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Sustainability: the HOW



About Lavery Pennell

We help companies to develop profitable and sustainable business strategies. We unlock value from today's business challenges and opportunities which include increasing input costs, pricing of externalities, customer & shareholder scrutiny, volatility/uncertainty and new technologies. To access this value, we bring a commercial focus, a track record of success and a combination of strategy consulting, engineering and corporate experience. We work alongside clients to build understanding and capability, create the economic case for change and gain support for solutions.

About the Authors



Dr Greg Lavery, co-founder of Lavery Pennell, has worked around the world unlocking value for clients while achieving more sustainable solutions. His consulting experience includes working for Bain and Booz & Company, for whom he founded the Low Carbon & Sustainability team in Australia and South-East Asia. Greg managed a portfolio of low carbon businesses for Origin Energy in Australia. His PhD, completed in 1998, established the economic and practical merits of environmentally considered architecture.



Nick Pennell has worked across four continents assisting companies with growth strategies and improving profitability. Prior to co-founding Lavery Pennell, Nick led Booz & Company's Low Carbon & Sustainability team globally. In his 15 years with Booz & Company, Nick also led the Energy practices in Europe and Greater China. Nick has held operational and strategy positions with Shell and Bass and is a Fellow of the Energy Institute.

Most organisations face three common challenges on their sustainability journeys and typically struggle with at least one of them.

This paper presents a sustainability transformation roadmap and practical, proven solutions for overcoming the challenges.

Organisations are at different points on their sustainability journeys; most want to understand what comes next for them. The majority of our clients are frustrated by the many surveys and discussions on WHAT sustainability is and WHY it is important. Instead they want to understand HOW to take their organisation’s unique sustainability position forward. They also know that sustainability is not a neat, linear journey from compliance to leadership, contrary to the simplified diagrams presented to them.

This paper presents three major hurdles common to most organisations’ sustainability journeys along with practical, proven approaches for overcoming them. We have found that most companies struggle with at least one of these hurdles, which can stall or derail a sustainability program and its benefits.

Hurdle 1: HOW to move beyond compliance to create value? Meeting regulatory and customer sustainability requirements avoids value destruction, at best. But value can also be created through the cost reduction, revenue growth, brand enhancement, risk mitigation, and competitive advantages that sustainability creates. Unlocking this value requires application of resources, which usually requires focus on a handful of the most relevant sustainability themes and construction of a rigorous, quantitative business case for addressing these themes.

Hurdle 2: HOW to create an integrated sustainability strategy? Organisations often have ad-hoc sustainability initiatives underway, sometimes buried within business units. These are sometimes compiled into an

annual sustainability report or to achieve good scores on sustainability indices. This ad-hoc approach leaves value on the table and slows down company-wide sustainability efforts. To move forward, companies in this situation need an organisation-wide sustainability strategy. This should be supported by enablers to overcome company-specific barriers, clear roles for Corporate and Business Units, along with rigorous business and implementation plans.

Hurdle 3: HOW to translate sustainability into long-term competitive advantage?

Sustainability leadership is tough to maintain based on tactics alone, especially when those tactics are laid out publicly in reports every year. Hence the final hurdle: creating long term competitive advantage by embedding sustainability throughout the organisation, tapping the ideas of internal and external stakeholders, and adapting your business model.

‘Lavery Pennell has a good understanding of the difficulties in achieving profitable sustainability and how to address them’

- Ramon Arratia,
Sustainability Director,
EMEA, InterfaceFLOR

Sustainability Transformation

Because sustainability is a fairly new management field (and profitable sustainability even more recent), there has been limited guidance to date on how to drive a successful, profitable sustainability transformation.

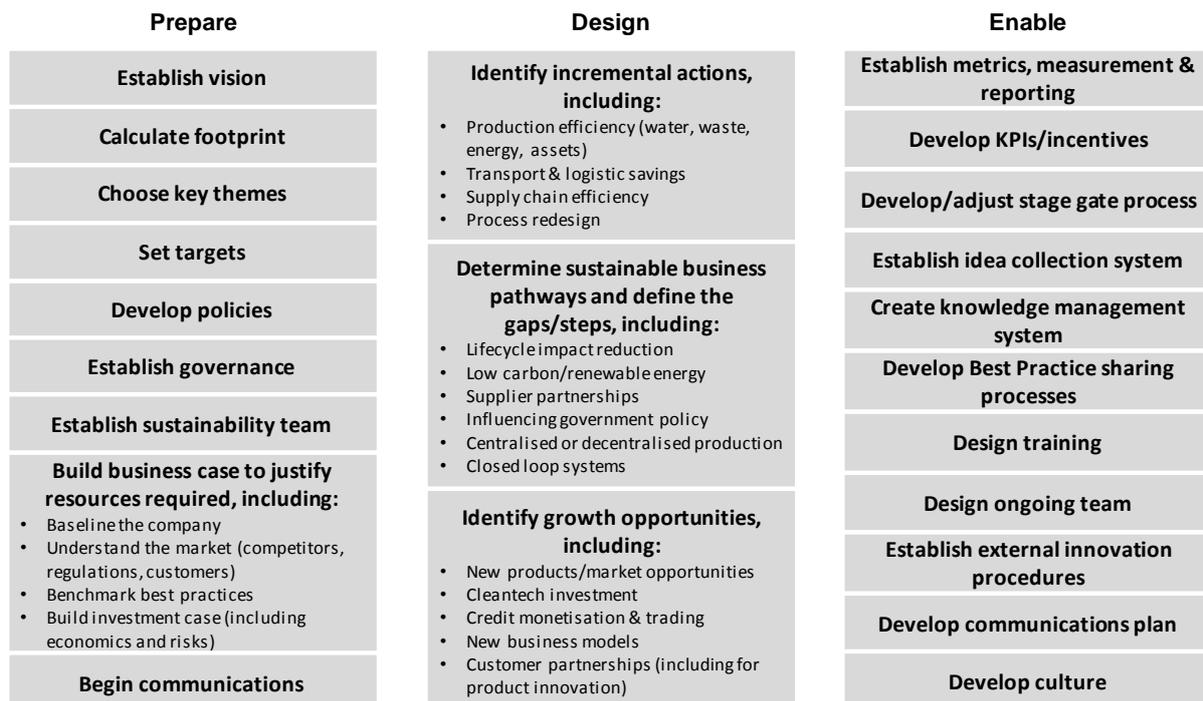
This leaves organisations at risk of wasting scarce resources by advancing through trial and error – and struggling to overcome the three major hurdles that all organisations must address on their sustainability journey.

Based on our experience, Exhibit 1 plots the essential building blocks of a profitable

sustainability transformation. The solutions to the three major hurdles lie in a number of critical building blocks which are frequently overlooked.

The prize for successful navigation of this journey is substantial value through efficiency of operations, new product revenues, new business models, brand enhancement, risk reduction, supply chain savings, improved licence to operate and cleantech investment, adoption and commercialisation. These additional areas of value are discussed in greater detail in ‘Unlocking New Value in a Changing World’ (available at www.laverypennell.com).

Exhibit 1: Sustainability Transformation Roadmap



Overcoming Hurdle 1: Moving Beyond Compliance to Unlock New Value

Organisations that treat sustainability as a compliance exercise focus on meeting legal requirements, reacting to customer requests, following industry standard practices and reporting on environmental performance. These activities rarely contribute directly to a company’s profits. In such situations, sustainability is usually considered to be a cost centre and is often addressed through a small dedicated team with experience in compliance or the environment.

This compliance approach has limits. Typical questions asked by companies using this approach are:

- Why are competitors so far ahead of us in sustainability when we have a dedicated team?
- Why do we score low on sustainability indices, but my managers tell me that the business is run very well?
- Won’t being more sustainable erode my returns to shareholders?

This is the first major hurdle in a sustainability journey. We have found that companies at this point are typically missing an understanding of the benefits of sustainability, including a recognition that sustainability can and should contribute significantly to profits. For some executives, this requires a 180 degree change in thinking from the premise that sustainability activities MUST conflict with creation of shareholder value, to an understanding that there is significant business value to be gained.

In the roadmap in Exhibit 1, many companies at this hurdle lack a couple of key ‘building blocks’. A compelling and quantitative high level **business case** is needed to demonstrate the benefits (especially increased profitability) available from a more sustainable approach. Creating this business case requires an organisation to narrow its sustainability focus to a handful of the **most relevant sustainability themes**. This can be a difficult shift from the compliance approach which

often deals with a broad set of sustainability issues.

The business case should include the resources necessary to unlock profitable sustainability opportunities – which often exceed the capacity and capabilities of most compliance teams. Targeted pilot projects can be an effective mechanism to reduce risk and strengthen the business case.

Case Study 1: Process Industry Company Developing a Greenhouse Gas Plan

A process industry player sought to develop a greenhouse gas plan to ensure compliance with all relevant regulations and to improve their image as a strong corporate citizen.

However, building a thorough, costed, business case revealed a significant financial prize as well. This gave senior management the confidence to move beyond a pure compliance approach to proactively address GHG emissions in their own operations and collaborate with others for further mutual benefit.

Overcoming Hurdle 2: Building a Company-wide Sustainability Strategy

The second key challenge on a sustainability journey is drawing together initiatives occurring across business units into an overall sustainability strategy for the company. Companies facing this hurdle often find themselves asking:

- Why don’t we know about all of the sustainability activities occurring across the business?
- How can we make sure that best sustainability practices are identified, shared and adopted throughout the organisation?
- What are the roles of Corporate and the Business Units in our company’s sustainability strategy?

A good sustainability strategy should include: a clearly articulated **vision** that integrates with the company’s overarching vision, ambitious and inspiring **goals**, scoped and

costed **actions** to achieve the goals (signed off by Operations), **a detailed economic case** showing the investment required and returns on that investment, **risks, enablers** and a detailed **implementation plan**.

Enablers are specific to individual organisations and depend on existing processes and cultures, but often include team design and resourcing, governance, communications plans, education and training plans, metrics and KPIs, measurement and reporting processes, knowledge management, best practice sharing, and stage gate processes.

Case Study 2: Missing Enabler - a Designated National Authority

A Middle Eastern oil and gas company developing their Greenhouse Gas Management Strategy identified that substantial value could be generated through the Clean Development Mechanism (CDM). But their country did not have a Designated National Authority (DNA) capable of administering the CDM.

Solution: The company undertook to support the establishment of the DNA - also enabling others to fund further emissions reduction projects.

At this point in a company's sustainability journey, the role of Corporate in the sustainability efforts can often be ill-defined and restricted to reporting and compliance oversight. However, Corporate can offer much more to a company's sustainability activities including:

- Owning the unified vision
- Setting priorities for innovation, focussing the product development and creative energies of the firm
- Coordinating the approach for issues that are common to all Business Units
- Delegating responsibility for initiatives/opportunities to the most relevant Business Unit, to focus effort most efficiently
- Implementing internal enablers such as changes to the investment approvals process, company-wide training, and setting performance targets and KPIs

- Coordinating efficient cross-business collection and dissemination of best practices
- Communicating with external stakeholders, including corporate reporting and Corporate brand management

Overcoming Hurdle 3: Creating Long-term Competitive Advantage

The third hurdle can occur even when companies perform well on sustainability indices and appear as sustainability leaders to the outside world. The challenge here is to extend the organisation beyond short-term tactical leadership to long-term competitive advantage – and the resulting enhanced profitability. Companies facing this challenge find themselves asking:

- How can we embed sustainability into the day-to-day activities of all staff?
- Are we capturing all available value from our sustainability efforts?
- How can we maintain/extend our sustainability leadership?

Overcoming this hurdle takes sustainability from 'another management initiative' to 'how we do business', and has three elements:

The first is **staff engagement**. Line staff make the everyday decisions which drive much of the social and environmental footprint of an organisation, so changing behaviours can usually have a substantial impact. This is where culture is important. 'Top down' change management tools developed as part of a sustainability strategy will not change the culture of an organisation without 'bottom up' engagement practices. These include pride building, peer leadership, creating a sense of higher purpose, reward programs, tapping healthy competitive spirit, and genuinely accessing the ideas of all staff.

The second element is **engagement with stakeholders**. Openness to and collaboration with suppliers can reduce costs and environmental impacts

enormously. Customers can help to shape products and services which reduce their social and environmental footprints. External partners can contribute new ideas, approaches and technologies through open innovation.

Thirdly, **business models** can change the operations of an organisation to radically improve sustainability and create competitive advantage. New business models which increase asset utilisation (such as Zipcar), sell services instead of products (such as Xerox – see Case Study 3) or close the loop with their materials (such as Visy with paper) are differentiating their proponents and creating first mover advantage.

Case Study 3: Fuji Xerox – from Product to Service

Facing losses in Australia because of the high cost of importing parts from Japan, Fuji Xerox changed its business model. Instead of importing parts, it began remanufacturing components recovered from its installed base of copiers. This improved profitability in Australia and the new model was adopted internationally by Xerox – lifting profitability globally and enhancing its brand through numerous environmental awards.

endorsement for sustainability initiatives. Pilot studies can help to demonstrate these benefits.

3. **Focus on few, RELEVANT sustainability themes.** Every company faces a unique set of economic, social and environmental challenges. A sustainability strategy will be most effective if it focuses on those issues which have greatest impact on the company and which the company is most able to impact.
4. **LEAD, don't follow** - awards and indices are an output of best corporate practice, not the other way around.
5. **Sustainability should become part of BUSINESS AS USUAL** - sustainability represents good business practice and therefore, over time, needs to be embedded into everyday business processes, decisions and in all interactions with stakeholders.

Conclusions

On most companies' sustainability journeys there are three major hurdles that hinder progress. There is a tried and tested roadmap (Exhibit 1) to assist companies to navigate through these and other challenges.

In its simplest form, success in sustainability can be distilled into five guiding principles:

1. **Sustainability must add VALUE** - sustainability strategies have the best chance of success if they deliver both financial returns and environmental/social benefits.
2. **Build the CASE FOR CHANGE** - benefits (both financial/tangible and intangible) need to be demonstrated when seeking

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