Strategies for Sustainability

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AGENDA

1. Drivers for Corporate Sustainability
2. Starting to Create Sustainability Strategies
3. Sustainable Value Framework
4. Competitive Environmental Strategies Matrix
WHAT ARE THE DRIVERS FOR BUSINESSES TO CONTRIBUTE TO SUSTAINABLE CITIES?
Business Drivers Brainstorm...

- Anticipate and comply to actual changes in regulation
- Avoid cost
- Mitigate risks
- Competitive advantage by developing new product or services
- Respond to demand from customers, employees, etc.
- Build or reinforce competitive advantage
- Enter new markets
- Protect or promote reputation
Opportunities to Reduce Costs

(1) Risk management and relations with external stakeholders;
   - Better relations with govt, ENGOS...
   - Lower liability costs – fines, penalties
   - Anticipate future legislation

(2) Cost of material, energy, and services;
   - Efficiency and input savings
   - Taxes and trade permits (e.g. carbon)

(3) Cost of capital;
   - Access to green (or ethical) mutual funds (SRI)
   - Easier bank loans
   - Shareholders and environmental performance

(4) Cost of labor.
   - Morale, productivity, recruitment
Cost of Capital

Socially Responsible Investors (SRI)

Mainstream Investors

- Work with NGOs
- ESG (Environmental, Social and Governance) issues such as climate change are a long-term risk to investments
- Recognise potential business opportunities
- Developing programs and investment funds to address ESG risk

1. Corporate Governance initiatives
2. Investment funds creating lower carbon impact portfolios

Goldman Sachs 2005 strategy statement

- Green is not merely a SRI issue
- Environment and Climate change are fundamental issues for financial analysis
Mainstream Investment Example

California Public Employees’ Retirement System (CalPERS)

- Largest public pension fund in the United States with $179.2 billion in assets

“to explore ways in which we can marry the jet stream of finance and the capital markets with public purpose [in order to achieve] … positive financial returns, while fostering sustainable growth and sound environmental practices”

- $500 million – portfolio that screens firms for good environmental practice
- $1.1 billion – develop environmental technologies that are more efficient and less polluting than current ones
Cost of Capital: Divestment Movement

The Rockefeller Brothers Fund controls about $860m in assets, About 7% are invested in fossil fuels.

Stanford University dropping coal holdings from its $18bn endowment.

more than 800 global investors – including foundations such as the Rockefeller Brothers, religious groups, healthcare organisations, cities and universities – have pledged to withdraw a total of $50bn from fossil fuel investments over the next five years.


22 Sept 2014
Opportunities to Increase Revenues

Ambec and Lanoie, (2008)

(5) Better access to certain markets;
   - Overall image
   - Green purchasing policies (govt (~20%), consumers)

(6) Selling pollution-control technology;
   - Clean-tech (e.g. wind)
   - Waste management systems

(7) Differentiating products;
   - Sustainability as a purchasing differentiator
   - Eco-labeling? Barriers to imitation?
   - Price premium?
CONSUMERS – PRICE PREMIUM? MARKET DIFFERENTIATOR?

Does It Pay To Be Good?

IS IT REALLY WORTH IT? REWARD AND PUNISHMENT FOR ETHICAL PRODUCTION

When informed about coffee having been produced unethically, ethically, or typically (“Control”), buyers responded by paying a $1.40 premium or a $2.40 discount.

WHAT CONSUMERS ARE WILLING TO PAY FOR VARYING DEGREES OF ETHICAL PRODUCTION IN COTTON-T-SHIRTS

Consumers perceived (and rewarded) all levels of ethical production similarly. They did not always reward increasing levels of ethical production with increasing price premiums.
Does It Pay To Be Green?

“Although results have been mixed, the majority of the research, including meta-analytic results (Orlitzky et al. 2003), suggest that indeed a positive relationship does exist between corporate environmental performance (CEP) and corporate financial performance (CFP)”

Dixon-Fowler et al (2013)

Changing question…

“When does it pay to be green?”

- Large vs small
- Public vs Private
- Industry sector
- …
Moral or Social Reasoning

What is the purpose of business?!

https://www.youtube.com/watch?v=D9hetZuPzS4
STARTING TO CREATE SUSTAINABILITY STRATEGIES
Sustainability is embedded purpose at all levels.

Sustainability is core to all goals – internal & external. CSR as connecting organisations and communities.

Sustainability as a part of the “business case”

Sustainability is an impost to which we must be forced to conform.

Sustainability is irritant, ignorance of ethical & legal responsibilities.

Sustainability is not on the radar

Organisational Transformation Stages of Sustainability/CSR (Dunphy)

Preconventional

Conventional

Postconventional

Sustaining

Strategic

Efficient

Compliant

Avoidant

Rejecting

Edwards, 2015
Starting Point: Assess what issues are MATERIAL

Material: Important, crucial

(Information about) a matter is material if it could **substantively affect the organization’s ability to create value** in the short, medium and long term. (International Integrated Reporting Council, 2013)

Material Aspects are those that **reflect the organization’s significant economic, environmental and social impacts**; or that substantively influence the assessments and decisions of stakeholders. To determine if an Aspect is material, qualitative analysis, quantitative assessment and discussion are needed (GI, 2014).
Materality matrix

Framework to detect what is important for the organization’s strategy and for its different stakeholders

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Degree of importance of a given topic for the different stakeholders

Degree of importance of a given topic for the organization’s strategy
Creating a materiality matrix: Who should be involved?

• 1-. **Organization’s strategy**: The different departments of the company, mainly “Strategy”. Document: Strategic Plan. Internal perspective of the organization

• 2-. **Stakeholders**:  
  – Clients, employees, shareholders, suppliers, NGOs, government, competitors…  
  – Quantitative & qualitative methods to ask their opinion. If possible, try to get representative opinions. Interesting also to detect opinions of minorities (for disruption and inclusion).
“The materiality matrix is oriented towards risks and opportunities, but we make more emphasis on risk management. Business opportunities come from the management of risks”

(Emilio Vera, Sustainability Manager)

Eccles et al (2013)
Use of Materiality Matrix

HOWEVER...

82% of WBCSD companies disclose use of materiality process

Only 30% focus their reporting on issues they consider to be material
Use of Materiality Matrix

• 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.

• Can be used to focus a company’s strategic approach to sustainability – **guide investment and resource allocation decisions**
  - Helps internal management to focus on the right issues

• Helps **focus the content** of the sustainability or integrated report (avoid disclosing on immaterial topics)
Alignment: Sustainable Development Goals

• Officially known as Transforming our world: the 2030 Agenda for Sustainable Development
• UN has conducted the largest consultation programme in its history (NGOs, Industry, Govts)
• Define global priorities and aspirations for 2030
• 17 Goals with 169 targets and 304 proposed indicators to show compliance
• Supersede the Millennium Development Goals for 2015-2030

https://sustainabledevelopment.un.org/?menu=1300
Sustainable Development Goals

1. NO POVERTY
2. NO HUNGER
3. GOOD HEALTH
4. QUALITY EDUCATION
5. GENDER EQUALITY
6. CLEAN WATER AND SANITATION
7. CLEAN ENERGY
8. GOOD JOBS AND ECONOMIC GROWTH
9. INNOVATION AND INFRASTRUCTURE
10. REDUCED INEQUALITIES
11. SUSTAINABLE CITIES AND COMMUNITIES
12. RESPONSIBLE CONSUMPTION
13. PROTECT THE PLANET
14. LIFE BELOW WATER
15. LIFE ON LAND
16. PEACE AND JUSTICE
17. PARTNERSHIPS FOR THE GOALS
Sustainable Development Goals

• UN member states will be expected to use to frame their agendas and political policies over the next 15 years

• Why should companies consider how their strategies are contributing toward the goals?
  ✓ Contribute to the priorities of society
  ✓ Partnership and collaboration opportunities
  ✓ Subsidies, grants, tax breaks…

www.sdgcompass.org/
SDG 11: Sustainable Cities and Communities

7 Targets including…
“make cities, human settlements inclusive, safe, resilient and sustainable” (United Nations, 2015b).

“by 2030, ensure access for all to adequate, safe and affordable housing and basic services, and upgrade slums”. 
SDG 11: Sustainable Cities and Communities

Business can play a vital role not only in providing specific infrastructure, technology, services and financing solutions, but also in contributing to the strategy that will support the overall optimization of urban systems to create inclusive, safe, sustainable and disaster resilient cities.

Key Business Themes:

– Access to affordable housing
– Infrastructure investments
– Sustainable transportation
– Access to public spaces
– Sustainable buildings

http://sdgcompass.org/sdgs/sdg-11/
Innovative City-Business Collaboration

- Local Governments for Sustainability (ICLEI) and the World Business Council for Sustainable Development (WBCSD) jointly launch the report: “Innovative city-business collaboration – Emerging good practice to enhance sustainable urban development”.

- **6 case studies** around the world that aspire to facilitate city-business collaboration with holistic, multi-stakeholder approaches.

CREATING SUSTAINABLE VALUE FOR A BUSINESS
Sustainable Value Framework

Links the challenges of global sustainability to the creation of shareholder value by the firm

- Identify strategies and practices that contribute to a more sustainable world while simultaneously driving shareholder value

- Recognises that companies (should) employ multiple sustainability initiatives simultaneously

- Helps to assess the portfolio of activities and get a good overview of a company’s sustainability strategy

- Helps to identify business opportunities
Building Tomorrow’s Opportunity

Nurturing Internal Capabilities

Innovation & Repositioning

Cost & Risk Reduction

Managing Today’s Business

Shareholder Value

Engaging External Constituencies

Growth Path & Trajectory

Reputation & Legitimacy

Key Dimensions of Shareholder Value

Hart & Milstein (2003)
Sustainable Value Framework

**Tomorrow**

**Drivers**
- Disruption
- Clean Tech
- Footprint

**Strategy:** Clean Technology
Develop the sustainable competencies of the future

*Corporate Payoff:* Innovation & Repositioning

**Strategy:** Sustainability Vision
Create a shared roadmap for meeting unmet needs

*Corporate Payoff:* Growth Trajectory

**Drivers**
- Population
- Poverty
- Inequality

**Today**

**Drivers**
- Pollution
- Consumption
- Waste

**Strategy:** Pollution Prevention
Minimize waste and emissions from operations

*Corporate Payoff:* Cost & Risk Reduction

**Strategy:** Product Stewardship
Integrate stakeholder views into business process

*Corporate Payoff:* Reputation & Legitimacy

**Drivers**
- Civil Society
- Transparency
- Connectivity

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Hart & Milstein (2003)
Placement of initiatives (1/2)

Ultra-sonic cutting tech

Sensitizing stakeholders

TacTiles

Mission Zero

Re-Entry 2.0
Placement of initiatives (2/2)

- **EPD**
  - Environmental Product Declaration
  - Full Product Transparency

- **NetWorks**

- **Biomimicry for new products**

- **Microtuft**
Sustainable Value

Sustainable Value Framework

Clean Technology
- Re-Entry 2.0
- Biomimicry

Pollution Prevention
- Ultra-sonic Cutting Tech
- Microtuft

Product Stewardship
- TacTiles

Sensitivity stakeholders

Sustainability Vision
- NetWorks
- Mission Ø

FastForward to 2020
- EPD

Internal
- WAR ON WASTE

External
- Sustainable Vision

Tomorrow

Today
Competitive Environmental Strategies Matrix
When does it pay to be ‘green’?

Is there an economic opportunity for your company vis-a-vis your competitors?

- Generic Competitive Environmental Strategies (Orsato, 2006)
Strategy 1: Eco-efficiency

Focus – Lowers costs/ Organisational Processes

What do we mean by eco-efficiency?

Reduce the cost and the environmental impact of organizational processes
  – Waste is an inefficient use of resources

Examples?
  – Paperless office
  – Low-energy computers
  – Generate own renewable energy

Generate competitive advantage for:
  – Face relatively high levels of processing costs
  – Generate wastes and/or by-products (Reduce or seek industrial symbiosis)
### Strategy 1: Eco-efficiency

<table>
<thead>
<tr>
<th>Activity</th>
<th>&lt;1 year</th>
<th>1-3 years</th>
<th>&gt;3 years</th>
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<tr>
<td>Behavioral change</td>
<td>69%</td>
<td>15%</td>
<td>16%</td>
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<tr>
<td>Energy efficiency: building fabric</td>
<td>15%</td>
<td>33%</td>
<td>52%</td>
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<tr>
<td>Energy efficiency: building services</td>
<td>20%</td>
<td>45%</td>
<td>35%</td>
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<tr>
<td>Energy efficiency: processes</td>
<td>24%</td>
<td>44%</td>
<td>33%</td>
</tr>
<tr>
<td>Fugitive emissions reduction</td>
<td>13%</td>
<td>45%</td>
<td>42%</td>
</tr>
<tr>
<td>Low carbon energy installation</td>
<td>9%</td>
<td>18%</td>
<td>72%</td>
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<td>Low carbon energy purchase</td>
<td>39%</td>
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<td>Process emissions reduction</td>
<td>22%</td>
<td>20%</td>
<td>58%</td>
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<tr>
<td>Product design</td>
<td>34%</td>
<td>30%</td>
<td>36%</td>
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<tr>
<td>Transportation: fleet</td>
<td>41%</td>
<td>19%</td>
<td>39%</td>
</tr>
<tr>
<td>Transportation: use</td>
<td>50%</td>
<td>29%</td>
<td>21%</td>
</tr>
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</table>

Source: Carbon Disclosure Project (2012, p.16)
Strategy 2: Beyond Compliance Leadership

Focus – Differentiation/ Organisational Processes

Desire for stakeholders acknowledge efficiency efforts

Subscribe to business codes, certification...

The adoption of schemes such as:

– the Global Compact,
– the Global Reporting Initiative
– Certification ISO 14001
Strategy 2: Beyond Compliance Leadership

HOW CAN THIS CREATE COMPETITIVE ADVANTAGE?

- Enhance Corporate Image
- Influence buying behaviour (differentiator)
- First mover advantage on required standards
- Creates barriers in the market for new entrants (lobby for increased standards?)

BUT…?

- Short window of opportunity before simply ‘licence to operate’?
Strategy 3: Eco-Branding

Focus – Differentiation/ Products and Services

“a firm differentiates itself from its competitors when it provides something unique that is valuable to buyers beyond simply offering a low price” (Porter, 1985)

• Ecology-oriented products and services represent a defined market niche explored by firms worldwide
• Price of product same or greater
Strategy 3: Eco-Branding

Three basic pre-requisites:

1. Consumers must be **willing to pay** for the costs of ecological differentiation

2. **Reliable information** about product’s environmental performance must be available to the consumer

3. Differentiation should be **difficult to be imitated** by competitors

(Reinhardt, 1999)
Why run an ad in The New York Times on Black Friday telling people, “Don’t Buy This Jacket”? 

“to lighten our environmental footprint, everyone needs to consume less”

• “It’s part of our mission to inspire and implement solutions to the environmental crisis.”
• “It would be hypocritical for us to work for environmental change without encouraging customers to think before they buy.”

What is the business case?
• Quality (long lasting, durable, multifunctional)
• Green consumerism
Strategy 3: Eco-branding

WORD OF WARNING?:

Based on the evidence, successful green products are able to appeal to mainstream consumers or lucrative market niches and frequently command price premiums by offering “non-green” consumer value (such as convenience and performance).


Green marketing myopia

• To avoid green marketing myopia, marketers must fulfil consumer needs and interests beyond what is good for the environment

Strategy 3: Eco-branding

Consumers need to perceive a clear benefit for their purchase

– Offering cost savings
– Better performance of the product
– Risk management

Equipment and machinery that consume less energy
Strategy 4: Environmental Cost Leadership

Focus – Lower costs/ Products and Services

• Some markets there is little scope for differentiation, competition is heavily based on price
• Use radical product innovation for lowest environmental impact (inclus GHG emissions) and lower cost product passed on to the consumer
• No or little packaging?
Exercise: Competitive Environmental Strategies Matrix

1. Select a company in your city
2. Analyse if the firm is currently following any or multiple of the four environmental strategies
3. Are there any obvious strategies from other companies in the industry?
4. Evaluate whether an opportunity exists for strategy enhancement
Closing Takeaways

1. There are many drivers of corporate sustainability associated with **reduced costs and increased revenues**.

2. Firms commonly use an **assessment of materiality** as a starting point to create sustainability strategies.

3. Companies need to engage in a **portfolio of simultaneous activities**.

4. Creating sustainable value needs to be **linked to generating shareholder value**.
Homework: Elevator Pitch

• Pick a business operating in your city.
• Create a materiality matrix of the company of its issues in the urban context.
• Use the sustainable value framework to map the firm’s current initiatives.
• Based on your analysis make a 2 minute video message to the CEO on how the firm’s strategy for sustainable value within cities may be improved.
• Post your video on the shared folder space.
Thank you for your attention

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Yes the planet got destroyed, but for a beautiful moment in time, we created a lot of value for shareholders. (Tom Toro - New Yorker)
References


References