

‘Reinventing’ the Business Plan Process for Sustainable Start-Ups

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While there is still exponential growth in the number and types of entrepreneurship programs offered around the world, there seems to be a concurrent sustainability revolution that calls for a shift away from “business as usual.” Therefore, it is appropriate that entrepreneurship education in colleges and universities, as well as entrepreneurial support organizations, begin to address sustainability initiatives as mandatory and not optional. Since the business plan is typically a common starting point for new ventures, we propose a framework for re-inventing the business planning process to incorporate sustainability issues.

INTRODUCTION

Research conducted by the Global Entrepreneurship Monitor (GEM) Project and others suggest that entrepreneurship has become a global revolution (Bygrave and Zacharakis, 2011.) Likewise, businesses are experiencing a sustainability revolution as increasing concerns about natural environment degradation, decreased biodiversity and resource insufficiency cannot sustain current economic development. Companies are moving from the traditional profit and shareholder wealth maximization model to where environmental management and social costs emerge as being equally important (Edwards, 2005; Savitz, 2006.) Amidst all of this change, the field of entrepreneurship has been slow to adapt since few academic programs and entrepreneurial support organizations include sustainability as a priority in the start-up or growth stages. In the following sections we will summarize a case for including sustainability in entrepreneurship and propose a framework for re-inventing the business planning process to include sustainability.

SUSTAINABLE ENTREPRENEURSHIP

While a great deal of confusion exists about the definition of sustainability, we adopt the definition of sustainable entrepreneurship that includes environment, economic and social concerns (Certo and Certo, 2012; Luchsinger, 2009; Tilley and Young, 2009). This broader definition goes beyond thinking only about environmental sustainability and is consistent with the 3P’s (people, profit and planet) from the *Triple Bottom Line* (Savitz, 2006, Elkington, 1998), the three E’s, ecology, equity, and economy, (Edwards, 2005) and the economic, social and governance (ESG) framework adopted by the Chartered Financial Accountants (CFA) Institute (CFA Institute, 2008.)

Although there was a recent special issue on sustainable entrepreneurship in one of the top academic entrepreneurship journals, *Journal of Business Venturing*, this is still an emerging area and there are ample opportunities for research (Hall, Daneke, and Lenox, 2010.) Opportunities for practical application of sustainability principles in entrepreneurship are likewise abundant as there are few guidelines for the identification and implementation of business practices which address economic, social and environmental concerns. We propose that the business plan is an appropriate starting point for an attempt to increase the entrepreneur's awareness of sustainability at the start-up stage and dispelling some of the myths associated with sustainability as a profit-making objective.

THE BUSINESS PLAN

Proponents of the business plan describe it as the roadmap that analyzes the important internal and external factors influencing new venture creation and represents an integration of all of the functional areas of business (Hisrich, Peters and Shepherd, 2010.) Some entrepreneurship textbooks include at least one chapter describing the benefits of writing a business plan and some of the common pitfalls while others dedicate the entire text to explaining the details of the business planning process (Barringer, 2009; Hisrich, et al, 2010; Bygrave and Zacharakis, 2011; Kuratko and Hodgetts, 2008.) Although some include a separate chapter on social entrepreneurship, few have effectively addressed sustainability as an imperative in the business planning process.

One exception is Timmons and Spinelli (2009) in their textbook on new venture creation, where sustainability is defined as *concerns for environment, community and society which are the foundation of the model of the entrepreneurial process*. Likewise, sustainability issues are included in several sections of the business plan outline, although there is no detailed guidance about how to develop a sustainability plan. Still, the inclusion of a separate chapter on sustainability is more than most other entrepreneurship textbooks which have nothing or merely include a chapter on social entrepreneurship (Bygrave and Zacharakis, 2011; Kuratko and Hodgetts, 2008.)

A very useful practical guide for developing a sustainability plan regardless of whether it is a start-up or incumbent is *The Step-by-Step Guide to Sustainability Planning* by Darcy Hitchcock and Marsha Willard (Hitchcock and Willard, 2008.) It provides several sustainability assessment tools such as SCORETM and SPARKTM (www.axisperformance.com), STARS (www.aashe.org) and S-BAR (www.sustainabilityratings.com.) Many of the suggestions in this guide can be useful in the business planning process.

There is a paucity of research on sustainability, business plans and start-ups. One empirical study of start-up entrepreneurs and start-up business advisors in Germany identifies several challenges start-ups encounter in adopting environmental management practices (Schick, Marxen and Freiman, 2002.) *Inhibitors* are information and workload which prevent the entrepreneur from addressing strategic over operational issues. Also, easy access to information about sustainability business practices is nonexistent. Moreover, most business advisors are ill-equipped to provide sustainability business counseling. They associate sustainability with increased costs rather than cost savings and view it as involving products not processes. Lastly, *advisers were not* prepared to make environmental issues part of their start-up consulting services. This study highlights the misperceptions that exist about sustainability and the importance of educators and business counselors becoming more knowledgeable by incorporating sustainable practices into their repertoire of competencies as they do cash flow projections and marketing analysis.

RATIONALE FOR INCLUDING SUSTAINABILITY ISSUES IN A BUSINESS PLAN

The typical discourse of authors writing on sustainable business practices discredits the goal of profit maximization. These authors correctly interpret the vicissitudes of a focus on profit as a force that drives firms into short-sighted decision making. Many, who lack formal business school education, demonstrate naivety concerning the views held in modern economics and finance. Both fields clearly acknowledge

that profit maximization is not the primary goal of a firm. Such an orientation, taken literally, would encourage short-term, myopic decision-making that is the antithesis of value creation and efficient uses of resources. Profit maximization has never been the primary goal of well-educated business owners. The goal of management, clearly stated in the first chapter of virtually every corporate finance textbook, is to maximize the wealth of owners. The emphasis on ownership wealth as opposed to profit maximization implies that management should engage in actions aimed at increasing firm valuation; profits are necessary but not sufficient for value creation.

Maximizing firm value requires strategic thinking that considers the long-term consequences of present choices. The decisions made by management can affect the firm's future cash flows and, therefore, material to investors and other financiers in their analysis of a firm's prospects. This approach is consistent with the concept of financial market efficiency which states that the firm's current value reflects past, present and anticipated information material to its future prospects (Fama, 1970.) Thus, savvy entrepreneurs are not only adept at anticipating the consequences of current decisions on cash flows, but also consider how their decisions may be perceived by others before acting upon them. This suggests that those who are able to derive business plans and strategies that convey depth in understanding the pertinent issues that affect future performance may enhance their likelihood of attracting both the necessary resources for implementing their plans.

Business owners are usually attuned to developing internal and external environmental trends that could affect firm performance. Sustainable business practices have become an example of a relatively new, but important, trend that both start-up and growth-oriented businesses must factor into decisions. Anecdotal evidence suggests that sustainable business practices are beginning to have a significant influence on the way business will be conducted in the twenty-first century. It is becoming increasingly important for entrepreneurs to keep abreast of developments in sustainable business practices in order to anticipate the potential effects on their firms' financial performance. This point is reinforced in media accounts of how shareholder activists and stakeholder groups are pressuring firms to incorporate sustainability into business practices.

Larger firms cannot afford to ignore the challenges of shareholder and stakeholder activists who can influence consumer choice and the composition of corporate boards of directors. As a pro-active response, many larger joint stock firms have become early adopters of sustainable business models. The adherence to such practices can have a significant influence on other firms in a supply chain. There are already examples of larger firms, such as Wal-Mart, using their market power to pressure suppliers into incorporating sustainable business practices or risk elimination from the supply chain (Block, 2009.)

Financiers are also taking notice of developing trends in sustainable business practices. Investment firm stock analysts are routinely asked to supply information and opinions on sustainable business practices for important client groups serving on pension plan committees and foundation boards. In response, the Chartered Financial Analyst Institute (2008) has developed a handbook to help analysts evaluate sustainability (environmental, social, and governance (ESG)) issues. The incorporation of sustainable business practices is a determining factor in deciding who receives early-stage financing from sustainability-oriented venture capitalist and angel investor groups (Ranjelovic, O'Rourke, and Orsato, 2003). These trends imply that aspiring entrepreneurs who develop new business plans that integrate sustainable business practices, *ceteris paribus*, may find it easier to attract capital than those who abstain from such effort.

The market forces for adapting comprehensive sustainable business practices necessitate that we rethink the manner in which business plans are developed for new ventures. Many in the financial community, whom ultimately determine which ideas are funded and continue to receive funding, are already prepared to evaluate the value created from a firm's sustainable business practices. Thus, a strong argument exists for entrepreneurs to consider a sustainable business practice framework for developing a business plan. Furthermore, the development of a sustainable business planning model is needed to provide a benchmark for comparison and aid practitioners in developing sustainability compliant business plans.

In Table 1 we identify factors which may be included in a *sustainable business plan*. Although there is some variation in terms of how information is organized, most business plan outlines have similar content. We have taken several of the major sections including industry analysis, marketing plan, management/organizational plan, operational plan and financial plan and identified initiatives according to the three components of sustainability. It is important to note that the three components of sustainability are inter-related and often initiatives have more than one effect. Although not comprehensive, it is the first effort toward merging the sustainability and business planning processes into a unified approach. It also highlights that much more research and practice needs to be dedicated toward developing a sustainable business model that is easily measured and comprehensible for nascent business owners.

CONCLUSION

In this paper we hope to convey a sense of urgency regarding the sustainability revolution and its convergence with the entrepreneurship revolution. We propose that the business planning process for start-ups is the ideal stage for incorporating sustainability capabilities into the business model and that doing so will create a competitive advantage that results in long-term survival and maximizing value. Start-ups cannot afford *not* to pay more attention to sustainability practices and it is important that consultants and counselors in entrepreneurial support organizations begin to incorporate sustainability topics in their business advising services.

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TABLE 1
THE BUSINESS PLAN OUTLINE AND SUSTAINABILITY ISSUES

Business Plan Outline	Sustainability Issues		
	Social/Equity	Environmental/Ecologic	Economic/Governance
The Industry (Size and growth rate, trends, seasonality, profit characteristics, distribution channels)	“Dirty jobs” Industry accident incidences. Health and safety issues for employees.	Energy requirements, supply chain factors, waste generation, and recycling capabilities. Green technologies and trends (Timmons and Spinelli, 2009)	Industry profit margins?
Market Research (Market segmentation, competitor analysis, assessing consumer buying practices and preferences)	Ethical test marketing. Consider possible negative consequences.	Utilize on-line survey techniques rather than resource intensive methods such as mail. Do industry incumbents employ sustainable methods?	Lower costs associated with market research; avoidance of legal product liability concern; consistency in practices makes it easier to generate accurate forecasts?

<p>Marketing Plan (Product/Service, Promotion/Advertising, Place and Pricing)</p>	<p>Product safety Consider both primary (intended) and secondary (unintended) uses of P/S</p>	<p>Alignment of marketing mix decisions and sales forecasts with sustainability goals. R&D investment for sustainable solutions.</p>	<p>Risk reduction. Increased sales and profits d/t better product safety and efficient uses of resources.</p>
<p>Operations, Design and Development Plan</p>	<p>Concerns for employee health and safety issues in the workplace</p>	<p>Biodegradable or non-biodegradable residual waste? "Cradle to cradle" approach (McDonough and Braungart, 2002.) Greenhouse gas emissions and energy efficiency, facilities and building, water management. Assessment of carbon footprint.</p>	
<p>Management and Organizational Plan (Management team, Governance, Reward and compensation, Infrastructure)</p>	<p>Human rights issues: Living wage, child/slave labor, diversity. Selective hiring; Management accountability, Stakeholder engagement, compensation and ownership. Corporate culture valuing equality, honesty and respect. Training and development; reward and compensation.</p>	<p>Disclosure of sustainability information. Culture which embraces sustainability values.</p>	<p>Greater productivity via better recruitment and retention. Cost savings, Risk reduction, Increased sales due to disclosure of sustainable practices.</p>
<p>Financial Plan</p>	<p>A business model that produces higher revenues, decreased costs and expenses = higher profits. Ensure that renewable resources are there to meet production needs = increased value of the firm. Increased investor engagement.</p>		