

CHAPTER 1

Why Sustainability Matters to Your Business

PEOPLE AND BUSINESSES GET INVOLVED in sustainability for very different reasons.

Generally, individuals are emotionally or morally driven to act – to improve or protect the world for their and their children's future. This may be a long-term concern or something triggered more recently – an epiphany moment – caused by something they have seen or experienced. Whatever their concern or why they feel driven to act, it is fair to say that they believe taking action to make our world fairer and more sustainable is the right thing to do.

While they may not use the terms themselves, they believe we have a moral obligation to take action. While these motivations make perfect sense for individuals, the same cannot be said for businesses. Businesses may just be a collection of individuals, but hierarchy and bureaucracy require very different motivations to change or take action.

Large-scale changes have been made to businesses because of one person's epiphany moment – for example, that of the late Ray Anderson, Founder and Chairman of Interface FLOR – but more often a sound business case and strategic purpose is required. In the face of business's primary aim – and legal and moral obligation – to protect and enhance shareholder value, 'it's the right thing to do' does not carry much weight. This book will help you develop a business case to convince the most sceptical Finance Officer or Chief Executive Officer that sustainability can offer real value to a business.

First, we need to understand what makes businesses tick and how sustainability can help deliver that. From saving money in operations or production, attracting new customers, retaining existing customers, protecting and improving brand, sustainability can help.

What is sustainability?

Definitions of sustainability in a business context do vary. I am taking the broader view of balancing and enhancing the social, environmental and economic sustainability of the business. This is also known as the triple bottom line, referring to a business's economic, environmental and social impacts, summarised as the three Ps – People, Planet, Profit.

Some businesses take a narrower view of sustainability, focusing just on environmental issues,

and perhaps include their community investment or health and safety activities. I prefer the broader view, as it represents the full spectrum of risks and opportunities open to businesses, and really gets to the heart of what it takes to make a business successful over the long term.

For the sceptic

So what if the above doesn't apply to you? You've had no epiphany moment, and this sustainability stuff has been dumped on you by an enthusiastic manager.

The purpose of this book is to help you get started; to explain the benefits of sustainability and build a business case. I hope at least some of it will ring true and you will finish a little less sceptical than you began and a little more convinced that sustainability can bring real benefits to your business. I will show that this isn't some ridiculous fad but a sensible approach to doing business. I'm sure you will find that your business is tackling many of the issues to a greater or lesser extent. I'm convinced that by thinking about sustainability in a strategic way you can reap more benefits and transform your business into a leaner and more flexible organisation, and more environmentally, socially and economically sustainable.

Steps

To develop and implement a sustainability programme into your business you need resources, both people and money. Unfortunately, to convince people and get those resources, you need to have an idea of what it is you can do – itself a process which may require people and money. In many ways this is back-to-front as once your team is in place you will want to go through the same process in greater depth using their experience and input. The things you need to have a good grasp of before you begin are:

1. Why the issues matter generally.
2. At a high level, the issues that are material to your business.
3. The resources you are likely to need – both people and money.
4. Understanding your business, business objectives and audience.
5. Making the case.
6. Developing a strategy.
7. How to implement it!

In this Dō Short we'll be focusing mostly on steps 1–5.

Benefits: Why sustainability matters...

You'll soon find that sustainability takes effort and input from all kinds of people from both inside and outside your business. It is important to understand how and why your sustainability programme matters to these groups and how taking action can benefit your business.

... Operationally

When first looking at sustainability most companies look to their operations and specifically the savings that can be made. More often than not there are many quick wins to be made; costs are easy to see and measure; and the changes are more or less under the business's control.

Obviously, the operational savings that can be made vary greatly from company to company and industry to industry. However, the principles are broadly the same:

Saving money: Many of the world's resources are finite and yet we are often totally reliant on them, oil in particular. You are probably aware of the idea of peak oil, the point where oil production reduces as a result of reduced reserves, making it more difficult to extract and therefore more expensive. Oil is obviously essential to our daily lives as a source of energy and in the production of many materials. While the idea of peak oil is quite common other resources are also becoming scarcer. Warnings have been made about the supply of helium, for example, which, other than filling balloons, has a number of uses including medically in magnetic resonance imaging (MRI) machines and in leak detection.

If we are to be sustainable we need to reduce our reliance on these materials, and do more with less. The joy of this is that it will save you money: by printing on both sides of a piece of paper you need to buy less paper; by switching things off when you don't need them you save electricity, reduce your energy bills and your carbon footprint; if your staff travel less they use less fuel and reduce unproductive travel time. To begin with at least, it's very simple. Although once you've picked this low-hanging fruit some capital investment may be needed to see further reductions.

How do you start identifying where savings can be made? Energy, water and waste tend to be

good starting points – just ask what can get switched off, where can we use less, what don't we need to use or buy? With waste don't just think about segregation. Most of what you throw away you bought at some point, so can you reduce waste higher up the chain by not buying it in the first place? Or is there a more sustainable, cost-effective alternative?

Look at your costs. The places where you spend generally give the greatest opportunity for savings. Walk through your operations, looking at and questioning everything. Tip: don't make yourself too annoying, as you'll want these people on your side later.

Making money: Sustainability isn't just about savings. The three pillars are environment/society/economic or people/planet/profit. Sustainability gives each equal weight and is about balancing all three. After all, you can't be a sustainable business without making money.

Generating your own renewable energy is one way of making money out of your sustainability programme and helping you reduce your carbon footprint at the same time. Many businesses have also found that by segregating their waste they can make money selling it on to waste handlers – quite a turnaround from escalating landfill taxes. But for most businesses that is always going to be a sideline with the primary goal of reducing overheads. The real trick is identifying ways to make your existing products more sustainable and then developing tailored sustainable products. This could mean incorporating a sustainable aspect into your existing products by, for example, using more sustainable materials in the production of your components; incorporating recycled materials; or gaining some accreditation, which are as diverse as energy star (which recognises lower energy electronics) to fairtrade.

As well as products that are themselves more sustainable, you should also look at ways they can help make your customers more sustainable. This could include reducing the energy use of your products or offering organic, fairtrade, FSC (Forest Stewardship Council) products or environmentally-friendly options such as low emission or hybrid vehicles.

Services are a little more tricky, but it is still possible. This could include diversifying to offer a sustainable option, such as fitting renewable energy sources; offering 'carbon-neutral' services; helping companies use their equipment more efficiently; using the most efficient and sustainable processes available, such as water-free printing or offering ethical investments.

Whatever you do, sustainability can help you sell and market your product or service, or if you develop tailored sustainable products, even tap into a new market. Sustainability could be the thing that sways a potential customer to choose you.

... To your employees

Hopefully you realise how vital your employees are to your business; they develop and deliver your products or services, can be your biggest advocates, interact with your customers, and ensure you remain compliant with legislation.

So why does sustainability matter to them? As a large part of sustainability is about managing your key relationships, it could help you manage how you interact with your employees. Once again sustainability sits on a convergence of interests. To operate sustainably you need safe, healthy, trained, happy, motivated employees. All of which your employees appreciate, too, and will make them want to stay with you and be more committed to the business.

Many individuals are looking for ways in which they can meet their life goals. So businesses that offer the opportunity for employees to do this in the workplace will ensure a more engaged workforce. This is highlighted by the fact that many companies report lower recruitment costs due to their sustainability programme. People like and want to work for a nice, responsible company, so are more likely to stay. And it makes it easier to find and recruit talented people from the start as people will choose to work for you. In fact, research by BT showed that 44% of young professionals would avoid working for an employer that showed poor social responsibility, while more than a third thought that working for a responsible employer was more important to them than the salary they earned.¹

Many years ago, when I was Secretary of State for the Environment, Unilever came to see me with, what was then, an amazing series of environmental innovations and business systems which were utterly new. At the end of their presentation I asked them, what surprised you about it? Their response was that they had paid for it all through recruitment and retention. By making their business more responsible they attracted the best graduates, and kept them. When you consider the cost of recruitment and retention, both very expensive; Unilever believed the savings they had made paid for the innovative roll out of their environmental programme.

John Selwyn Gummer, Baron Deben

... To your customers

As with all these things, your product or service, and who you supply it to, will determine

your key issues. But as a general rule, sustainability is something your customers will be interested in and something they will be looking for in a supplier.

Let's be honest here; sustainability isn't going to be, and shouldn't be, the only thing your customers are looking for. The usual factors like costs, experience and quality will always, and should always, play a part; remember that the economic pillar is important. But sustainability provides an additional advantage that could be the difference between whether or not that potential customer becomes an actual customer.

If you're lucky, sustainability might make you stand out in your field. If you're less lucky a lack of focus on sustainability can also make you stand out, but for all the wrong reasons. If you are supplying to a large company or to the public sector, they are very aware that their supply chain is seen as a reflection of them and their values. If one of their suppliers is seen or found to be doing something untoward, the media, their customers and the general public hold them responsible. If you are taking action on sustainability it reassures them that you are managing your risks and reputation, which therefore reduces the risks to their business and reputation.

Public sector: If you supply into the public sector you have probably noticed that sustainability, and ISO 14001 in particular, is increasingly becoming a requirement. If you haven't already, speak to your sales team and the people who fill in tenders and see what they think.

You will see very few 'Invitation to Tender' documents or 'Pre-qualification Questionnaires' without a sustainability, or at the very least an environment, section. Even if sustainability is not specifically mentioned in a tender document, being able to talk about your sustainability activities will always be seen by public sector buyers as adding value and acting as a differentiator. In fact, the Social Value Act 2012 means that public authorities will have to consider social and environmental well-being in public services contracts and not just make decisions based on cost.

Given the time and effort involved in tendering, is sustainability really a hurdle you want to fall at?

Private sector: Most FTSE 100 companies in the UK now produce a sustainability report. While, in reality, commitment varies, a good proportion of them will be looking to work with or partner with businesses that share their values.

Partnering is increasingly a focus, with companies recognising the value and expertise their suppliers can and do bring to their business. While you may not directly supply a FTSE-sized

company, you are likely to be in their supply chain. Even if you aren't, the focus on sustainability is being replicated across the corporate world – the fact you are even reading this Short shows something.

Businesses are increasingly aware of the reputational risks associated with their supply chain, so taking positive action to implement a sustainability programme provides them with reassurance that you are a safe company to work with. If you can provide a product or service contributing to their sustainability efforts that they can then brag about in their sustainability report, then all the better!

General public: If the general public buy your product or service, things get a little more complicated.

People are aware of and care about sustainability and green issues. A YouGov survey found that 73% of British citizens consider sustainable living to be important to them,² and 70% of Asda customers said that they care a lot about green issues.³ When asked in surveys, people overwhelmingly say that sustainability influences their buying decisions. However, in reality this is true of a niche group; the rest are just as swayed by price, quality and various other factors. However, they do *just* expect companies to be doing something – and if you are proven to fail they may turn away. The bottom line is that it can't hurt to be doing something but it may hurt not to be, or worse if it turns out you (or your suppliers) are doing something which could be seen as bad. Those companies identified as paying no corporation tax in the UK were not doing anything illegal but it didn't stop the harm to their public image. But it does in a large part depend on who you are, what you are selling and to whom.

... To your community

It may or may not come as a surprise to discover that businesses do not exist in isolation from the rest of society. Your employees, suppliers and neighbours are all people who are part of society and communities, whether or not they are geographically close to your business. Your product, service or operations will directly or indirectly impact these people and by extension their communities. What needs to be managed is whether these impacts are positive or negative.

People in communities talk to each other and share information and opinions, which are potentially about your company. If people say and think positive things about your company that generates goodwill. This makes your employees happier – people like to work for a good company; your customers more likely to buy from you; it could make your neighbours less

likely to complain. This is all difficult to measure and quantify but makes a real difference to your business. It is one of the foundations of that most valuable business asset – your reputation. To quote Warren Buffett, ‘It takes 20 years to build a reputation and five minutes to ruin it.’

Your sustainability activities can help generate goodwill and a positive reputation. All your sustainability activities can help, from the obvious support of community groups and charities to neighbours feeling better about your site because you’re managing noise and other pollution to the kudos that comes with the sustainability label stamped on your packaging or e-signatures. A sustainability programme can also help generate positive PR, as you tell the story of your best practice initiative or are lauded as an industry leader. Difficult to measure - but invaluable.

... To your regulators

So much of what is becoming legislation started out as a niche corporate responsibility or sustainability activity, from carbon management and reduction to packaging regulations, and this doesn’t seem likely to be a trend that will be bucked any time soon. So from your perspective, a well managed sustainability programme can help you not only stay on the right side of regulations but also stay one step ahead of the regulators.

Regulators will be pleased because you can demonstrate you are remaining within the spirit as well as the letter of the law, which can only help your relationship. Industries that are voluntarily taking action on sustainability issues may also avoid additional regulatory burdens.

... In your supply chain

You may question why you should or need to work with your suppliers. I think there are three good reasons:

Security: Particularly if you produce something physical, ensuring a secure supply of your component parts or materials is essential, as is knowing where they come from. There have been numerous examples recently of poor supply chain management coming back to bite companies.

Following the Japanese earthquake in 2011 many companies suddenly discovered that a key component originated from Japan. Had they known this component came from Japan, they

may have been able to put contingencies in place to manage it. As it happened they didn't and they weren't able to be proactive in finding an alternative source or manage the supply gap. So purely from a business continuity perspective, understanding your supply chain is vital. While this is an extreme example, changes in climate, freak weather events, and even political unrest can put your supply chain at risk.

Reputation and responsibility: Like it or not an issue in your supply chain can reflect badly on you, even if you think it is outside of your control. The recent horsemeat debacle shows how long, disjointed, anonymous supply chains can land companies in trouble.

Clothing chains have also been lambasted for their suppliers' behaviour, even for activities in their tier-two supply chain. The BBC *Panorama* documentary, 'Primark: On the Rack'⁴ is one example of this. Primark were vilified for activities in their tier-two supply chain which were being intentionally hidden from them. Despite their swift action, the company were held responsible and heavily criticised by the media, causing severe reputational damage, despite the fact the BBC later apologised over some of the programme's content.

It is no longer acceptable to live in blissful ignorance of what is happening in your supply chain – your stakeholders will expect you to know about and be influencing your suppliers' behaviour.

Partnership: But it isn't all bad news. Suppliers are often depicted as lax, irresponsible and ignorant of sustainability. What you are likely to find in your supply chain is a variety of companies at varying stages of their sustainability journey.

There are some you may be able to help on their way but there will be some who can help you. This could be with their knowledge or experience; with a new or alternative product or service that they didn't think you'd be interested in; or with a new way of working. There are also savings to be made; by working together, consolidating or sharing, you can save money and reduce your impact.

However you choose to work with your suppliers, chances are they will be keen to develop a closer, mutually beneficial relationship with you, their customer.

Summary

In summary, actively managing sustainability in your operations brings a variety of benefits to your business, various stakeholders and the environment. For your business a sustainability programme can:

- reduce costs
- increase sales and give you access to new markets
- improve business resilience
- improve staff motivation
- ensure legal compliance
- contribute to the efficient running of the business
- build and improve your reputation

Questions and Actions

- What groups does your business impact?
- Which relationships could be improved?
- What are the key arguments that will make an impact in your business?