



Embracing sustainability

Lessons and guidelines for CEO's and Boards

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Embracing Sustainability

Lessons and guidelines for Senior Executives and Boards



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Introduction

This short paper attempts to draw attention to the underlying imperative facing senior executives and Board members of today's corporations: to embrace the reality of and need for embracing sustainability. It then goes on to provide some guidelines as to how to approach this imperative.

Awareness rising

As the global community becomes more and more aware of the impacts of climate change, and its causation, there will be increasing due diligence by the community in making product and service choices. The obvious reaction to this awareness is already evident on supermarket shelves where companies are labelling their products with such warm and eco-friendly terms as "free range", "dolphin safe", "organic", and "made from recycled (paper/plastic/metal/etc)". Equally, it is obvious in the increasing attention given by all levels of government to differentiated recycling: the average UK house now has four different bins

for recycling and collection each week.

But, more and more, we see attention given increasingly to the reality behind these nice labels and more focused practices. Numerous NGOs, and independent journalists are providing detailed investigative reports and studies on exactly what companies are really doing on the sustainability front. With the now pervasive nature of the internet, it can be expected that before long almost every consumer will be better and more frequently informed about the environment and the damage that unbridled economic expansion is causing. The local and global community will eventually force change by simply turning their backs on those companies that continue to degrade our natural and social capital in their sole pursuit of profit.

The value add of sustainability

Profit is not the enemy, it is how we make that profit that must evolve and change – and there is now growing evidence that ensuring sustainability outcomes from your business activities will enhance your financial bottom





line, as well as grow your corporate reputation, lessen your business risks, and build brand strength. Some large global corporations have already realized this and are in many cases well ahead of the community's expectations - they have discovered that sustainability creates a **great deal of tangible and short-term value from cost savings**, risk reduction, or product and service innovation .

More and more corporations are adamant that sustainability initiatives should be pursued. Though they find it difficult to measure at times, the value is there. Reducing reliance on price-volatile resources is a real risk reduction, for example.

Novo Nordisk

One of the best examples is the giant Danish pharmaceutical company **Novo Nordisk** that is particularly committed to sustainability as well as profitability and measuring both in hard edged ways.

They have been named in the last 12 months

as the world's most sustainable company by Corporate Knights. This is not something they have come to quickly or recently. It has a long history in the company and is core to their corporate identity and values. If you review their last annual report, the first thing you notice is that it focuses on all three of economic, social and environmental outcomes. Further delving makes it is easy to see the company's CO2 emissions from energy were down to 93 thousand tons from 95 the year before, and that the company was selling cheaper insulin in 75 developing countries up from 67 the year before. That's published right next to its 21.9 percent growth in earnings per share.

Susanne Stormer , Novo Nordisk's vice president of corporate sustainability points out that *"The reason why we do that is because we think it's important that when you talk about sustainability, that you don't just [tell] the tree hugger stories and the compelling emotional part of why a company should be sustainable, but ... to hold ourselves accountable to our stakeholders and to drive*

internal accountability, so that when we set a target, whether its a financial target or an environmental target, we work towards achieving that target and we can track our performance, whether its progressing or stagnating."

Novo Nordisk has taken the view that in order to be in business for the next 100 years they have to consider how they interact with society and what society looks like? The basis for their sustainability initiatives is a belief that a healthy society, healthy environment, and healthy communities are the foundation for success.

Closer to home, in 2012 Iluka Resources Ltd (an Australian-based global resources company and the world's largest producer of titanium dioxide) committed itself to operate at Level 5 in **Dexter Dunphy's** levels of sustainability. Why? Because with this commitment the

company's leadership believes it is not only doing something that is "right" but something that is a source of strategic and competitive advantage.

The dark side

A small, but unfortunately very well resourced and vocal cohort of science deniers is vigorously attempting to maintain doubt about the sustainability and climate change sciences. Their aim seems to be to delay acceptance of the **scientific evidence for as long as possible and avoid change**. So first, let's dispel a few myths surrounding climate change and sustainability. There is now no doubt amongst those with the competent credentials, and with extensive research evidence to support their findings that human activity is causing a plethora of significant impacts that are heavily





degrading the earth's ability to maintain the support systems essential for life. A brief list of the worst of the coming events would include the following.:

Habitat loss.

We are currently experiencing the most extensive species extinction event ever on the planet principally due to human activity taking over the habitats of other life, and/or directly destroying other life forms. Geologic records provide dramatic evidence of previous extinction events, some sudden, but most

occurring over epochs. What is happening to life on planet earth right now is unprecedented in extent and speed. This extinction event may well include humans as **more and more of our support systems collapse** .

Population growth.

We seem unable to address the fact that the planet will simply be unable to support 10 billion human beings by mid century, all living, or aspiring to live at the consumptive rate that we now "enjoy" in the western world. We simply accept the conventional economist's view that increasing population is essential for economic growth (increasing GDP). Gender equity, inclusiveness issues, and religious taboos further compound any serious dialogue on slowing population growth.

Our increasingly toxic environment.

Ever increasing consumption and demand for more energy, more food, more water, more travel, more pleasure, more built form, and more and more of everything, is demanding greater production from less. Unfortunately, in the pursuit of productivity improvements this has, in the past, often introduced processes and materials that have polluted and are continuing to pollute our environment excessively. **Rachel Carson** first drew our attention to this problem in her 1962 book *Silent Spring* which eventually resulted in the banning of DDT. Most humans currently have some **3,000 toxins** in our bodies that should not be there .

Anthropogenic global warming

The burning of fossil fuels is increasing the concentration of greenhouse gases in the planet's atmosphere. Greenhouse gases in the atmosphere cause radiative forcing of infrared radiation back to the earth which is critical for the maintenance of a life conducive environment. However, increasing that

Dexter Dunphy's Levels of sustainability

1	Rejection	Exploitation of disadvantage, hostility, threat, force, disregard, no modification of process, no investment, do the absolute minimum required, ignore imbalances.
2	Non responsiveness	Irrelevance of outside factors, traditional emphasis; financial, technological, rational dominate; use resources without concern; connections & human concerns ignored; no sense of wider responsibility
3	Compliance	Financial, technological, rational emphasis; high results focus; be decent; comply with requirements; eliminate abuses; little integration; focus on big risk items and mitigate
4	Efficiency	Active, planned and systematic engagement to reduce avoidable costs and eliminate waste; be productive; install a system; ignore no cost issues; cost benefit basis for decisions
5	Strategic proactivity	Proactive, systematic support & engagement of diverse elements for self gain & competitive advantage; replace/innovate better products, processes, people, services; be a leader; engage community; achieve balance
6	Sustaining	Active promotion & influence to espouse & implement difference, best practice for overall system; be responsible & ethic centered; differential management/leadership practices; knows and acts as if it is part of co-evolutionary system.

concentration obviously increases the radiative forcing and global average temperatures are rising, and will continue to rise as we do nothing to curb the increasing concentration of greenhouse gases in the atmosphere. The results of this impact are likely to be horrendous in the not too distant future as sea levels rise, oceans acidify, severe weather events increase in frequency and severity, crops fail and climate refugees seek livable environments elsewhere.

Flowing from each of these major events are numerous derived impacts that will disrupt businesses, trade, and lifestyles around the globe. **Paul Gilding** has described the combined outcome as "The Great Disruption". He foresees the inability of our planet's natural systems to support further unconstrained human activity as leading to the collapse of our current economic construct with dramatic changes, including wars and major loss of life, before the rebirth of a new order.



Response

What does this suggest for leaders and those entrusted with the governance of today's large organizations?

Firstly be very aware of and accepting critically of the science,

Secondly educate your organization seriously at all levels with respect to sustainability and climate change so that they understand the need for change and the benefits.

Surviving and flourishing in this changing and very different business environment will need some serious rethinking

For action in any crisis, four things need to impinge on our psyche in order for us to respond:

A threat must be clearly identified;

The threat must be immediate, ie.

impacting now, or its impacts clearly defined, understood, accepted, and frightening;

There must be an unacceptable cost associated with the impacts; and

Leadership must be visible and persuasive.

We only need to look at how the Britain responded in World War II:

The threat of invasion was clear and obvious;

Bombs began falling on London;

Rationing was imposed, prices skyrocketed, and scarcity hit hard; and

Winston Churchill mobilized the masses with high profile, regular and stirring speeches.

Threat identified

The threat to our climate has been very clearly enunciated by 98% of the world's climate scientists, accepted as human caused by every National Academy of Science in the world, and we have globally accepted that we must keep the earth's average temperature below 2° C to avoid dangerous climate change.

Impacts understood

The evidence of climate change is everywhere, and is proven to be outside natural long term variability. Wildfires, droughts, floods, storm events, rainfall, and severe hot periods are increasing in severity. A hotter atmosphere sucks up and holds more moisture and the energy absorbed by circulating air masses from warmer oceans means events like "Katrina" and "Sandy " will increasingly impact.

Unacceptable cost

Sir Nicholas Stern, Ross Garnault, PwC, the World Bank, and the International Energy Agency (not normally known for hippy, tree hugging, lefty views) have all the forecasted

dire economic consequences of doing nothing about mitigating AGW and climate change.

There is no doubt that recovery costs from recent severe weather events are impacting insurance premiums, and government budgets, but the cost is spread, deferred, and absorbed in budget deficits.

In other words, we are being shielded somewhat by governments under the influence of the science deniers, as true costs are pushed into the future.

planet, and more and more in business, leaders **are** emerging and setting amazing examples.

The late **Ray Anderson** as CEO of Interface Floors was a shining example. A review of **Sustain Ability Showcase Asia** and ABC Carbon's annual list of the **world's top 100 sustainability leaders** and you will identify where development, initiative and success are being realized.

Al Gore and his **Climate Reality Project** has trained over 4,500 Climate leaders around the



Visible leadership

In Europe politicians seem to have grasped the reality they face more than those in Australia, for example. They have stepped up, so to speak, at least at far higher level than in Australia. One cannot travel anywhere in Europe these days without realizing that the entire community has embraced the reality of AGW and are seeking to respond.

In other parts of the world, political leaders tend to vacillate far more and may even be said to be failing their constituents on this issue. Nevertheless, out in the communities of this

world, and is delivering true science and climate facts to hundreds of thousands of people.

Bill McKibben and his team and 350.org are making very significant inroads into shifting investments out of fossil fuel. And note those serious and thoughtful people willing to be arrested for civil disobedience in order to highlight the seriousness of the crisis, including **James Hansen**, one of the world's top climate scientists.

There is now enough evidence and behavior change to convince corporate leadership that

a change in direction is needed. And, there are a number of such corporations who have heard the call and are acting. Examples are described earlier in this paper.

So where to from here?

There are shareholders who will inevitably ask Directors just how is a focus on sustainability improving my dividends, and/or share value? In the longer term, the leaders and Directors of companies need to provide a clear rationale

general terms, starting with PwC's work on **extracting value from sustainable initiatives**. This and other similar resources allow senior personnel to explain how sustainability outcomes from business activities actually improve bottom line, and secure and maintain community "license to operate"?

There are any number of value drivers in most enterprises that can be identified in business activities where embedding sustainability can reflect directly through to share value, and



and connect sustainability to shareholder and/or stakeholder returns. This is exactly what Novo Nordisk has achieved: a persistent and consistent message.

There are many sources to help do this in

stakeholder enhancement.

Because every situation is different the reader is asked to apply frameworks such as PwC's and similar ones - they are easily accessible via an internet search.

Moreover, there are many resources and sources of comparative data that can assist in building a business case for implementing energy efficiency, carbon reduction, water and resource use care, waste elimination and reuse/recycling, all of which will have immediate short payback period financial returns. Implementing initiatives such as these is usually quite obvious and lead to immediate bottom line improvements. All that's needed is a simple **Marginal Abatement Cost curve** analysis to show a Board and company personnel



how quickly payback can occur, and profits then accrue. Recent research at QUT has demonstrated that using sustainability as a driver on project decisions can reflect through

to improved business outcomes that add value well beyond a project timeframe .

More difficult is identifying how sustainability and attention to climate change mitigation are linked to business risk reduction, reputation and brand strength, productivity gains, and community acceptance of your business activities. Some CEOs will argue that doing anything that delivers “public good” should not be a business expense – “that's for governments” they will say.

This view represents a Level 3 mindset of thinking on the Dunphy scale. There is now clear evidence that the thinking in many corporations around the world is operating much higher than this level and many have made well-thought-through commitments to sustainability for the clear economic, social and environmental gains to be had

A negotiated shared value outcome can often be shown to link with longer term shareholder value, retention of valued staff and customers, and your “license to operate”.

A deep dive into any of Novo Nordisk's annual reports makes this immediately obvious. At the end of the it all, it comes back to identifying those value drivers that will reflect through to shareholder value increases.

The future we as a species face is bleak without deep thought and concerted response. What is becoming clear across the globe is that the response does not need to jeopardize profits or shareholder value, indeed embracing sustainability can increase these and other performance indicators.

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