

Sustainability should be on the mid-market CFO's agenda

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Mid-market firms can be resource-constrained, but when it comes to sustainability their nimbleness can be an advantage.

For large multinational corporations, sustainability is now an accepted part of doing business, and companies are starting to recognize the meaningful business value that sustainability can offer.

But for mid-market companies that typically don't have the resources to dedicate to such projects, it can be challenging to translate sustainability initiatives into business value. The time has come for that to change. Being smaller and more nimble can actually be an advantage — and technology may open up new opportunities for middle-market companies to adopt sustainable strategies in the future.

Driving business value

Sustainability has been on the U.S. corporate agenda for some time. But linking it with increased business value is relatively new thinking for most companies.

A recent research report, *From Sustainability to Business Value*, published by ING, found that 81% of US firms surveyed had sustainability strategies in place, and almost half (48%) incorporated sustainability influences in their business growth strategy.

As ever, the rules are somewhat different for large multinational companies compared with smaller mid-market businesses. While many global brands have taken bold, headline-grabbing initiatives on sustainability, we've observed a different set of challenges and opportunities for mid-market companies.

In particular, mid-market companies with earnings between \$30m and \$100m find it difficult to resource and monitor sustainability initiatives. Middle-market companies also tend to link sustainability with more immediate, tangible positive business impacts, instead of focusing on longer-term strategic objectives.

Playing to strengths

Mid-market companies lacking the resources of larger corporations may find it more difficult to monitor wide-ranging and detailed metrics and KPIs that are integral to independently track the performance of sustainability initiatives. In many cases, they will also struggle to justify investing in a dedicated sustainability function for the business.

Likewise, accessing "green financing" to fund environmentally friendly initiatives presents more challenges for smaller companies. Issuing green financing in the capital markets is typically a process that requires certification and needs to be highly auditable. For mid-market companies, the cost of compliance can outweigh the financial benefits.

However, mid-market firms also have advantages over large multinationals when it comes to sustainability. They tend to be nimbler and as a result more open to innovation. They may also have more opportunity to shape their sustainability strategy without being skewed in a particular direction by media pressure or an activist shareholder's agenda.

In the future, technological advances such as the Internet of Things, which enables previously unconnected devices to be monitored and measured, should enable smaller companies to better determine the positive impact of sustainability initiatives — even without dedicated resources.

Realizing value

Still, there's no reason for mid-market companies to put off sustainability projects. Value through sustainability can be achieved by focusing on:

- Resource efficiency — Improving the use of energy and natural resources to reduce environmental impact, but also to benefit from cost savings
- A circular model — Moving to a cradle-to-cradle business model where recycling and reapplication of inputs improves the company's production processes and sustainability footprint
- License to operate — Responding to demands for more sustainable supply-chain partners from those companies further up the value chain.

Middle-market companies may also find they need to develop sustainable solutions so that they can operate as part of a larger supply chain, or qualify as a supplier to a greater number of businesses.

One example is a McDonald's contractor, Olleco, which developed an innovative solution for recycling cooking oil from the fast-food chain's restaurants. Olleco converts the cooking oil into biodiesel, which fuels McDonald's distribution fleet. Olleco was awarded McDonald's Sustainable Supplier of the Year Award and is partnering with other large players in the food industry.

Mid-market companies are not so squarely in the spotlight as larger companies when it comes to sustainability, and typically they have less scale to commit to driving such initiatives. Yet, at the same time, their future success is dependent on embracing sustainable thinking and actions.

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