SUSTAINABILITY HAS BECOME THE ECONOMIC GAME-CHANGER

IS SUSTAINABILITY A MYTH OR REALITY?

To me: it is common sense. And in founding a new long-term, visionary, world economy, there is no more apposite topic than sustainability where we develop and establish a durable value generating business model delivering long-term protection of the global economy, society and natural capital.

And in order to establish sustainability as a business model organizations need to understand the nexus between energy, water, bio-diversity, green house gas emissions as well as their wider societal impacts: defining them into one coherent policy and reporting framework.

In developing the framework companies will see and understand the effects of multiple environmental and social stressors upon one another: how they can work against one another causing a destruction of value.

'What you measure badly, you will manage badly.'

To drive sustainability and eco-efficiency it is important to understand data capture is equal to how that data is used, measured and verified because the information gleaned from sustainability foot-printing helps create economic models, which assist in understanding the company impact in terms of environmental, social and economic behaviour.

Basically, eco-efficiency spans energy intensity and energy efficiency, as well as the durability and recyclability of a product life cycle, which further illustrates the extent to which companies are exposed to changes in consumer values. Furthermore, sustainability deals with the ability for a company to manage environmental and social risks successfully, evidenced through the quality of supply chain management, integrated sustainability and accounting audit, implementation of environmental management systems, training, and lastly, the ability for a company to reap future competitive advantages from environmentally driven market trends and profit opportunities provided by the company's well developed sustainability and eco-efficiency policies.

Additionally, proactive 'event' prevention processes embedded into a company's sustainability policy will aid operating efficiency and profitability because, for example, waiting to understand the financial impact after a negative 'event' is tantamount to the board burying their head in the sand and basing corporate risk management on the hope and a prayer that nothing will happen. This view being supported by studies from as early as 1983, and repeated since, which have shown consistently, and rising in magnitude, that: while stock price of companies is stronger following positive environmental information – what is even stronger, is the price decline in response to negative news – hence the biggest cost is to do nothing.

And, while many managers believe that the only responsibility of the firm is to engage in profitable activities, maintaining, this does not include environmental and social impacts, sustainability bridges the gap between environmental and social concerns and the need to make a profit – reducing environmental and social risk, optimising resource use and driving innovation to more efficient products and services.

Furthermore, whilst recent reports by the Carbon Disclosure Project and Economist Intelligence Unit indicate higher valuations for sustainability engaged organisations, this is underpinned by recent empirical studies showing the negative impact on value for low eco-efficiency is larger in magnitude to the positive effect on the high eco-efficiency company. Additionally - all things being equal – the valuation differential between the most eco-efficient company's and the least eco-efficient company's increases over time. Therefore, suggesting, managers have no reason to worry that an environmental policy conflicts with the company's primary financial objectives.

Moreover, poor environmental performance could suggest a sign of operational inefficiency, which ultimately leads to competitive disadvantages.

Besides, for a new era of deep customer engagement, customers no longer separate a company's actions from the products and the brand. As such, sustainability has become part of the customer experience.

So, sustainability buttresses the sales and marketing functions, assisting the company to move to deeper, dialogue driven communications, strengthening the bonds the company has with its markets. After all, companies are accountable for the image they project to: customers, suppliers, investors and other societal stakeholders. It follows; society gives legitimacy for the company to exist, making sustainability critical for competitive advantage, as sustainability becomes the key to driving business in today's world.

Likewise, companies that routinely go out of their way to experience the world from their customers' perspective routinely develop better strategies. Sustainability is a quality stakeholder engagement programme of continuous improvement. Once embedded into the DNA of the company, the whole team shares and aspires to the ethos; customers and suppliers become involved in the process and support the strategy. This does mean decision makers must take themselves on the illuminating journey of sustainability; creating experiences which help them instinctively grasp the mis-matches that may exist between what the new strategy requires and the actions and behaviour that have brought success up to this point. By connecting the board, senior managers and employees, there is a support base for influencers to feel connected to the strategy.

Therefore, sustainability creates a positive halo for the brand amongst staff, developing the right experience, chemistry and attitudes for the staff to be proud, while creating the right spirit with which customers are engaged. Notwithstanding the development of reports being used as business tools, leading towards managerial creativity around new ways of building brand and reputation to meet with the new customer and other stakeholder demands and expectations.

Similarly, experience is showing, as highly qualified eco-boomers come to the work market from university, they are choosing whom to work for with more consideration as to the values of the employer, making sustainability a major factor in decision-making. Business is having to adapt to the changing requirements and needs of the workforce and its ability to attract best talent as people revise their goals, priorities and expectations as they look to make efficiencies in how and where to live and work – as, commuting is less attractive with the associated impacts of time, cost and emissions being factored. Moreover, with best talent there is a natural progression toward evolving products and services reducing customer impact and building further the bonds of trust and legitimacy to operate, delivering long term value creation while moving away from the corrosive past economic and business models.

Equally, from a procurement paradigm, there is comfort in dealing with a highly sustainable supplier as there is risk mitigation against underlying future costs hidden behind a veil of potential social and environmental cost. It is important to avoid being associated with a company of negative, out of date, old school ideas – which in itself, creates fear to purchase for the sagacious buyer.

So, to develop a robust policy towards eco-efficiency, support needs to be garnered from the CFO who has a unique vantage of operations, by seeing it from a purely financial paradigm. Therefore, CFOs are having to become more strategic as they become used to the balancing act of profit and the credo of sustainability being connected, and make environmental considerations accountable, treating them with the same level of transparency as the financial metrics making the process of tracking environmental, social and economic costs and benefits across the organisation - its assets and operational activities - easier, so avoiding poorly measured random environmental projects and creating a sustained process of intended actions, clear outcomes and business benefits. While, additionally, sustainability offers risk mitigation against the failure to disclose environmental risk, thus, protection against reputation damage, and gaining poor peer rankings in investor research.

However, CFOs must connect with energy management and sustainability teams; moving from isolated teams to pervasive aspects of all critical business functions, thus, maintaining robustness in verification and substantiation of developed KPIs and associated metrics. This in turn will create visibility and inclusion of sustainability into core business practices and accountability processes, for example: capital requests would now include energy and resource consumption, enabling the ability to apply whole life cost analysis of asset ownership; and initiate post project measurement and verification, critical to deliver confidence in current and future energy and resource project savings claims.

Likewise, with innovative technology being looked upon as a key to eco-efficiency, on its own, is not a panacea for all the ills, because while investment in low-carbon technologies will help reduce energy consumption and greenhouse gas emissions, to optimise such investments, the procurement of such technologies must be linked to the company wide sustainability strategy; holistically linking organisational processes to these new technologies.

The point surely: serving the best interests of the environment and communities can also be seen to be the right financial approach.

Besides, for CEOs, without the passport of sustainability, companies tread the boards of high risk through the contagion of poor business practice, leading ultimately to business exclusion through the removal of society's licence to do business, and part through the momentum of mandatory reporting. Examples of such mandatory acts are: Climate Change Act and the Carbon Reduction Commitment Energy Efficiency Scheme in the UK, Grenelle Act in France, Sustainability reporting law in Finland, as well as many others across the globe.

And, whilst most trends emerge slowly, or very slowly, sustainability is gaining traction across the globe, as its implications are felt across entire value chains. Companies tend to react to trends, or in the case of sustainability, continue waiting for legislation. Leave it too late, and it will become almost impossible to mount a strategically effective response and will deliver no influence on shaping change to your advantage.

In addition, researchers rightly argue that the advantages resulting from social and environmental compliance with regulatory requirements are not a primary source of competitive advantage. For example: the mere fact of environmental compliance hardly allows a company to distinguish itself from its competitors, because most intra-industry peers are affected by compliance in a similar way. Real benefits to organisations will come from more rigorous forms of environmental performance that require both changes in production and manufacturing processes combined with a long-view management style. Ultimately, proactive environmental performance within a company requires structural change in production and service delivery processes – such redesign involves development, acquisition and implementation of new technologies leading to economic advantages against competitors.

Therefore, the cost of delay is steep, both in terms of operations as well as lost market position. Yet, for companies who are ahead on the curve have been able to tailor strategies to the new environment and (as previously discussed) have taken a financial lead on competitors who have, or are, still ignoring the shifting market place.

And, with businesses learning to deliver higher quality, more efficient products and services from a more efficient and optimised base of resource utilisation, sustainability addresses the triple bottom line of: Environmental, Social and Economic:

Environmental – reducing emissions and bio-diversity impact

Social – training and improved team cohesion of the human capital; further combined with societal improvement through investment in communities.

Economic – extended competitive advantage and value, long-term economic growth through improved trust, ethicises operational optimisation and innovation.

The practice of half hearted, window-dressing, sustainability engagement, will be a danger to reputation - eroding trust and competitive advantage.

Indeed, with society demanding a repair of trust as one of the many results of the recent ‘Great Recession’, sustainability is a wonderful opportunity for business, the environment and society to benefit because sustainability connects and exposes the interdependence of structure, conduct and performance allowing the company embracing sustainability to reap the rewards of positional advantage, by conferring and living by the unique benefits delivered to them.

Sustainability, furthermore, breaks the cycle of typical strategy setting which applies much emphasis on the status quo – metrics extrapolated from the last three or five years. Whilst, sustainability is about gathering the backward looking metrics; once turned to face forward, gives insight into cost reduction and process optimisation for the future.

Nonetheless, it is easy to think success will just continue. The challenge is to watch for signs to the contrary and use those signs as the catalyst for change. Winning, like sustainability, is a journey and not a destination, and sustainability enables and drives a cycle of continual improvement allowing an organisation to be clear where it is on the strategic journey: protecting the strongholds, giving vision on how competitors are reacting, evoking thought about how to create - and not just capture - value as the market matures, how much risk is there in the supply chain, and lastly, how much will it cost not to develop a sustainability strategy.

The cost of doing nothing is greater than the cost of engaging

Sustainability as a strategy is about optimising resource use and allocation and understanding what is working and what is not. Notwithstanding that, what does working really mean? Sustainability breaks down and modulises what is working so you can see what it actually looks like, what it means and what costs can be stripped out and processes optimised.

Additionally, some of the worlds largest institutional asset managers are publicly demonstrating their commitment to investing in companies that are deemed socially, morally and environmentally responsible and adhere to the United Nations Principles of Responsible Investment and as so aptly put by: Aviva Investors London CEO Paul Abberley - "Markets are driven by information. A lack of information as a result of limited or non-disclosure of ESG (Environmental Social Governance) data makes it difficult for long-term investors such as us to assess the wider ESG risks and opportunities associated with a company."

There is repeated evidence of a positive relationship between sustainability performance and stock returns. Furthermore, results suggest that companies that adopt higher, more stringent criteria, have a higher valuation than those that use less stringent ones. So, this suggests those who attain a higher GRI or CDP rating are increasing their value over competitors of lower ratings.

In conclusion, sustainability is about collaboration, skills development, innovation and optimisation of the triple bottom line. Sustainability helps and guides a company to get specific about what can be shaped and what points of influence can be put in place – sustainability is invaluable.