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Responsibility & Opportunity via Austerity

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"A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty" Sir Winston Churchill

Context

Against an ongoing background discussion on the role of public sector spending in a recovering post-recession economy, many governments around the world have committed themselves to spending reviews.

The UK has adopted ambitious public sector spending cuts, now in their fourth year of implementation. With few exceptions all Government departments still face cuts, the scale of which goes well beyond the reach of mere efficiency measures.

For the private sector, such an approach to austerity in difficult times is nothing new. But from Whitehall to Town Halls, from board rooms to factory floors an austerity agenda presents an opportunity to reconsider the more profligate business models and process.

Food production, water scarcity, inequality, climate change, energy security, disease and natural resource shortages; these are the seemingly expensive challenges on a grand scale which we must continue to address whilst making the books balance once again.

The sustainability agenda is concerned not just about doing more with less, but finding better ways to do things. This paper applies lessons from sustainability to spending cuts, in search of doing better. It identifies four areas in which cost savings can help improve the long-term viability of an organisation. It is aimed at those who need to achieve cost savings, but believe there is a more intelligent approach than simply swinging the axe.

Introduction

Austerity should drive intelligent efficiencies in the short term. But something more is required if long term aspirations for the organisations are to be met. Sustainability can drive innovation and entrepreneurialism whilst achieving efficiencies. This relates to necessity being the mother of invention and how you achieve more with less. Organisations need to do more than hope that adversity drives innovation; they must create the circumstances to facilitate it.

There is therefore a need to create a culture of ideas generation and discussion paralleling the Government's "Spending Challenge".

The process of identifying spending cuts is an excellent opportunity to reflect on the fundamental purpose of an organisation. Those looking for medium term growth in size, turnover or scale of delivery, need to consider what the purpose of that growth is? All organisations exist primarily to enhance quality of life in some way. Once that goal is recognised the mechanism by which it is achieved can be determined

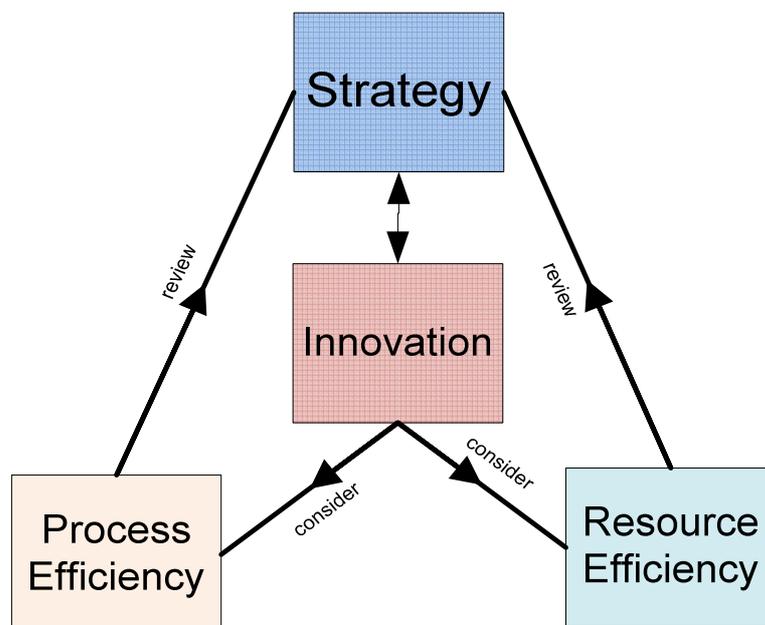
Corporate sustainability encourages a complete understanding of operations now and into the future and seeks to adapt internal process providing an enduring, balanced approach to economic activity, environmental responsibility and social stewardship.

These points may be of philosophical interest in abstract, but are only of value when grounded in reality. This document therefore sets out the basis of a practical approach, seeking benefits from the austerity agenda in:

- Strategy
- Innovation
- Process efficiency
- Resource efficiency

The Model

There are four areas in which the drivers of sustainability and austerity can be easily aligned. These are mapped below and provide the structure for this document.



These four elements represent the greatest synergies between the objectives of spending cuts and sustainability. Each of these presents an area in which cost management may provide the catalyst for finding new and better ways of doing business or delivering services.

The order usually begins with a review of strategy as with current austerity measures; however, in some instances innovation can be a viable starting point. These elements are now considered in turn.

1. Strategy

- Understanding the principles of sustainability and placing them at the heart of your corporate ethos enables changes and improvements which are necessary but otherwise unattainable.
- The question at a strategic level is not how to achieve a better ROI on sustainability programmes but how a better understanding of sustainability might deliver the short, medium and long term business goals. Hence the sustainability strategy must be founded on the goals of the business plan
- The goals of the business plan should be compatible with the goals of sustainability and changed to reflect the austerity drive
- There is a hierarchy of strategic approaches – Organisational, departmental, brand, project. Whilst each is subservient to its precedents any can become the de facto primary driver of change, depending on the economic model of the organisation.
- Sustainable procurement provides tools and tactics for enacting part of the strategy

Commonalities between a strategy built to drive austerity and minimise sustainability impacts are shown in the following table.

Austerity	Sustainability	Indicator
Cost management	Resource consumption	Energy and material costs
"Downsizing" (not necessarily staffing)	Efficiency	Overhead costs
Process rationalisation	Transparency	Decision making time
"More for Less"	Transformational innovation	Stakeholder satisfaction
Prioritisation	Resource allocation	Quality metrics
Project termination	Stakeholder management	Reputation / cost
Outsourcing	Economy of scale	Delivery cost

2. Innovation

- Every organisation has established mechanisms for reviewing what it does and how it does it. Sustainability provides a new mechanism which looks at different inputs and thus produces different outputs.
- Improvement is incremental whereas innovation is radical and transformational. Small cost savings can be achieved with incremental improvements, large-scale austerity cuts require radical approaches
- Philips send electrical engineers on sustainability masters level degree courses so they can design better future proof products
- Innovation is often the preserve of research and development or those in senior management. Organisations become truly transformational and adaptive when staff at all levels are enabled and encouraged to innovate
- Beauty in design often comes from constraint. Imposing new constraints presents new opportunities for beautiful solutions.
- Stakeholders should contribute to product, service and process innovation. This can be achieved during the procurement process by stipulating the problem and not the solution. This encourages supply chain innovation therefore placing the challenge with those that have the technical expertise.

3. Process Efficiency

- It is, in essence a shortening of the distance between the start of your activities and customer satisfaction.
- All organisations, systems and processes have multiple drivers. Cost is just one of these. If a process has already been cost optimised yet further savings are needed there are two options: A) Radically re-engineer the process B) Terminate the process.
- Delivering projects to budget is now even more crucial than ever. Generating project processes using sustainability principles will assist. For example; the Birmingham Construction Partnership delivered regenerative construction works. In supporting Birmingham City Council, the Office of Government Commerce and the Local Government Task Force enabled an innovative approach to the project that has harnessed sustainability within procurement. The benefits have seen a 52% improvement in projects delivered to time and a 29% improvement in projects delivered to budget.
- A sustainable approach may be to explore staff retention and redeployment over redundancy. However, it is acknowledged that to achieve organisational sustainability, strategic redundancy may be necessary on occasion.
- Ford Motor Company has always been a keen advocate of business sustainability. This has resulted in step changes to society and industry. Providing transport and independence to the masses required ingenuity. Ford pioneered the production line process but also and less well known were its experimentation with soy based materials and ethanol with the Model T. In another example of forward thinking the crates used to ship the Model A truck were dismantled at its destination and became the trucks floorboards.
- The UK Government's Department for Work and Pensions (DWP) has undertaken a study relating to its grey fleet (business travel using employee owned vehicles) management. They discovered that DWP staff travelled approximately 45 million miles per year and this accounted for 57% total business mileage. The study's objectives aimed to improve the health, safety and welfare of its staff, seek out business and financial efficiencies and discover environmental improvements. The DWP established a travel hierarchy and policy that provides employees with guidance and has subsequently benefited in the following ways:
 - £3.6M direct savings;
 - 3000 tonnes carbon prevented;
 - An increase of utilised work hours (non-travel);
 - Enhanced health, safety and welfare;
 - Promotion of more sustainable modes of transport.
- Some of the benefits available to organisations adapting their processes are:
 - Improvements to process that are proactive not reactive and therefore provide continual organisational advantage;
 - More informed decision making at all organisational levels enabling reduced complexity;
 - An ability to thrive not just survive;
 - An aptitude for questioning process validity will achieve improvements in speed and process adoption;
 - Process adaptation engenders a culture of sustainable thinking that enables efficiency of processes providing organisational longevity;
 - Acknowledgement of sustainability considerations that impact or have the ability to impact the organisation now and into the future such as resource availability, water scarcity, work force migration trends, organisational opportunities and threats and so on;
 - Streamlined operational functions;

- Supply chain resilience, important as no organisation is an island and indeed most organisations often have critical suppliers that could cause considerable disruption to operation should they fail.

4. Resource Efficiency

- Every organisational system requires a flow of materials and energy that can be defined as inputs, outputs and by-products. Each input, output and by-product carries a variable quantity of economic, environmental and social consequence and opportunity.
- Eliminating, reducing and altering the flow of material and energy at each of these points provide considerable opportunities for efficiencies.
- Add to this the opportunities that can be realised with effective deployment and placement of knowledge, a powerfully efficient organisation is achievable.
- In essence organisational sustainability assists in achieving more for less. However, it does go a number of steps further. For example, many energy companies are moving ahead of their competitors by using more renewable sources and encouraging consumers to use less. Even though this may appear counterproductive these organisations have realised that to continue to thrive in the long term they need to maintain their resources. In the short term they understand that customers welcome environmental initiatives.
- Achieving efficiency at input provides greater reduction of economic, environmental and social consequences than efficiencies realised at output or by-product.
- Peterborough City Council have installed innovative energy saving software on 4,500 PC's in order to minimise the energy resource that they use. This has resulted in a saving of £50,000 and a reduction of 250 tonnes carbon dioxide. The payback period of the software purchase is less than 6 months.
- Kent County Council have made significant resource efficiencies with LED traffic lights and important improvements to its social and economic performance. Replacing traditional traffic lights with LED's provides £1.8M direct savings in the first five years, reduces energy consumption by 70% and as they last for 10 years compared with the 6 months of the tungsten-halogen lamps they replace will result in greater health, safety and welfare and re-deployable resources due to the significantly reduced need to carry out maintenance and replacement. The by-products and outputs are also far more efficient due to the reduction in the number of units to be disposed and associated packaging.
- Advancements in the field of sustainable procurement are seeking better outcomes with better cost management, both upstream and throughout the product lifecycle.
- No one organisation operates as an island and systems therefore go beyond the boundary of the organisation. This is where sustainable procurement is gaining momentum.

Checklist

This checklist provides simple questions to help establish whether your organisation is likely to achieve the greatest benefits from necessary austerity.

Strategy

1. Is there a proper strategic approach to corporate sustainability in your organisation?
2. Are sustainability goals directly linked to and driven by overarching corporate strategy?
3. Have strategic goals been reviewed in light of recent spending cuts?
4. Are the resources still going to be available to deliver the strategy?

Innovation

1. Has there been a structured approach for engaging staff ideas for ways to reduce costs?
2. Are all staff aware of the sustainability strategy and their role in delivering it?
3. Are staff supported and rewarded for finding efficiencies and better ways of delivering organisational objectives?

Process efficiency

1. Are all business functions that are currently undertaken necessary to achieving the fundamental purpose of the organisation?
2. Do all business functions enable effective and efficient progression towards the fundamental purpose of the organisation?
3. Do any business functions exist entirely to facilitate a link between business functions?

Resource efficiency

1. Is the relationship between the outputs of the organisation and that of its inputs acceptable?
2. Does an analysis of inputs and outputs present an imbalance? For example; unnecessarily high overheads, under-utilisation or significant raw material or energy wastage.
3. Can comparisons be sought of resource use models at similar scope organisations?

Conclusions / Summary

There is a true synergy between intelligent cost management and some elements of sustainable development. Reengineering systems, processes and organisations to meet sustainability targets can generate cost savings. Reengineering to reduce cost can give rise to more sustainable outcomes. But this won't happen by accident.

An organisation can cut costs in a downward spiral of worsening performance or create a virtuous circle where sustainability and cost targets are driven concomitantly for the benefit of all.

- An understanding of sustainability can help identify new ways of managing costs
- The principles and practices of sustainability align well and naturally with those of austerity cuts
- Savings are required in the short term but opportunities for future development must still be nurtured
- To realise the greatest savings and benefits from cost cutting, the application of sustainability principles must be strategic and system/organisation wide.

There is benefit in recognising and nurturing the drivers of sustainable growth. These include:

- Cutting costs through designing better systems, not cutting costs by devaluing systems
- Using an understanding of current limitations to gain foresight on future trends and opportunities
- Aligning systems with stakeholders' current and future needs
- Inbuilt sustainability in project delivery rather than a costly add on
- Use efficiencies as an opportunity to build relationships with key partners for future development

Further benefits of this approach include:

- Ongoing continual professional development
- Development of organisational stakeholder capital
- Social licence to operate
- Foresight and market intelligence
- Beyond cost unique selling points
- A culture of trench loyalty or even better optimism instead of disenfranchised staff
- New product/service innovation

The metaphor of weight loss is often invoked to describe spending cuts. Companies "become less flabby", processes "more lean". It is a well suited analogue which bears further consideration. Crash diets may lead to rapid unhealthy weight loss which cannot be sustained and are usually followed by rapid weight gain. This is because consideration is not given to the overall goals of the system, the focus instead being placed exclusively on just one part. This corresponds to the hatchet approach to spending cuts.

Alternatively, weight loss through a lifestyle transformation of better diet and more exercise addresses the holistic needs of the system and can therefore have lasting and positive benefits. This corresponds to a more thoughtful and strategic approach to cost management and efficiency, characterised by a desire to make fundamental and often difficult changes which put the system into balance.

Appendix 1

Further Examples

- Co-operative eolnsurance where premiums for car insurance are linked to emissions
- Zip cars innovation in car rental
- 30M bike rentals in the first year of the Parisian velib scheme by J C Decaux
- Technology convergence in mobile phones minimises production processes, material use and packaging whilst maximising customer value
- Coca Cola's long-term water strategy in response to business pressure and climate change – WWF claim over 200L water are required in the lifecycle of a can of coke
- Unilever is using brands such as Ben & Jerrys to develop consumer consciousness about worklife balance and environmental scarcity and in doing so build long term customer loyalty
- Nike started with sustainability at the supply chain level then moved it to a systems based approach which adopted a more holistic view and became part of the overall business strategy
- Google is lobbying for more energy efficient technologies which will in turn reduce its own operating costs
- Time Warner exploring opportunities across all its media output to disseminate sustainability messages.

Additional Concepts

- Traditional economic models of nationhood reward those countries that consume greater resource with superior wealth. However, sustainable growth cannot be permanently dependent on the one-way transformation of finite natural resources to wealth
- Value-added economies create prosperity by managing the flow and circulation of materials and labour, permitting the possibility of sustainable economic development
- Sustainable growth combines the concept of objective wealth creation for the poorest and subjective wealth creation for the affluent.
- Economic growth where one nation or people succeed at the expense of another cannot be sustainable. However, competition and markets do have a role to play in sustainable economies
- Sustainable technologies and solutions have the potential to lift markets, employment etc
- How do you balance the time taken for careful planning against the need for urgent action?
- Value is created over time – although this may be harder in some markets e.g. FMCG
- Werner Sombart's concept of Creative Destruction presents a necessary role for entrepreneurs in disrupting established commercial order
- Cost cutting is often introduced on a reductionist basis whereby each spending decision is made on an individual basis. Finding the best points for intervention requires system thinking to maximise outcomes

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