Lean and Green

Leadership for a low-carbon future

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Executive Summary
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In partnership with:

IET Collective **inspiration**

Business Council for Sustainable Energy UK

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Foreword

In December this year, a major international summit meeting will be held in Copenhagen to establish a successor agreement to the Kyoto Protocol for combating climate change. It is, therefore, timely for us to ask what British management is doing to address this issue, which will have a profound effect on all our lives.

This report is the result of just such an investigation. The findings show that whilst most managers recognise the importance of the low carbon agenda, far too many of them are doing nothing about it. In particular, the failure to act stems from a lack of leadership at the top. Boardroom scepticism is a major hindrance to action.

The good news is that there are positive findings which can form the foundation for a more positive approach to carbon management by British business. Younger and more junior managers are enthusiastic about incorporating the green agenda into their everyday business activities. We found organisations which have taken carbon management seriously and, as a result, have made impressive progress.

Drawing on the research, we have set out a number of recommendations for action by business leaders, professional bodies and business schools, Government and environmental bodies.

This report points the way to a more sustainable future for British business.

Dr John Roberts CBE
Chair of the Research Steering Board
Chief Executive of United Utilities, 1999-2006

1. Introduction

As recently as a decade ago, the environmental agenda was still regarded by many organisations as at best a fringe issue. Our 1998 report concluded that "the business case for the environment is yet to be accepted by all organisations"[1], with many seeing it as a cost rather than an opportunity to add value. Relatively few UK executives would have cited environmentalism as a factor influencing their day-to-day decisions. Even fewer would have listed it as a core driver in delivering value to their business.

A decade on, how much has changed? This report suggests that while the importance of the green agenda is increasingly well-recognised, too few organisations are taking the urgent action needed to transform the UK economy for a low-carbon future. It identifies a failure of boardroom leadership as a significant block to reform. In conclusion, it calls for managers to do more to cut emissions by making green issues part of the mainstream of management activities.

This report aims to provide insights into organisations' current approach to the green agenda, but it is also intended to help improve the ability of managers to implement changes to achieve more sustainable energy policies and carbon management.

The objectives for the programme were:
• to explore the strategic drivers for decision-makers across organisations;
• to explore how measures to promote environmental sustainability can deliver business benefits;
• to identify and raise awareness of key environmental management practices of relevance to managers;
• to demonstrate the measurable impact of environmental "best practices", in terms of reductions achieved and of associated business benefits;
• to develop guidance for individual managers and organisations;
• and to champion the outcomes across the management community.

About this executive summary

This executive summary presents the key findings from the research, including results from a UK-wide survey of 1,500 managers and a selection of short insights from ten case study interviews conducted among a range of organisations in different sectors. A more detailed analysis of the data and the full case studies are provided in the 80-page full report which is available as a PDF free of charge, or as a hard copy, priced at £25. Please see the back cover for ordering details. This executive summary also provides the key conclusions and recommendations drawn from the research, to help individual managers and organisations adapt to the challenges they face.

This research has been led by the Chartered Management Institute in partnership with the Institution of Engineering and Technology (IET) and the UK Business Council for Sustainable Energy, supported by EDF Energy and Association of Chief Police Officers, Cymru. The Centre for Environmental Strategy at the University of Surrey was the research partner.

[1] *A Green and Pleasant Land?* – Institute of Management (1998)

2. Key Messages

1. Managers recognise the importance of cutting carbon emissions, but too few are taking action

- The need to cut carbon emissions is recognised by a majority of managers as an important business issue. Around two thirds (64 per cent) agree that carbon management will become more important over the next three years.

- However, most organisations currently fall short of achieving the urgent change needed for a low-carbon future. Only 26 per cent report that their organisations actively manage their carbon footprint, despite two-thirds (69 per cent) recognising that they could cut emissions.

- There is a clear need for a better understanding of how carbon emissions may be measured and managed. Just one third of managers feel that they have clear measures for calculating their carbon footprint.

2. Boardroom scepticism risks squandering widespread management enthusiasm

- This report shows that boardroom leadership on this agenda is too often lacking. Scepticism about environmental issues at work increases with management seniority and the management group most likely to be identified as 'climate change cynics' are directors (54 per cent of directors are identified as cynics). Perhaps as a result, a lack of resources is viewed as the main barrier to achieving change. Achieving radical change will need a far stronger lead from senior managers.

- However, there are encouraging signs of enthusiasm across UK management. Almost three-quarters of managers say they would not want to work for an organisation with a poor environmental record; yet fewer than half are proud of the environmental performance of their current employer.

- Most managers recognise the strong business drivers for environmental issues, for example cost reduction, new business opportunities or helping to attract customers. Junior and younger managers in particular tend to be more passionate about this agenda: organisations should draw on this enthusiasm to achieve the change required.

3. The challenge ahead: mainstreaming the environmental agenda

- This report recommends that managers urgently take active steps to integrate environmental issues into the mainstream of their business activities.

- To create more carbon-conscious cultures, chief executives need to show leadership by demonstrating commitment and communicating a clear sense of direction. Clear board-level responsibility and accountability for delivering specific projects is needed, while 'green teams' can help build engagement across organisations. Environment-related targets should be set at an organisational level but should also be included in performance management systems for individual managers, helping to drive change throughout companies.

- This report highlights examples of where businesses have developed substantial carbon management programmes, outlining how significant successes have been accomplished. They range from large organisations such as Royal Mail, BT and Fujitsu, to a small business that achieved a 40 per cent cut in its energy bill by implementing green measures. The report offers recommendations to help managers – whatever the current performance of their organisation – rise to the challenge of adapting to the low-carbon economy.

3. Summary of Findings

The survey conducted for this report examined a range of areas associated with managers' current environmental activities including:
• drivers of environmental practice
• steps being taken to improve environmental performance
• the extent of carbon management activities
• the link to innovation
• the role of regulation
• managers' personal attitudes to climate change and the green agenda.

The following pages present key findings from the survey with short extracts from the ten case-study interviews.

3.1 Drivers of green management

Senior management commitment is the most important driver of environmental management practices, regarded as important or very important by 82 per cent of respondents. Other key factors driving organisations to examine this agenda include cost savings (78 per cent) and regulatory compliance (75 per cent).

The case studies showed that businesses have made substantial cost savings through their environmental programmes. Examples include:

• Arora International Group: this hotel chain reported cost savings of around 15 per cent thanks to a green programme that was implemented at minimal expense.

• Derek Pitcher Ltd: this small business in the electric service sector, based in the North East of England, was able to reduce its overall energy costs by 40 per cent thanks to an energy-saving programme.

Pressure from existing or potential customers is important or very important for 59 and 62 per cent of managers respectively, while the impact on the consumer brand and employer brand is key for 48 and 42 per cent respectively. Ethical responsibility is regarded as a leading driver by 67 per cent.

Among potentially influential external groups, the media were the highest-ranking non-direct stakeholder (48 per cent). It was striking that investors and shareholders or funding bodies were ranked more lowly.

3.2 Basic practice – lean, green organisations?

Organisations looking to reduce their carbon impact can take a number of practical steps. Table 1, below, outlines which steps have been taken at present and which are likely to be introduced within the next three years. It suggests that efforts are focused on energy usage and are largely cost-driven. Priorities are commonly tailored to the prevailing context for the organisation.

	Introduced already %	Within 3 years %	Would not consider %	Don't know %
Recycling of waste materials	85	8	2	6
An environmental policy	72	14	3	12
Lights-out policy	68	15	4	13
Encourage employees to be more environmentally friendly	64	20	5	12
Energy efficient light bulbs	51	22	4	23
More remote working	51	23	12	15
Greater use of video conferencing	51	28	6	16
Greater use of public transport	45	16	17	22
Less international travel	42	18	18	24
Change in product / service specification	36	27	9	28
Energy efficient IT	33	28	5	34
Changed process policy or process modifications	33	28	7	32
Fuel efficiency measures for car fleet	29	29	9	33
Energy efficient air conditioning	25	26	9	40
Replacement of high energy-consuming equipment	21	35	8	36
Switching to renewable energy	15	25	11	49

Table 1: Adoption of measures to reduce energy usage

The most common 'green' initiative is recycling, which 85 per cent of organisations have introduced – with a further 8 per cent likely to introduce it within the next three years. By comparison, just half (51 per cent) have introduced energy efficient light bulbs at work, while fewer still have introduced energy-efficient IT.

However, many managers expect to see such measures taken within three years. Over one-third expect high-energy consuming equipment to be replaced. Changes are also expected in patterns of business activites, with more video-conferencing, more remote working and less international travel.

The survey suggests that managers presently focus on factors that are most immediate and directly related to costs – rather than the more abstract measure of carbon emissions. Energy usage and vehicle fuel usage are viewed as very important by 56 and 40 per cent respectively. These factors constitute a substantial part of overall carbon dioxide emissions for many organisations – yet managers are much less likely to regard the specific issue of carbon dioxide emissions as very important (31 per cent).

The survey also explored how managers source advice on green measures. It found that managers primarily use sources they know and trust, especially internal sources and professional bodies. This implies that such trusted sources, including professional bodies, have a responsibility to help managers make sense of the environmental challenges they face.

Measures being taken by companies profiled in the case studies include:

• EDF Energy: EDF's most successful internal environmental initiatives have been focused on energy usage in buildings and transport emissions.

• Royal Mail: the 33,000 vehicles operated by Royal Mail travel a total daily distance roughly equivalent to the distance of travelling to Jupiter and back. Hence, the biggest environmental challenge they face is operating a more sustainable vehicle fleet – a challenge that offers significant cost savings in light of rising fuel prices.

3.3 Carbon management

The survey shows that many UK managers are clear that carbon management is a business issue of genuine importance. However, it is a story of only partial progress. Demonstrating the benefits in terms of the bottom line will be critical to achieving a wider uptake of these activities. As such, higher energy and carbon prices may well prompt rapid change in the future.

Almost two thirds of respondents (64 per cent) agree or agree strongly that carbon management will become more important in the next three years. A majority of managers (69 per cent) reject the idea that there is little that their organisation can do to reduce its carbon footprint. Managers also reject the idea that carbon management is little more than 'greenwash'.

However, only 26 per cent currently actively manage their carbon footprint in all their activities. Just one third of managers have clear measures for calculating their carbon footprint.

Carbon management practices are more likely to be found in organisations that are growing compared to those that are static or declining. Equally, managers that are "climate change cynics" – that is, sceptical about carbon management and their ability to reduce their carbon impact – are more likely to work in organisations with low or no growth rates. The group of managers most likely to be climate change cynics are directors.

Larger organisations are more likely to have measures for calculating and managing their carbon footprint. Public sector organisations also appear to be taking a strong lead in this area, relative to the private and not-for-profit sectors.

Some 40 per cent think that carbon management requires additional regulation to become effective. The Carbon Reduction Commitment, which will affect up to 5,000 large business and public sector organisations, is likely to have a major impact when its introductory phase begins in April 2010.

Practical measures to cut carbon

- The top three areas that organisations are targeting to cut carbon dioxide emissions are energy usage in buildings (65 per cent), followed by recycling measures (54 per cent) and fuel usage in transport (45 per cent).

- More complex management activities, such as managing carbon dioxide emissions from products and services or along the supply chain, are much less common (14 and 11 per cent respectively).

3.4 Harnessing personal attitudes to create a climate for change

Developing an understanding of employees' personal attitudes about climate change is an important step in implementing a successful environmental management programme. The evidence shows that the majority of managers acknowledge the need for environmental activities and broadly support such actions. Of concern, however, is the strong scepticism revealed among managers at director level. This group have a responsibility to lead their organisations but the evidence suggests that many are not doing so on this issue.

- There is widespread acceptance of the science of climate change. Only a minority (24 per cent) of managers feel that the human causes of climate change have been over-stated.

- 73 per cent of managers would not want to work for an organisation with a bad environmental reputation. However, substantially fewer (48 per cent) feel pride in the environmental performance of their current employer.

- EDF Energy's 2008 Employee Engagement Survey found sustainability to be the number one driver of employee engagement within the company.

Further statistical analysis of managers' attitudes to environmental issues led to the identification of four clusters or groups. The findings suggest that while the need to cut carbon emissions is widely accepted among managers, differences of opinion exist about why action is necessary – with consequent implications for the focus of activities. By understanding and appealing to these different groups, managers will increase the effectiveness of low-carbon programmes. The clusters were as follows:

I. **Business Greens** (36 per cent) – managers that seek to integrate sustainability into their business processes on the basis of the benefits to the business. They are proud of their organisation's environmental performance and have a clear understanding of their environmental impact. Notably, this group was significantly better-represented in rapidly growing organisations. They may be seen as the vanguard of companies who are bringing environmental considerations into the mainstream of management activities; they are evidence that UK business cultures are changing in light of the climate change challenge.

II. **Ethical Greens** (25 per cent) – managers that are characterised by strong ethical environmental values rather then market-based or customer-driven business strategies. They, more than any other group, have a deep personal commitment to climate

change issues. They have doubts about the ability of the market to drive low-carbon change and thus view leadership as a crucial driver of environmental innovation.

- Younger managers are more likely to fall into one of these two 'green' groups. The predominant cohort of the Ethical Greens and Business Greens were aged 30 – 49.

- Female managers are more likely to fall into these two 'green' groups.

- Ethical Greens and Business Greens tend to be found primarily in medium and larger organisations, and in private sector companies.

III. **Customer-focused** (21 per cent) – managers that are focused primarily on customers and meeting their expectations. As such, they are sensitive to the potential for changes in consumer choices.

IV. **Non-Greens** (18 per cent) – managers that follow market trends regardless of the environmental impact of their actions and are very sceptical about climate change. Managers in this cluster were particularly predominant among smaller owner-managed or sole trader companies.

3.5 The role of regulation

Regulation plays an important role in Government efforts to improve environmental standards so the survey examined managers' views on the impact of environmental regulation. Two sets of interrelated barriers to improved compliance were found by the survey. One is internal and includes a lack of resources, which was seen as the single most important barrier. This is likely to be linked to the lack of commitment and strategic vision from directors which is evident throughout the research. The second set is external. Complexity of regulation – rather than the volume of regulations – was identified as a leading problem, particularly for smaller businesses.

Two distinct groups were identified in relation to attitudes to environmental regulation. Some 46 per cent of respondents take a positive view, stating that environmental regulations help drive higher standards of environmental practice, encourage innovation and create new markets. However, the second cluster (54 per cent) perceive regulation as a barrier towards achievement of their strategic goals and warn that it can encourage an expensive, bureaucratic tick-box compliance culture.

- Managers in larger companies are more likely to have a positive view of regulation than smaller companies.

- Directors are particularly scathing about the impact of regulation, with 68 per cent reporting a negative perspective.

- Managers working in organisations which are in decline have a greater tendency to hold a negative view of regulation.

In the case studies:

- North Wales Police and Fujitsu suggested that government has not yet found a way to spur environmental innovation by providing organisations with the means, measures and regulatory conditions that can drive innovation.

4. Recommendations

1. Leading change

• Chief executives need to give clear and consistent demonstrations of their commitment to achieving a reduction in carbon emissions. The benefits to the organisation should be fully articulated to explain to staff why they should invest time and energy in the agenda.

• Senior management teams should put in place the necessary organisational structures to lead change. There should be clearly allocated responsibility at board (or equivalent) level for improving environmental sustainability.

• Senior management teams have a responsibility for ensuring low-carbon projects are fully resourced. Providing sufficient resources will help increase the chances of realising the potential business benefits.

• Senior managers should draw on widespread employee understanding and acceptance of the environmental agenda. Some employees, particularly younger managers, have a strong personal commitment which may be harnessed to drive powerful change throughout the organisation. Others can be motivated by clear identification of the business benefits that may accrue.

2. Building measurement capability

• It is essential that businesses establish a sound understanding of their current environmental performance as a first step towards making improvements. Undertaking an environmental audit can establish a benchmark for future performance and help identify opportunities for improvements.

• Businesses should adopt meaningful measures of environmental performance that are appropriate for their specific operating context. A focus on electricity usage provides a readily accessible initial measure for many businesses and is easily related to costs, although it is unlikely to encapsulate an organisation's full carbon footprint.

• Managers will benefit from building a shared understanding about the areas in which carbon emissions cuts can best be achieved.

3. Creating value from environmental projects

• Managers should seek to maximise the business benefits from implementing low-carbon initiatives. Key areas include cost reduction, winning new business or attracting new customers.

• Managers should consider how low-carbon initiatives can support innovation that leads to the development of new products or services.

• Managers should build understanding of how far customers expect a commitment to environmental sustainability and how expectations will change in the future. Demonstrating leadership on the environmental agenda may be a way of gaining competitive advantage.

• Engineers are often in the forefront of making decisions for clients, employers and society which affect sustainability. Managers should call on the expertise of engineers within their companies when developing green policies.

4. 'Greening' management

- Managers need to take active steps to integrate environmental issues into the mainstream of their business activities.

- Managers should be encouraged to drive low-carbon change throughout the organisation through the adoption of targets at an organisational or departmental level. Individual performance targets and performance-management systems, potentially related to pay, may also be used to leverage change.

For professional bodies and business schools

- Professional bodies should develop appropriate information and advice for their members. As trusted sources of information for managers, they should signpost towards additional resources and expert bodies.

- The Chartered Management Institute should promote the lessons from this research across the management community, with a particular emphasis on the challenges for senior managers.

- Engineers have a dual role to play as both designers of systems and managers of organisations. The Institution of Engineering and Technology should seek to encourage its members to realise the benefits that low-carbon initiatives can bring to their organisations.

- Particular attention needs to be paid to opportunities to promote this agenda in continuous professional development (CPD) activities including membership events.

- Professional bodies and business schools should integrate environmental issues into the mainstream of business education and training.

- The Chartered Management Institute and IET should seek to develop a common approach to promoting environmental sustainability across UK professional bodies.

For government and environmental bodies

- Government and specialist environmental bodies should seek to provide clear and unified guidance to managers on carbon management practices. There is a clear need to improve understanding of how to measure and manage low-carbon activities and what practical steps can be taken to achieve reductions in emissions.

- Existing guidance should be promoted to managers more effectively. Partnership with bodies with which managers already have relationships of trust, such as professional bodies, may support this aim.

- Care should be taken to ensure that guidance is made relevant to the specific context of smaller organisations. Consideration should also be given to making guidance sector-specific.

- Incentives should be used to encourage businesses to move beyond basic compliance with environmental regulation. Imposing penalties for non-compliance tends to encourage a focus on meeting minimum standards or even avoidance, rather than promoting innovative solutions that add value.

- Regulators and enforcement agencies should actively promote guidance on the scope, meaning and implication of regulatory initiatives – preferably from the deliberation stage onwards. Such guidance should be particularly focused on small companies.

- The Government should continue to support best practice throughout the public sector. This is a strong opportunity to demonstrate leadership by example and to influence the private sector, for example through further consideration of environmental outcomes through procurement processes.

Additional resources and further information

- PAS 2050 may be used as a framework for measuring emissions from goods and services. It is available free of charge from the BSI at www.bsigroup.com

- Other systems which organisations may consider using include:

  - BS-8555 STEMS (Steps to an Environmental Management Scheme) or ISO 14001 for Environmental Management Systems – both also available from www.bsigroup.com

  - EMAS, the Eco-Management and Audit Scheme, available from the Institute of Environmental Mamagement and Assessment www.iema.net/ems/emas

- The Carbon Trust, which was set up by Government in 2001 to accelerate the move to a low carbon economy, offers a range of information and guidance for organisations. For example, organisations with annual energy bills of more than £50,000 can apply for the Carbon Trust's free carbon surveys. www.carbontrust.co.uk

- The Carbon Reduction Commitment is a new mandatory scheme to promote energy efficiency and help reduce carbon emissions. It will cover large business and public sector organisations across the UK from April 2010. Information about the scheme is available from the Department for Energy and Climate Change, at www.decc.gov.uk

- The Sustainable Development Commission is the Government's independent advisory body on sustainable development. Its website has information, case studies and practical help aimed at businesses: www.sd-commission.org.uk

- The Engineering Council has produced a Sustainability Guide to clarify the role of engineers in relation to sustainability. It lists six principles to guide professional engineers in their work. It can be found via www.engc.org.uk/sustainability

- Members of the Chartered Management Institute have access to the Management Information Centre, one of the largest management libraries in the UK. The 'Ask a Researcher' service can help you find exactly what you need. See www.managers.org.uk/MIC. The Institution of Engineering and Technology's Factfiles offer unbiased information for members, teachers, students and the general public, on a range of subjects including the environment and energy. See www.theiet.org/factfiles

Acknowledgements

Chartered Management Institute

The Chartered Management Institute is the only chartered professional body in the UK dedicated to promoting the highest standards of management and leadership excellence. The Institute is the guardian of the National Occupational Standards for Management and Leadership and sets the standards that others follow.

As a membership organisation, the Institute has been providing forward-thinking advice and support to individuals and businesses, for more than 50 years, and continues to give managers and leaders, and the organisations they work in, the tools they need to improve their performance and make an impact. As well as equipping individuals with the skills, knowledge and experience to be excellent managers and leaders, the Institute's products and services support the development of management and leadership excellence across both public and private sector organisations.

Through in-depth research and policy surveys of its 81,000 individual and 450 corporate members, the Institute maintains its position as the premier authority on key management and leadership issues.

Ordering the full report

The 80-page full report is available from the Chartered Management Institute, priced at £25. Alternatively, it can be downloaded as a PDF free of charge at **www.managers.org.uk/gogreen**

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