recover 55 percent of all the paper used in the US by 2012. Paper packaging recovery, specific to paper products used by the packaging industry, was responsible for about 76.6% of packaging materials recycled with more than 24 million pounds recovered in 2005.

Twenty years ago, only one curbside recycling program existed in the United States, which collected several materials at the curb. By 1998, 9,000 curbside programs and 12,000 recyclable drop-off centers had sprouted up across the nation. As of 1999, 480 materials recovery facilities had been established to process the collected materials. Through going green and eliminating paper waste publishing firms will increase their bottom line by eliminating printing and transportation costs, while appealing to Generation Y, showing that they are environmentally conscience. The advertisers that choose e advertising will also be demonstrating their societal awareness. Those organizations that do not adapt their business models to reflect today's societal concerns risk being left behind as progress moves forward.

3. Conclusion

Being environmentally conscious pays. The examples given in this paper relate to larger companies. This is due to the difficulty of obtaining comparable information in non-public companies. There are no identifiable reasons to conclude that sustainability efforts of larger companies cannot translate to smaller companies. While there exists economies of scale with larger firms, smaller firms have less complicated structures and supply chains. "A growing body of evidence dispels the notion that environmental initiatives negatively impact the bottom line, and corporate commitment within the larger domain of sustainable development is emerging as a profit generator that predicts share price appreciation." (Feltmate and Scholfield, p. 20) The previous quote, while focusing on larger business, also applies to small companies. The first step for a small business is to become aware of that fact. Small companies need not jump into sustainability but rather wade into it. Take small easy steps like replacing light bulbs with energy efficient bulbs, raising thermostats, using recycled paper and low-flow water faucets. More ambitious steps, like going digital and using recycled paper for printed material, can be untaken as the company progresses toward a more active approach toward environmental responsibility.

Management must create a sustainability process. Sustainability projects are a top-down process requiring communicating expectations. The process should include team building. The team should include members from each reportable department. Management must be cognizant of each stakeholder's interest and how sustainability efforts benefit each group. Internally, each reportable segment or department should be aware of how their efforts will be measured and the resulting consequences. Stockholders will benefit from higher ROI and societal recognition, such as being on a "Green Company" list often found in the media. Society, in general, benefits from a cleaner, healthier environment. For management, the process should result in a win/win situation, higher ROI with a lower carbon footprint.

Each step should be monitored and evaluated. ROI analysis should be made along the way and results reported. There are many sources available to the small business. The EPA has an extensive list of publications to help the small business alter their current business model to accommodate a more "Green" emphasis.

The responsibilities of measurement and reporting generally fall under the management accounting domain. Accountants today are not only compliers of statistical data, but also crucial advisors to senior management. The accounting profession is no longer isolated to increasing profits by reducing costs, but must analyze the current and future trends, advise management to how best adapt to changing markets and report on the results. The management accountant should be a vital member of any team dedicated to reducing environmental impact. Reporting on sustainability is becoming part of the corporate reporting process. Companies should use this information to alert Generation Y and other stakeholders of their corporate social consciousness. After all, "Going Green" is not a fad but a necessary part of everyone's life.

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Table 1. US Advertising Spending Growth, by Media, 2008-2010 (% change)

	2008	**2009**	**2010**
Internet	9.3%	2.3%	5.7%
Cable TV	2.5%	-5.0%	2.0%
Direct mail	-3.5%	-10.0%	0.0%
Yellow pages	-8.6%	-13.0%	-9.0%
Outdoor	-4.0%	-14.0%	0.0%
Radio	-8.0%	-15.1%	-4.0%
Broadcast TV	-1.8%	-19.0%	-1.2%
Business papers	-10.0%	-20.0%	-10.0%
Magazines	-7.5%	-20.0%	-10.0%
Newspapers	-18.2%	-21.0%	-10.0%
Miscellaneous	-7.4%	-14.2%	2.6%
Total	**-5.3%**	**-13.0%**	**-1.5%w**

Table 2. Reasons that Digital Magazine Readers Worldwide
Read Digital Magazines, April-May 2008 (% of respondents)

Environmentally friendly	51%
Environmentally Friendly	51%
Easy to Save	50%
Ability to Search	49%
More Convenient than Print	41%
Easy to Forward	41%
More Timely than Print	39%
Prefer to Read on Computer	31%
Other	12%

Revenues. The components of revenues are as follows (millions):

	9/30/09	**9/30/08 (recast)**	**% Change**	**9/30/09**	**9/30/08**	**% Change**
Subscription	$2,562	$2,584	(1%)	$7,669	$ 7,800	(2%)
Advertising	1,632	1,856	(12%)	4,943	5,763	(14%)
Content	2,754	2,906	(5%)	7,680	8,278	(7%)
Other	187	233	(20%)	597	677	(12%)
Total revenues	$7,135	$7,579	(6%)	$20,889	$22,518	(7%)

	Three Months Ended			**Nine Months Ended**		
	9/30/09	**9/30/08**	**% Change**	**9/30/09**	**9/30/08**	**% Change**
Revenues:						
Subscription	$333	$382	(13%)	$959	$1,134	(15%)
Advertising	456	585	(22%)	1,321	1,783	(26%)
Content	22	16	38%	53	40	33%
Other	103	135	(24%)	302	382	(21%)
Total revenues	914	1,118	(18%)	2,635	3,339	(21%)

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Table 3. Time Warner, Three and Nine Months Ended September 30, 2009 Compared to Three and Nine Months Ended September 30, 2008

Three Months Ended September 30,	**2009**	**2008**
(In thousands)		
Revenues		
National media group	$271,604	$293,667
Local media group	60,811	70,403
Total revenues	$332,415	$364,070

Table 4. National Media Group Revenues

Three Months Ended September 30,	**2009**	**2008**	**Change**
(In thousands)			
Advertising revenue	$137,202	$144,307	(5)%
Circulation revenue	69,879	71,413	(2)%
Other revenue	64,523	77,947	(17)%
Total revenues	271,604	293,667	(8)%