



Thought Leadership Workshop One

The business case for sustainability



The NZTE Sustainability Thought Leadership Series was launched in London in October 2008, with the first workshop focusing on *The business case for sustainability*.

The aim of the series was to provide access to key opinion makers and thought leaders on sustainability and in doing so, to assist New Zealand companies deepen their understanding of sustainability and build the business capability required to become, and remain, competitive in this environment.

This workshop presented the drivers of sustainability issues, what these mean for New Zealand companies supplying to the UK and how sustainability requirements may further evolve. Keynote speakers included:

- **Dr. James Northen**, Institute of Grocery Distribution (the industry good body for the grocery, food and beverage sector), provided an overview of what sustainability means for UK supermarkets and how this will affect suppliers;
- **Brian Giffen**, British Telecom, who with over 30 years experience with BT presented on how sustainability has been used within the company as a driver of innovation and leadership; and
- **Prof. Andrew Kakabadse**, Cranfield University School of Management, an expert in the link between corporate governance best practice and sustainability

The event was facilitated by **Dr. Mark Wade**, former Head of Sustainable Development at Shell International and independent advisor to global corporations. Mark framed sustainability within the context of being able to recognise and understand trends and influences of strategic or operational importance. He suggested key factors for success were: having a 'long-range radar' (a sensitivity to picking up future issues), having a transformational agenda, and being an innovator. When integral to a company's planning and business processes, Mark argued that a focus on sustainable development:

1. helps attract and **retain top talent**
2. helps **reduce costs**, through eco-efficiency
3. helps **reduce risk**
4. helps with **positive public perception**
5. enhances **the value of the brand**
6. positively influences **long term portfolio evolution**
7. supports a license to grow through **enhanced reputation**

The business case therefore lies in the resulting advantage: that you become the company of first choice. People want to work for you, buy from you, partner with you and invest in you, which is simply good business (as usual) now. Mark then expanded on how to ensure that sustainability isn't an 'add-on', but rather embedded in a company's DNA. A checklist for a **holistic approach** to sustainability includes, generating robust profitability; delivering value to customers; protecting the environment; managing resources and achieving eco-efficiency; respecting and safe-guarding people; benefiting communities and engaging with stakeholders.

UK food and beverage sector expert, **Dr. James Northen** began by examining why sustainability is an issue of such importance for the industry. He argued that within the context of both a government taking climate change seriously (signalled not least in the creation of a new UK Department of Energy and Climate Change, October 2008) and sustained retailer interest, the importance of the issue is unlikely to wane.



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Firstly, retailer interest extends beyond altruism, with PLCs focused on delivering good value to shareholders and non-PLCs still needing to make good returns to stay in business. Retailers now approach sustainability simply as a **requirement for being competitive**. Demonstrating this, Sir Terry Leahy, CEO Tesco, said that “the battle to win customers in the 21st century will increasingly be fought not just on value for money, range and convenience, but on being good neighbours, behaving responsibly and seizing environmental challenges”. Having made **significant public commitments and targets**, many companies would face consumer outrage at the first sign of back-peddling. Beyond these strategic drivers, **bottom line** also remains an influencer – many of the sustainability initiatives supermarkets are driving are helping reduce costs in the medium, if not always the short term. Marks & Spencer, for example, recently announced its feedback on the five-year, 100 point ‘Plan A’ and showed that cost savings made on climate change and waste initiatives have already made Plan A cash positive, only halfway through its term.

And secondly, the industry is one that is markedly ‘within the gaze’ of government. Accounting for approximately 1/5th of all UK greenhouse gas emissions (GHGs), 15% of energy consumption from businesses and 10% of all industrial use of public water supply, the sector is highly ‘visible’ and a logical target for legislative attempts to cut emissions. In other words, it is a sector heavily affected not just by the *threat* of regulation, but by what is already coming down the tracks (most notably the Climate Change Act legislating mandatory carbon reduction targets).

The consequences of dual retail and government action in the industry around sustainability are manifold. **Financially**, it means retailers are investing now to save or manage spend in the future. **In the market place**, it means they are keeping up with the initiatives their major competitors are putting in place to ensure that brand and relationships with customers are secure. **Politically**, it means they are managing the transition to regulation. And from a **corporate affairs perspective**, it means enhancing their reputations with key stakeholders, not least customers, shareholders, NGOs, media and government. Given the large market share of the grocery market leaders in the UK, the relatively high percentage of own-label products (and therefore the strong negotiating power retailers have with suppliers), **suppliers face a number of challenges**. Particularly with regard to:

- **Carbon management** – including measures to improve energy efficiency, investing in new technologies such as anaerobic digestion and renewables, improving refrigeration, measuring embedded carbon at the product level etc
- **Packaging and waste** – seeking to reduce primary, secondary and tertiary packaging, helping customers recycle, investigating technologies to reduce food waste in the supply chain & at home
- **Water use** – improving water efficiency, understanding the implications of embedded water etc
- **Distribution** – optimising road transport, considering non-road transport options, improving warehousing to minimise environmental impacts
- **Stores** – retro-fitting stores to include a more sustainable infrastructure
- **People** – training and encouraging employees

Brian Giffen of BT (British Telecom) presented his experience of how BT has been able to embed sustainability into the core of its **business culture**, and in doing so, taken on a real **leadership position** within its industry. Through a number of very practical and engaging examples, Brian highlighted the importance of the adoption of **sustainable development principles in both operational and strategic areas** of the business.



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In order for principles of sustainability to reach the core of its business culture, BT understood the importance of **'making it real'** to every company employee. Brian highlighted particularly the fostering of a culture of awareness within BT around sustainability and how this has driven what he termed 'instinctability' – sustainable patterns of behaviour, business processes and decisions. In this way, sustainability has been driven into the fabric of the business and is **considered at every decision level**.

For example, in August 2008 BT launched a campaign to save 75,000 tonnes of CO₂ and £15 million over two and a half years. BT is well on its way to achieving this reaching target by encouraging employees to adopt simple energy saving actions. Signs next to computers encouraging their users to switch them off overnight; signs next to lifts encouraging people to use lifts less by taking the stairs; and the abolishment of all individual printers in favour of pooled group printers were simple, concrete examples that people can relate to and which were used as a mechanism to begin to engage people in dialogue around sustainability. By engaging their 10,000 employees in creative viral campaigns, BT sought out views and feedback and as such, was able to foster a real desire for change.

In parallel with a company-wide culture, Brian also highlighted the importance of a company's **governance level driving the transformational agenda**. In this sense, BT has been able to become a leader because of both 'top down' and 'bottom up' support for sustainability. He emphasised the fact that BT's corporate and government clients are demanding evidence of sustainability credentials simply as a 'license to operate'. In 2008, BT customers asked for evidence of BT's social and environmental performance to be included in BT contracts worth £2.2 billion, for example. This represented over 10% of total revenue that BT would not have secured without proving its sustainability credentials. As a strategic driver, sustainability is therefore now **key to every element of BT's business**.

Continuing on the theme of organizational leadership, **Prof. Andrew Kakabadse** (Professor of International Management Development, Cranfield School of Management) spoke on the connection between sustainability and corporate governance best practice.

Having embarked on a major global study of boardroom effectiveness and governance practice, Prof. Kakabadse shared the most common challenges identified. In dealing with a complex issue like sustainability, he argued that it **has to be embedded into the fabric of governance** and that in general, sustainability needs to fit more deeply into the corporate psyche than is often the case. While common thinking today places corporate social responsibility (CSR) and the responsibilities for CSR on the shoulders of management, Prof. Kakabadse suggested ownership of the issue must involve a much more intimate relationship and dialogue between boards and management to ensure permeation of thinking throughout every level of a company. So as in examples shared from BT, the paradox of investing in CSR at both the grass roots level and at board level was stressed, together with 'selling' messages to middle managers to equip them to co-ordinate the change agenda.

Prof. Kakabadse went on to suggest that **values-driven organisations** tend to do this most successfully, as these can drive the sustainability agenda. Likewise values-driven organisations often have a better long-range radar or sensitivity to picking future issues of importance.