

Sustainability: A Competitive Advantage?

Forum

Date: 24 April 2008

Time: 8:00 - 11:30

Chair

Charlie Wagstaff, Founder and Managing Director, Criticaleye

Speakers

Dinah McLeod, Head - Sustainability Practice, BT Global Services

Doug Johnston, Head - Corporate Responsibility Practice, Ernst & Young

Jim Burrell, Senior Vice President of European Operations, Enterprise Rent-A-Car

Richard Barrington, Head of Sustainability & Public Policy, Sun Microsystems

This write-up is based on the proceedings of a recent forum held for members of the Criticaleye community. Participants attended this event to hear a panel of experts discuss whether there is a competitive advantage to instilling a sustainability policy within a large organisation. Following four introductory speeches, the panellists were posed questions by the audience of Criticaleye members. Aside from the speakers, no names or companies have been noted to encourage open debate. To watch a video of this event, please sign into the Criticaleye website at <http://www.criticaleye.net> and click on Insights, TV.

To instigate or to be part of future discussions in this area, to initiate a connection with other interested members or to request research from our affiliate and academic partners, please contact your Relationship Manager.

Summary

Criticaleye members and guests gathered to discuss whether implementing a sustainability campaign can offer competitive advantage to today's large organisations. Speakers discussed their varying experiences with sustainability which included making small changes to foster a larger result all the way to a complete overhaul of a company's product line and operational policy. The following points emerged from the discussion:

- It is important to define sustainability before discussing it. Many people have many different ideas of what exactly it is.
- Sustainability can make a real difference to an organisation's bottom line through engaging staff, opening new markets and creating innovative products.
- Sustainability should be at the core of the business, and not treated as CSR which tends to exist on the side.
- Speakers warned of companies applying 'sustain-o-flage' and 'green-washing' the public.
- Being the industry leader in sustainability offers a competitive advantage when it comes time for governments to develop regulation.
- Small changes can make big difference on a company's bottom line
- There is a danger in applying a set of regulations terms without distinguishing from one market to another.
- Some companies like supermarkets can easily engage with community recycling programs, but others have to come up with their own strategies for recycling products.
- Creating flexible work environments can bring many financial and productive benefits to both organisations and employees.
- Punishments and penalties to change behaviour do not work. Tapping into employees' competitive nature is a great way to instil sustainable practice within organisations.
- There aren't many large-scale initiatives, such as Marks and Spencer's Plan A, out there. Unfortunately some projects have to fail in order to move forward successfully.
- It can be useful to get NGOs involved when trying to implement a sustainability programme within an organisation.

Speeches

Doug Johnston, **Head, Corporate Responsibility (CR) Practice, Ernst & Young**, gave the first speech

Doug's department provides a wide range of services on aspects related to the environment and social agendas. He felt that there were problems with defining 'sustainability.' The term is used to embrace an organisation's approach to the environment and various social challenges, as well as how to tackle societal issues such as climate change.

Embracing sustainability can make a real difference to an organisation's bottom line – whether it's through engaging staff, opening new markets or creating innovative products. This must be taken with caution, because sustainability is only as good as how it is done.

Today's organisations are looking at many new expectations from many different sources. Customers expect ethically generated products with due regard to regulation, employees expect responsible health and safety measures to be taken and communities expect to be treated fairly.

Interestingly:

- 90 per cent of FTSE 100 companies are producing some form of external report on sustainability activities.
- 60 per cent of FTSE 100 are now reporting on their climate change activities
- Almost all FTSE 100 companies have set up some form of broad committee looking at the sustainability agenda and the implications it has for their organisation.

But where is the differentiation? Doug asked. Is this not just part of doing business today? Is it not part of maintaining competitiveness?

Sustainability can be thought of in two ways:

Maintenance – This is about maintaining a license to operate: managing the necessary risks, meeting regulations and understanding new markets. Comprehending employee needs and listening to customers.

Motivation – This covers the things that will actually make a difference including innovative products, those things that make people excited about going to work. This is about your organisation differentiating itself.

Many companies begin with the *maintenance* agenda and fool themselves into thinking that only managing the risk will suffice. Doing the basics will only achieve the basics. The commitment level must match that of all other areas of the business. Companies need to enmesh these changes into the core of what they do, how they do it and how they are seen externally. In addition to all of this, there needs to be huge leadership support. Those organisations that really focus on these goals will make a difference.

Doug wrapped up and handed it over to **Richard Barrington**, the Head of Sustainability & Public Policy at Sun Microsystems.

Richard began with an update/introduction to his company's sustainability agenda.

Sun Microsystems has always had the mantra 'to ask permission is to seek denial' running through it. Prior to the Dotcom Crash, the company doubled revenues every three years and climaxed with a \$20 billion turnover. The Crash brought turnover down to \$10 billion and Sun needed to redefine its relevance, it had been 'the dot in Dotcom.'

In spite of this loss of revenues, the company maintained a \$2 billion research and development budget and which led to the disruptive new

technology that is today challenging the way we use computers. It was found that:

- It takes 3 years to develop a new technology and bring it to market
- There are 1.5 billion PCs being used on the planet today, a figure that is expected to double
- Each of these computers run at about 150 watts each and has a life expectancy of about three years.
- It takes 2 tonnes of raw materials to create a PC, 80 per cent of which ends up in landfill at the end of its life.

This is hardly a sustainable model – said Richard, asking: “What is the alternative?”

Today the desktop PC is purely used as an access device to the network. People’s usage has changed substantially over the past ten years – now we use Google, send instant messages, use Salesforce and do a number of other things *online*. As a result, Sun has developed a smaller, 4-watt device that lasts 20 years. The new technology uses 95 per cent fewer raw materials to make, and leaves a fraction of the waste at the end of its life.

It took five years for Sun to get back into profitability, Richard noted, and in less than six quarters – it has seen small profits and small growth. But in the last year the business grew by 380 per cent. And the fastest growing part of the business is that which deals with low carbon technology.

Case in Point: South Africa’s energy shortage

Richard went on to describe a meeting he had attended in South Africa the previous week where on average South Africans endure 8 hours power outage per week. With no new capacity being added until 2012, the economy is really beginning to struggle with a power cap. The government and National Energy Agency are looking to offer rebates to those who take up low-carbon technology. Sun Microsystems’ product can cut 75% of the the total consumption of IT in the country.

The technology has encountered explosive growth because it is relevant. Many are asking ‘how can we be more sustainable?’ and this is an option. It has a major impact on the environment and enables a low carbon economy, assisting customers putting ‘their house in order’ and delivering new value.

Richard summarised by introducing the term ‘eco responsible’ – being responsible ecologically – *and* economically. Up to this point, everything Sun has done in the sustainability realm has either saved money, or made money.

Richard then handed it over to – **Dinah McLeod**, Head, Sustainability Practice, BT Global Services.

Dinah’s background in international development means that her approach to sustainability is three-pronged, encapsulating three things:

1. Environment
2. Social Issues
3. Economic Issues

Dinah offered a definition of sustainability useful in the corporate space:

Sustainability is transfer of resources that benefits over one period of time to the next.

This framework gives companies the opportunity to step beyond simply 'saving the planet', and find value for their customers. It allows them to find what they want to transfer, and over what sort of timeline.

There are three ways in which sustainability creates business advantage, Dinah explained – they can be referred to as the 'Three Rs':

- Reputation
- Regulation
- Revenues

Sustainability is not corporate social responsibility (CSR) – it cannot be looked at as something you do on the side. It must be at the heart of what you do and on the frontline of your customer relationships.

CSR has given BT a very good reputation which has led to the company taking up a sustainability practice. Dinah's team has been set up to a) make money for BT and 2) open conversations on the topic of sustainability on the board level. The positive message being that it is profitable and it saves the planet.

The word sustainability is a problem phrase - it means many things to many people. It's difficult to approach something when it's not clear what is being discussed. This can also lead to problems among consumers. BT did a poll recently and found that 3 per cent of people feel that big business is honest about sustainability credentials.

Many companies are jumping on this bandwagon, using what Dinah liked to call "sustain-o-flage." There is a lot of misperception with what sustainability means to consumers – who don't seem to buy into it anyway. Consumers give 'young, hip' companies to give the "green tag" –overlooking the big ones who have actually been doing it for a while, and who are good at it.

Unfortunately sometimes if you're talked about – it's better than actually *being it*.

Should you go with a "sexy young idea" rather than just getting greener because it leads to greater sales? These were questions Dinah hoped to discuss in the subsequent question period.

Another problem is that sustainability campaigns don't seem to be outcome based. Many people are taking credit for small channels on the side, and are not being measured by money-saved and actual greenness accrued.

Dinah concluded here and passed the floor to **Jim Burrell**, Senior Vice President of European Operations, Enterprise Rent-A-Car.

Sustainability, as a tool for competitive advantage, is not a traditional notion. Strictly speaking, sustainability probably doesn't deliver the kind of competitive advantage that most businesses are looking for either. But if we widen our horizons a little, there are some very definite and concrete ways in which it can be of enormous value beyond just the societal.

Enterprise Rent-A-Car is a family-owned business with \$13 billion revenue. We employ 75,000 people around the world and operate 1.1 million motor vehicles. As a business, we face the very stark reality that the internal combustion engine is not a green concept, so we have to find other ways to arrive at sustainable solutions. However, we're very aware to stop short of 'green-washing' our customers – that is, pushing our 'greenness' to an apprehensive public.

Given the amount of vehicles we run, we cannot claim to be a green company. But that doesn't mean that we can't be a part of the discussion to find solutions that make the difference. For a company like Enterprise, small changes across our entire operations stretching different countries is a good approach.

Four or five years ago, Andy Taylor, our owner/chairman, made a commitment to sustainability. The company was about to hit one million automobiles on the road – a significant milestone and certainly one that would have an environmental impact. Andy Taylor challenged us all to think about sustainability and come up with measures to tackle the issues.

The result has been our Enterprise Environmental Platform. It is made up from a number of measures. For example, Research: we donated \$25million to establish Enterprise Rent-A-Car Institute for Renewable Fuels at the Donald Danforth Plant Science Centre in St. Louis. The Institute is working to develop alternatives to finite fossil fuels by finding new ways to create fuel from renewable and reliable plant sources. Another example, Conservation: We committed ourselves, as a mark to celebrate 50 years of doing business, to planting 50 million trees over the next 50 years. This pledge is one of the largest of its kind and is focused on efforts to address reforestation needs, where natural disasters such as forest fires and storms have devastated woodland in the markets we operate. There are five planks to our platform in total.

Employees have formed committees to come up with a number of other ways that we can impact our sustainability model too. For example, stopping the

print out of customer reservations at the branch has saved more than the equivalent of 10,000 trees in its first year. We have found that changes like this multiplied together can make a big difference.

But does all of this really translate to a competitive advantage? We think that it does. For example, giving our employees a voice on environmental issues and creating the world's largest fleet of alternative fuel vehicles, we've earned a seat at the table when it comes time for government regulation

In North America, Enterprise owns 80 per cent of our market voice to the media when it comes to the environmental discussion. This is an advantage for us – and allows the company to take an active part in driving the public agenda. It's meant that, even when we come across non-governmental organisations that seem to be working against the business' cause, we are able to open a dialogue with them and learn to work *with* them.

As well as legislation, our efforts have had a big impact on our employees too.

For example sustainability is a vital issue to 'generation Y.' As one of the largest university graduate recruiters in the UK, Germany, Ireland, US and Canada we have been able to show this generation that we are taking our responsibility seriously. This instantly helps us to become a much more attractive employer.

Retention is also a factor. Those who have come up with the best ideas to protect the planet and save money are our current employees. Through engaging our current workforce this way, our retention rates receive a boost. When we look at our bottom line, it translates to money not being spent on constant recruitment.

Enterprise also offers consumers carbon offsetting. If the customer wishes, they can spend a little extra money when they rent a car to offset their personal carbon use. Everyday more than a 1,000 renters choose to do this. Our reputation is positively impacted and gives the company an opportunity to offer its voice on the issues. Now Enterprise is known within our industry as the company who *is* making an effort.

Enterprise runs a huge amount of cars. Cars harm the environment. But these two facts need not add up to Enterprise ignoring sustainability issues. It's not about saying things you can't do and it's not about claiming to be something you aren't - it's about trying to make a difference that adds up to being part of the solution. Making those differences, we're not only helping the environment; we're doing well, by good.

How do you deal with product disposal when replacing with greener alternatives?

Enterprise sells its fleet to consumers, noted Jim. It may be the end of the company's use of the car – but hopefully that doesn't mean it no longer has value.

In Sun Microsystems' industry, commented Richard, there is significant consumer waste. Sun has spent five years redeveloping its product for this reason and for the cost saving involved. It has replaced using plastics with steel – which has value upon its return to the company. It now offers an 'upgrade allowance' when products are returned at the end of their life.

By recognising regulation as an opportunity rather than a threat, Sun has been able to produce more reliable and easily serviced product lines. They have also been designed so that Sun may recover as much value as possible and waste little.

Dinah felt the problem with second hand products is that people tend to think they are 'shabby.' Further more, she added there are many EU regulations that prevent proper second hand trading. Many companies would like to recycle their used products in the developing world but are limited by regulations that turn the donator into a supplier who must take on all the legal responsibilities of the product.

Should sustainability become more regulated?

Jim thought that companies are moving forward due to societal pressure and that governments regulate to get ahead of it. It's good to have a seat at the table for when policymaking arises.

Richard felt there is a danger in applying a set of terms without distinguishing from one market to another. In his industry – there was much talk of the carbon footprint of the computer, but the reality is that from a desktop perspective 75 per cent is in manufacture, 25 per cent is in use.

There are sufficient standards in place, he said, so it's more about the appropriate audit of those standards. Surveys looked at the social implications of computer manufacture and studied labour rights, health and safety, environmental and supply chain. But they didn't take into consideration that it takes a tonne and half of water to make a computer and usually in parts of the world where the general public don't have access to clean water. So how do you get the whole life story in such a way that the market drives good behaviour?

Dinah said 'we can't manage what we can't mention', so until a good definition of sustainability is established, it's difficult to think about which type of regulation would be appropriate. We are now seeing the effects of legislation with bio fuels – everyone wanted to grow it, but guess what? Food crises arise. Unintended consequences from states can mean life or death.

The room was surveyed and out of 21 a show of 5 hands felt there should be more regulation.

How can companies engage with the community in order to reduce their carbon footprint?

There is more of an opportunity for supermarkets to be seen as active on environmental issues, answered Doug, by participating in community based recycling schemes. But actually, the way organisations have responded to the regulations on packaging hasn't supported this tending to pay into third party compliance schemes as opposed to engaging with communities on how to manage their own waste recovery schemes.

Sun Microsystems is in a different position because it knows who its customers are and it is easy to have a relationship where products are returned at their end of life. This has inspired a range of initiatives said Richard, that go beyond a simple community-recycling programme. By making products reusable, Sun is able to reclaim the value. This is much more difficult for a company like HP, who might sell printers through PC World and thus have no idea where the products are going. These sorts of companies have set up municipal recovery programs to varying degrees of success.

BT hasn't done enough to promote environmental and sustainable products in terms of packaging consumer products, admitted Dinah, but the company acknowledges that there is a lot of work to do.

The workplace has a tremendous influence on individuals' behaviour and BT is fantastic in this sense. Employees are educated on green topics, and there are many encouragement schemes set up to get people involved and hopefully go back to their communities and councils and push for change.

How can companies incorporate sustainability into their staff reward structure?

Doug hadn't seen a system that worked excellently. Some companies set Co2 targets – where compensation was related to staff's impact on the reduction. The measurement and reward systems have to be thoroughly evaluated because they are designed to influence behaviour and influencing the right behaviour is key; this is an area where organisations really need to work hard.

Sun Microsystems belongs to the Confederation of British Industry's (CBI) Climate Change Taskforce, who alongside BT have discussed how progressive companies might motivate employees to become champions of these issues either at work or in the communities that they serve. Currently, 65 per cent of Sun's employees do not have desks and another 10 per cent work from home. This offers significant cost reductions from a business perspective and on average saves employees two hours of commute per week, which is a huge personal benefit. There is also £1 000 per annum in

petrol and transport savings. This allows the business to do something radical – which is count the employee commute in their carbon footprint. All this creates best practice, finished Richard, not just competitive advantage.

BT saves £230 million per year as a result of flexi-work and mobile desks, said Dinah. It costs £15 000 per year to run a desk at headquarters as opposed to £2 000 for a home worker. There are obvious management incentives here but there have also been knock-on benefits to employees.

According to a recent survey, 60 per cent of the time saved from not commuting etc. goes back to the company and employees enjoy the remainder. There is an 'I'm going to get to work early' mentality resulting in a benefit to both management and staff.

Agile working allows women with children to work in big 'proper' jobs. BT has a 98% retention rate for women returning to work after having a baby and that's because it's flexible. These are all absolute employee benefits.

Fines and penalties don't really work – you need to tap into people's naked ambition to be 'better' than their colleagues. Post a sheet ranking the number of people who turn lights out at each site and they will strive to be better than the Croydon branch.

Jim explained that Enterprise establishes a compensation plan early in employees' careers so everyone is paid off the bottom line. The challenge is showing people who are paid off the bottom line, how it *impacts* the bottom line.

One program was to turn lights out and install energy-saving bulbs. This lowered energy costs by 6.5 per cent – which doesn't seem like much – but once it was broadcasted to other teams, competition ensued.

How do you deal with consumer cynicism relating to sustainability issues?

Richard explained that upon launching the new programme at Sun, the company hit a brick a brick wall in that the CIO of an organisation doesn't pay the energy bills. The company questioned how it could get the IT boss to care about how much power was used. It became about communication – and establishing different 'languages' for different contacts within the firm. In the South Africa example, the IT guy became the hero when CEOs were tasked with the issue of cutting energy use. Many 'Rs' have been mentioned and Richard argued it was about choosing the right one for the right audience.

Doug thought that there are some sectors which unfortunately, are not trusted by the public. Financial services, for example, is one of which customers are wary.

There is also a tendency at the moment for companies to communicate messages with no substance. They must be able to understand their own

impacts and have a plan for managing those – if you have no clue yourself – surely you should not be communicating it.

Can you supply examples of companies employing large-scale sustainability initiatives?

Richard stated there are a number of organisations looking to the new markets that emerge with a sustainability initiative. However the active examples are quite small because it is a bold decision to make. Unfortunately there have to be some failures, particularly if we're looking to achieve 60 - 80 per cent decarbonisation by 2050.

Transformative technologies are very exciting – but solutions are rare – and we will have to wait for the perfect one, thought Jim. All the work being done on changing how cars are powered is great, but there are many small things we can do in the meantime that will make a difference.

Sustainability should make a strategic difference to an organisation. If it is done properly it should not only look right, but also be very solid at the core. It should start with making money.

What is the best way to engage NGOs on the sustainability agenda?

Doug offered the example of BP's pipeline between Turkey and Azerbaijan. This project received a lot of media attention and as a response BP established an independent panel who published a public report to enhance transparency and trust.

Sun launched a transparency campaign and reported all the "unknown unknowns" publicly. It published all the major problems within the business and then sought advice externally for how to solve them. As a result it won the most ethical business within its sector. This wasn't for being better than its peers, but actually for airing its dirty or potentially dirty laundry – which was seen as a very positive step. By taking this bold step – Sun was able to engage with the surrounding community. Richard warned of the massive range of organisations out there, and recommended that firms thoroughly research whom they work with.

Dinah pointed to The Extractive Industries Transparency Initiative, headed by the UK government's Department for International Development as a great example of the private sector coming together with NGOs *and* supply country governments. With gas and oil – there are issues with publishing payments and many ways in which revenues are diverted. This tri-part forum was a very successful method of getting the different parties to communicate in a manner that was not just a "slug fest."

Jim recommended embracing the NGOs who might seem to be working against the business' cause. This is a very valuable and educational way to understand their view so you can go back to operators and explain it in a language that makes sense.

Charlie Wagstaff then thanked the panellists for their participation, and the audience for its contribution, and brought the discussion to a close.

Criticaleye (www.criticaleye.net), as a community of senior executives, provides members with an experiential platform that allows them to innovate and develop by sharing business experiences and expertise with their peers from different industries/functions. These Discussion Groups are member instigated and provide immense value in the provision of specific strategically oriented debate.

If you, as a member, have any strategic issue or subject that could be addressed in a facilitated peer Discussion Group then please contact your Relationship Manager. For more information on Executive Membership please contact Tom Beedham, Executive Liaison Manager, on +44 (0)20 7350 5104 or tb@criticaleye.net