

**Global Research Project: In Search of Sustainable Business**

**Stage 1 Report – Volume 2: Insights & Inspiration**

**Executive Summary – 1st June 2011**

**The Headlines**

- Major reductions of energy and carbon emissions (8-40%) are already achievable.
- The sustainable ‘product’ can also offer significant whole-life cost advantages, with up to 40% savings.
- Working towards *closed-loop* models can enable even greater levels of waste reduction, re-use/recycling and associated carbon reduction (70%).
- Strategic market re-positioning, integrating sustainability principles in goods and services, can deliver improved profitability, in some cases doubling margins.
- Sustainability thinking can also provide a route to creating and preserving employment, while simultaneously driving improved margins.
- While ultimately rewarding, the road can be long and arduous, possibly taking up to twenty-five years to become a fully sustainable business.
- The good news is that payback for specific initiatives along the way is much more rapid, often within one to two years.

There is much talk of business needing to become more sustainable, in the face of an increasing number of challenges, including climate change, peak oil, new legislation, reputational risk, and increasing costs. That companies need to change is no longer the debate, but there is a need to understand (in easy terms) what they could be doing and how this action will deliver business success, as well as helping to save the planet.

While there are many other good initiatives, projects and information sources already available, much of this is fragmented, some focused on single issues only (e.g. carbon or waste), and often with limited grounding in business rationale. Further, many of the case studies available provide limited high-level descriptions or *sound bites* only, without promoting much in the way of real analysis, learning or insight.

The Global Research Project *In Search of Sustainable Business* was established to take this opportunity forward, to ‘join up the dots’ and pull the fragments together, to develop holistic, rigorous business-focused models, to generate a greater understanding of *cause and effect* and a robust appraisal of the business case for change.

The aim of the project is to help businesses make the transition to a sustainable, low carbon world through improved awareness of best practices and the positive business case for change. This is largely achieved through the *demonstration* effect; by sharing learning we hope to inspire businesses, large and small, in all sectors around the world to become more sustainable. This means capturing exemplar case studies, proving the business case, providing insight on what they did, how they did it and the pitfalls to avoid.

*Insights and Inspiration* provides an initial view of the key lessons emerging from the Global Research Project. The focus is on the first tranche of case studies, from the UK.<sup>1</sup> Case studies have been selected and developed in line with a range of criteria:

- Real change is made on the ground and how the business operates.
- Holistic view of sustainability principles (not just carbon).
- The 'extended enterprise' is covered (supply chain).
- Challenges and barriers encountered and overcome.
- Impacts are measured and the business case is demonstrated.
- In short, stories that will inspire action!

The case studies should also be seen in context with the other components of this Project, which also contribute towards the overall aims and objectives:

- *Research reports* – capturing and sharing the learning from companies around the world.
- *Best practice toolkits* – sourced from around the world, codified with easy to use templates.
- *Web site/on-line community* – to engage businesses, share learning, resources and enable benchmarking ([www.globalsustainablebusiness.org](http://www.globalsustainablebusiness.org)).
- *Survey* – to build on case study insights and establish a comprehensive understanding of the sustainable business landscape, the extent and depth of practices and achievement.
- *The Rough Guide* – a comprehensive guide for businesses worldwide on how to integrate sustainability principles for business benefits, as well as saving the planet!
- *Articles, events and workshops* – to share and disseminate the findings and outputs (including *Sustainable Business* magazine and *SustainabilityLive 2011*).
- *Measures of success*: KPIs to establish the impact of the project.

The main body of *Insights and Inspiration* Report is structured in five key sections, covering the drivers for sustainable business we have encountered, operational and tactical initiatives, strategic insights, business model alignment and lessons in making the transition. In addition to the conclusions, we also provide a summary of emerging guidance for businesses considering integrating sustainability principles.

## THE DRIVERS

There are many different catalysts for companies embarking on the path towards becoming more sustainable in practice. Four key drivers are revealed by the UK case studies (notwithstanding additional known drivers, such as pressure from shareholders and customers):

- Recognition of Business Risk – including major risks to availability and cost of raw materials and energy.
- Enlightened Self-interest – the right thing to do can also be good for business.
- A Route to Cost Reduction – some have found sustainability almost by accident, en route to dealing with significant cost challenges.
- A Growing Market Opportunity – green markets are emerging for both new and reconfiguring conventional products.

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<sup>1</sup> Please note the specific insights within this report relate directly to the learning gained from the UK case studies only. They do not include other information/knowledge available within the public domain and so should not be considered as comprehensive guidance on each topic explored. This will be achieved in *The Rough Guide to Sustainable Business*.

## TACTICAL & OPERATIONAL INITIATIVES

Major reductions of energy and carbon (8-40%) are already achievable, based on integrating a range of technologies and solutions. Energy hierarchy thinking (reduction, efficiency, renewable energies, then finally principled offsets) helps to prioritise initiatives in logical sequence and optimise impact and benefits.

Systems thinking enables businesses to map out and understand the complexities of their challenges, as well as making visible the full range of opportunities, benefits and associated cost savings.

There is an opportunity to look at waste and resources in a different way, moving away from *take-make-waste* models to more *re-use and repair* approaches, enabling significant resource and cost savings. Extending this principle, some organisations are able to use 'waste' as a resource, which may be sourced from their own or other business processes.

Sustainability thinking can also provide a route to creating and preserving employment; significant waste reduction initiatives can deliver a rebalancing of spend, more on people, less on 'stuff', while driving improved margins.

It is still a case of *early days* for many businesses when considering biodiversity. Although benefits may be indirect or intangible, the importance of biodiversity is increasingly being recognised as a fundamental enabler for maintaining the habitat and ultimately our species.

## STRATEGIC INSIGHTS

Incorporating sustainability thinking and longer-term planning horizons enables businesses to manage strategic business risks and opportunities, including the future availability and cost of scarce resources.

Differentiating on sustainability performance can be a source of competitive advantage, where all other purchasing criteria are equal (functionality, quality and price). The sustainable product can also offer significant whole life cost advantages, in some cases with 40% savings.

Strategic market re-positioning in this way can also deliver improved profitability and even in difficult economic circumstances, can maintain margins.

Overcoming constraints and obstacles may lead businesses to change the systems that impact on how the company operates, to enable even greater levels of sustainability and business performance.

## BUSINESS MODEL ALIGNMENT

While maintaining their drive with important tactical, operational and strategic improvements, some businesses are able to fundamentally re-design their business models to more closely align with natural cycles, adopting closed-loop/circular economy models.

Few businesses we have looked at have sustainability embedded in their DNA, aligned completely with their *raison d'être*. Triodos Bank is arguably the only example at this stage.

For organisations built along more conventional lines, remodelling the business is also possible and beneficial. Changing the business model, moving away from the take-make-waste paradigm, can enable step changes in resource utilisation and waste reduction in excess of 40%. Working towards *closed-loop* models has enabled even greater levels of waste reduction, re-use/recycling (70%) and carbon reduction (70%) possible.

## **MAKING THE TRANSITION**

A great many of the lessons and insights arising from Stage 1 are focused on how businesses have managed the transition to become more sustainable.

The overriding conclusion is that the transition towards becoming a fully sustainable business is possible right now; there are enough technologies, ideas and solutions out there to solve the problems of climate change and sustainability.

Long-term views are essential in dealing with the challenges, but also the road is long and arduous, possibly up to twenty-five years to become a fully sustainable business. The good news, however, is that payback for specific initiatives along the way is much more rapid, often within one to two years.

Setting the right strategic goal is key, as it drives everything else that follows. The more ambitious businesses aim for complete sustainability, with zero adverse impact, within a twenty-five year time horizon.

Structured change programmes provide invaluable frameworks to help manage the full range of complex and inter-related change initiatives. Life cycle analysis is an important tool for promoting visibility of challenges and opportunities, as well as helping with the important process of prioritisation.

Companies have been able to unlock some of their business and sustainability challenges by finding a *new ethos*, aligning seemingly contradictory business and environmental drivers, for example by challenging the conventional *throwaway* mindset, spending more money on labour costs while reducing overall cost, or the use of metaphors (e.g. building as an 'umbrella') in the design of solutions to enable radical rethinking.

Winning the hearts and minds of all those affected by change is essential. This is best achieved through demonstrating not only the importance/urgency of change, but also how each individual will benefit. A strong focus on measuring and delivering tangible benefits is essential to win support of the board, win over the sceptics and maintain support.

Collaboration is key, as real sustainability improvements will often rely on the different parts of the organisation and supply chain working together. Intelligent commercial relationships are vital to support innovation through the supply chain.

The business case is evolving and dynamic; what may have appeared as marginal or even unattractive last year could be both possible and desirable in the near future. Careful monitoring and tracking is required to keep up with developments.

## TOWARDS A DEFINITION FOR SUSTAINABLE BUSINESS

In recent years there has been an explosion of writing and discussion on the topic of sustainable business, but our research shows there is little in the way of a hard, commonly agreed definition with specific attributes.<sup>2</sup> Most people tend to refer to the Bruntland Commission (1987) as a starting point, with fairly high-level generic terminology and not necessarily aligning with business purpose. We have developed a working definition for a sustainable business arising from this project, based on a synthesis from several sources, each offering a useful dimension but never a complete picture on their own, plus some attributes captured through empirical observation.

*Business strategies and operations that meet the needs of the enterprise and its stakeholders whilst protecting, sustaining and enhancing the human and natural resources that will be needed in the future, making legitimate profits, while accounting for the true costs of doing business.*

*Townsend (2010)*

## LOOKING FOR INSPIRATION

It is clear that many of the key principles are transferable and therefore helpful to businesses in all sectors. Although guidance at this stage is not yet comprehensive, it does provide a useful starting point. We will now collate the lessons from across the world, as the Project progresses, all of which will ultimately feed through to subsequent reports and more fully developed in *The Rough Guide to Sustainable Business*. Some initial pointers are provided in Section 7:

- 1. Think Big!** Carbon is not the only issue. By considering all aspects of sustainability, including resources and supply, waste and recycling, people and community, biodiversity and energy, it is possible to make a greater and more efficient impact.
- 2. Develop Your Structure:** An appropriate measurement and reporting framework for environmental, social and economic impacts will help provide visibility, focus and discipline. Life-cycle impact analysis enables you to identify opportunities for cost savings as well as improved sustainability performance.
- 3. Think entrepreneurially:** See if you can you incorporate sustainability principles to generate new income streams, differentiate your goods and services and enhance competitive advantage, e.g. production of renewable energies as a sideline to benefit from appropriate feed-in-tariffs? Look for significant operational cost and risk reduction opportunities that can be achieved by integrating sustainability initiatives.
- 4. Look at Product Innovation:** Consider ways of innovating in product design to reduce the amount of virgin raw materials needed, increase the use of recycled content and establish suitable low carbon alternatives. Consider offering value-adding customer choice, perhaps changing your model to focus on services that look after the complete product lifecycle.
- 5. De-risk Your Business Model:** Establish how dependent your products and business operations are on non-renewable inputs; look to find ways at reducing your long-term dependency and business risk.

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<sup>2</sup> Our work on definitions for Sustainable Business is the subject of a forthcoming white paper “Towards Sustainable Business.” A preliminary list of underpinning attributes is included in Section 6 of this Report.

**6. A Structured Approach to Energy and Carbon Reduction:** Think about the 'energy hierarchy' – can you reduce the initial demand, and then improve energy efficiency, before considering the optimal mix of renewable energies.

**7. Re-think Resources and Waste:** Consider adopting a closed-loop or cradle-to-cradle approach to resource management: find ways to re-use your own waste, or even waste from other industries/neighbouring businesses; one man's waste is another man's feed! Huge benefits can be experienced; up to 70% of a product's environmental impact results from gathering the raw materials!

**8. Sustainable Supply Chains:** Seek out suppliers who share your vision and values. Share the challenge and work collaboratively with your key suppliers. But ensure that commercial arrangements support and enable, rather than inhibit investment through the supply chain.

**9. Align with Other Business Initiatives:** Try integrating the key principles of 'lean', continuous improvement and energy, carbon and waste reduction within your own services and processes. Look for the full range of beneficial impacts that may be possible; scarcity and cost challenges may be a route to deliver improved resource utilisation, waste reduction and enhanced profitability.

**10. Collaborate to Compete:** Nobody has all the answers. There are a surprising number of people and organisations out there, grappling with similar challenges – go find and collaborate!

**11. Sell the Business Case:** Model all intended benefits and costs to establish initial business case expectations. This enables you to sell the new approach to your board, customers and other stakeholders, and can help win over any sceptics.

**12. Leadership is Crucial:** Winning 'hearts and minds' is always key. Effective leadership, awareness raising and promoting the benefits will all help to drive change. Employee engagement is vital, try and tap into the latent desire for improvement; set the challenge and see the great ideas they can generate. Try and incentivise the right behaviours, with a balance of 'stick and carrot'. Finally, change is hard – persevere! Even when the 'going gets tough', never give up!

## LOOKING AHEAD

Having proven the concept and approach underpinning the Global Research Project, it is now possible to expand our focus and look ahead to Stage 2.

*Further Case Studies:* Building on the approach developed and refined during Stage 1, we will gather new exemplar cases from other territories around the world (including North America, Europe, Russia, China, India, Japan, Africa, Australia), to capture more insights and best practices.

*Global Sustainable Business Survey:* The aim is to build on the detailed case study insights gained during Stage 1 and establish a better understanding of the overall topography of the sustainable business landscape. The survey will go further than others available, to move beyond high-level views and perceptions, to engage with a more holistic sustainable business agenda, digging deeper into the business case, the real issues and challenges involved.

*Incorporate Learning:* Key areas for attention will include the resource-intensive nature of detailed case study development within the very real constraints of limited project funding. While in depth, analytical case studies that explore cause and effect are vital; this approach will require further funding and/or programme flexibility.

**FEEDBACK:** If you wish to make contact with us and raise any questions, or share any feedback, please do email us [research@earthshinesolutions.com](mailto:research@earthshinesolutions.com).