

Lecturer's Notes and Instructions on
**Corporate Sustainability & Green
Cities**

Lecture 2: Strategies for Sustainability

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INTRODUCTION

This second session focuses on how business managers can formulate comprehensive strategies to create sustainable value in cities. The session introduces the drivers for firms to contribute to sustainable cities, focusing on the business case. It details how companies understand what may be regarded as material for their value creation activities and considers the alignment with sustainable development goals. The session explores how sustainability strategies can be created using the sustainable value framework and the competitive environmental strategies matrix. These are offered as strategic portfolio tools that help link sustainability opportunities to competitive advantage for the firm in the marketplace.



CONTENT

The second session is divided into four constituent parts (recommended proportion of session time given in brackets): (1) Drivers for Corporate Sustainability (10%) (2) Starting to Create Sustainability Strategies (30%) (3) Sustainable Value Framework (35%) (4) Competitive Environmental Strategies Matrix (25%).

Note instructors may conduct the session without part (4) Competitive Environmental Strategies Matrix is constrained by time.

Instructions

(1) Drivers for Corporate Sustainability

This first section engages with the reasoning why companies would seek to contribute to sustainable cities. Students are first asked to brainstorm this question and consider what may drive companies in this regard. This should form a large list of drivers forming a business case: opportunities to reduce costs and increase revenues. Students who have taken the first class may also relate answers to the embedded viewpoint and firm's wishing to protect their underlying capital basis. The answer can then be revealed to students (based on a meta analysis). First, opportunities to reduce costs are deliberated. These should be rather easy for students to understand. Special attention is given to obtaining a lower cost of capital as a dynamic and vibrant focus due to socially responsible investment. Secondly, opportunities to increase revenues are discussed. The company example of Interface can be used to exemplify some of the opportunities:

Interface: Global leader in carpet tiles with a sustainability mission since the mid-1990s. Through 'Mission Zero' the company seeks to be a restorative company by 2020.

Examples of revenue opportunities:

- *Differentiate products*: Cool Carpet – World's first climate neutral carpet – reduce emissions and then make offsets for remaining emissions.
- *New product offerings*: Tac Tiles – new product to stick carpets to the floor. Inspired by nature – through biomimicry – the gecko. Glue (bad for environment) is not needed to lay carpets: quickens time to lay carpets then also when it comes to taking the carpets back for recycling they do not have lots of concrete attached.
- *Differentiate raw material sources (and good for image etc)*: Net-Works – Discarded fishing nets are a big problem in Indonesia and all over the world – degrade marine environments. These fishing nets have polyimide 6, needed to create yarn for the carpets. They have a project in Indonesia whereby local people collect the nets for small bit of income; they get turned into specific line of carpets with a great story.

More information can be found at: <http://www.interface.com/US/en-US/global> and Kennedy, S., Whiteman, G. and Williams, A. (2015) 'Sustainable Innovation at Interface: Workplace Pro-Environmental Behavior (WPEB) as a Collective Driver for Continuous Improvement.' In: Barling, J. and Robertson, J. (eds) *The Psychology of Green Organizations*. New York, NY: Oxford University Press.

This section ends with a clarification on the science of the business case and finally that the business case only does not capture the full reasoning: there is also normative reasoning motivating firms (as was the original case with Interface).

Optional engagement with recommended reading: Bansal, P., & Roth, K. (2000). Why companies go green: a model of ecological responsiveness. *Academy of Management Journal*, 43(4), 717-736.

(2) Starting to Create Sustainability Strategies

This second section introduces how companies start to create corporate sustainability strategies. To begin this section the levels of sustainability strategy maturity are presented. Each strategy is offered as 'legitimate' in its own right, but that company's transition from the lower to higher levels. Students are then introduced to materiality as the starting point for companies to understand what issues are most pertinent to their value creation activities. A

materiality process is used to identify and prioritize the most significant Environmental, Social, Economic risks and opportunities - from a company and key stakeholders perspective. The materiality matrix should be used to focus a company's strategic approach to sustainability – guide investment and resource allocation decisions, help internal management to focus on the right issues, helps focus the content of the corporate report – avoid disclosing on material topics (helps with conciseness). A fun example of Santa's sustainability strategy can be used.

Subsequent to constructing a materiality matrix firms may consider the alignment of their sustainability strategy with that of the sustainable development goals, and more specifically with the goals of the urban environment in which they reside. Opportunities to work with other urban actors (govts, councils etc) can be highlighted.

Optional engagement with recommended reading: Whiteman, G.M., Vos, Rene, Chapin, F.S., Yli-Pelkonen, V., Niemelä, J. & Forbes, B. (2011). Business strategies and the transition to low-carbon cities. *Business Strategy and the Environment*, 20(4), 251-265.

(3) Sustainable Value Framework

At this point it is advised to engage with compulsory reading: Hart, S., and Milstein, M. (2003). *Creating sustainable value. Academy of Management Executive*, 17(2): 56–67.

This section focuses on the link between sustainability strategies and shareholder value. Traditionally managers underestimate the strategic business opportunities associated with sustainability. The Sustainable Value Framework is a portfolio management tool that helps in thinking that sustainability and creating profit are not opposed objectives and can be mutually supportive.

First it is advised to introduce a portfolio focusing on shareholder value and introduce the two axes:

Vertical axis: Tension between realizing short-term results while simultaneously fulfilling expectations for future growth.

Horizontal axis: Need to nurture and protect internal organization's skills, tech & capabilities BUT also need to infuse new perspectives & knowledge from the outside (protects core business but remain open for disruptive models & tech).

Utilizing the compulsory reading students can then be asked to explain each other four quadrants of the sustainable value framework. Students are then asked to build a portfolio based on the activities of Interface:

- Mission Zero: Company mission to be a restorative company
- Ultra-sonic cutting technology: Cuts carpet tiles and reduces manufacturing waste by 80% and eliminates 310 tonnes of waste material each year.
- Re-Entry 2.0: Recycling of used carpet tiles back to their constituent materials.
- Biomimicry: the imitation of the models, systems, and elements of nature for the purpose of solving complex human problems
- Sensitising stakeholders: Creating a community within and around Interface that understands the functioning of natural systems and our impact on them.
- Microtuft: Challenged the old perception that high yarn weight equals high quality. It proved that a well-constructed dense surface can be just as durable and hard wearing.
- NetWorks: Cross-disciplinary collaboration for reuse discarded fishing nets with the Zoological Society of London
- Environmental Product Declaration: Committed to Full Transparency (authentic, nothing to hide)

(4) Competitive Environmental Strategies Matrix

This final section focuses on the Generic Competitive Environmental Strategies of Orsato, R. J. (2006). Competitive environmental strategies: when does it pay to be green?. *California management review*, 48(2), 127-143. It is advised that the instructor read this paper thoroughly before teaching. The framework consists of four distinct strategies that may be pursued. Each strategy examples are given and discussion should focus on the potential limitations and pre-requisites.

At the conclusion of the section it is advised that students are asked to conduct the exercise whereby they select a company in their city and analyze the current strategies and if there are opportunities for enhancement.

Homework: Elevator Pitch

Students are required to select a company in their city, create a materiality matrix and a sustainable value framework. Based on this analyze, students are asked to make a 2 minute video message to the CEO on how the firm's strategy for sustainable value within cities may be improved.

It is expected that students apply the ideas of both compulsory readings and the lecture material to a business operating in their city.

REFERENCES

Compulsory Reading:

Hart, S., and Milstein, M. (2003). Creating sustainable value. *Academy of Management Executive*, 17(2): 56–67.

Whiteman, G.M., Vos, Rene, Chapin, F.S., Yli-Pelkonen, V., Niemelä, J. & Forbes, B. (2011). Business strategies and the transition to low-carbon cities. *Business Strategy and the Environment*, 20(4), 251-265.

Recommended Reading:

Anderson, R. (2009). *Confessions of a radical industrialist – How Interface proved that you can build a successful business without destroying the planet*. New York: St. Martin's Press.

Bansal, P., & Roth, K. (2000). Why companies go green: a model of ecological responsiveness. *Academy of Management Journal*, 43(4), 717-736.

Porter, M. E., & Kramer, M. R. (2011). The big idea: Creating shared value. *Harvard Business Review*, 89(1), 2.

LECTURER'S PROFILE

Steve Kennedy is an Assistant Professor researching corporate sustainability, climate change and sustainability-oriented innovation within the Centre of Corporate Eco-Transformation at Rotterdam School of Management, Erasmus University. Dr Kennedy's current research focuses on how corporate sustainability strategies are translated into successful innovation and the formation of future-ready sustainable business models. In recognition of its academic contribution his thesis on the challenges of operationalizing sustainability at the local-level was highly commended at the prestigious Emerald/EFMD Outstanding Doctoral Research Awards 2010. Dr Kennedy is the Academic Director of the MSc Global Business & Sustainability and teaches courses such as 'Climate Change Strategy Role-Play' and 'Sustainability Leadership and Planetary Boundaries'. His research is published in journals such as *Journal of Management Studies*, *Long Range Planning*, *Journal of Cleaner Production* and *Management Learning*. Email: skennedy@rsm.nl

MODULE DEVELOPER:



ABOUT ROTTERDAM SCHOOL OF MANAGEMENT

Rotterdam School of Management is one of Europe's leading and largest business schools among the 1% of schools worldwide with Triple Crown accreditation. The school is a world leader in research and teaching on sustainability ranking 3rd in Europe and 19th globally according to The Aspen Institute's Beyond Grey Pinstripes Report.

Project participation is from the Centre for Corporate Eco-Transformation which broadly aims to reach a clearer understanding of the management challenges of corporate sustainability. The Centre conducts high-level research and education on management issues related to sustainability and provides accessible and up-to-date information on cutting-edge research, ideas and works published on the subject of corporate eco-transformation.

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ABOUT SUSTAIN PROJECT

The SUSTAIN project aims to improve the quality of tertiary education in Sustainable Urban Development in Europe and partner universities in Asia; develop standardized education modules related to SUD and furthermore enriching them with international perspectives and academic and vocational skills and competencies; promote collaboration and international cooperation between European and Asian Higher Education Institutions in SUD but also collaboration and sharing between Erasmus Mundus programmes; establish links and bridge European Higher Education and practice in SUD; increase the visibility and access to European Higher Education in Asia in the field of SUD, attracting prospective Asian and international students.

The SUSTAIN project is co-ordinated by the Institute for Housing and Urban Development Studies (IHS) with the Dutch Research Institute for Transitions, the Netherlands, the Rotterdam School of Management, the Netherlands, Darmstadt University of Technology, Germany; National Technical University of Athens, Greece; European Academy of Bolzano, Italy; Ca' Foscari University of Venice, Italy; Gadjah Mada University, Indonesia; Centre for Environmental Planning and Technology, India; Beijing University of Civil Engineering and Architecture, China; and International Council for Local Environmental Initiatives, Germany.

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