Sustainability: carbon reduction

Time to raise the bar

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A surprising number of businesses have yet to define clear targets for reducing their carbon emissions. Hugh Jones, managing director of the Carbon Trust Advisory Services, explains why the time has come to take action.

Despite the UK government's commitment to set the country on a trajectory for an 80 per cent reduction in carbon emissions by 2050 from 1990 levels, our analysis released recently shows that around two fifths (41 per cent) of FTSE 100 businesses do not have clear, robust targets to cut carbon emissions—a prerequisite for demonstrating genuine accountability and embedding carbon reduction within an organisation's core business strategy.

The revelation that many FTSE 100 companies do not have a forward looking target to reduce emissions comes in the midst of Defra's consultation on mandatory carbon, which recognises that measuring and reporting emissions is critical to cutting corporate carbon footprints. And yet business supply chains are accountable for the majority of carbon emissions, through their own direct operations as well as the public's consumption of their products and services. This gives businesses a unique opportunity to take action to fundamentally reduce their impact on the environment, and in so doing, support the government's drive to meet stringent environmental targets through the 2020s and beyond.

The business rationale for setting targets is clear: namely to drive greater efficiency and innovation, and to serve as a catalyst to generate longer term returns to the bottom line and share price, while enhancing reputation. But what do we mean by a good quality carbon target? The characteristics of effective stretching targets are as follows: they are precise in what is being measured; aspirational in driving collaboration and innovation; and appropriate and relevant to the business in question and its sector.

Rather surprisingly, only the Kingfisher Group (trading as B&Q and Screwfix in the UK) has publicly set a target to directly drive revenue from the sale of sustainable products. Kingfisher has put green business at the heart of its corporate strategy, recognising the potential to boost profits through energy efficiency and by tapping into the demand from consumers for environmentally friendly products. Its corporate responsibility strategy, Future Homes, has two aims: the first is to make sustainable living easy for its customers, by providing affordable eco products such as eco paint and solar panels; and the second is to embed sustainability into all aspects of its own operations. It has increased its sales of independently verified eco products to £1.1 billion, accounting for 10.5 per cent of total retail sales across the group.

While exemplar companies, such as Kingfisher, are making impressive strides, the gap between the leaders and the laggards is widening. During the financial crisis, many organisations battened down the hatches and focused solely on the bottom line. In the atmosphere of austerity that followed, sustainability initiatives were considered a luxury rather than a necessity. Those companies that lost their momentum and vision for carbon reduction sacrificed the associated benefits of setting and implementing robust targets, which are manifest:

- Environmental regulation is likely to get tougher. Having the tools, systems and governance in place ahead of future regulation provides significant cost and competitive advantages.

- Cost reductions are not limited to energy, but also include savings on resources, operations and distribution. Sustainability helps to streamline business processes. Marks & Spencer is saving £50 million per year through Plan A.

- By minimising exposure to raw material price volatility, improving energy security and being more operationally resilient, organisations can mitigate business risks.

- Increasingly, organisations in the B2B supply chain are placing sustainability requirements on their own suppliers. BT, for example, has recently implemented a stringent green procurement policy. Our own study of senior managers has found that 50 per cent of multinationals look set to select their suppliers based upon carbon performance in the future.

- Alongside short and medium term targets for immediate action, setting longer-term targets will help to create innovation leading to new product and market opportunities.

- Employees recognise that a company that sets ambitious environmental targets is serious about addressing sustainability, which makes it easier to attract and retain talent.

- Setting transparent and robust targets adds credibility to an organisation’s sustainability claims, enabling them to be held to account, and this also enhances corporate reputation.

BrandZ, the WPP brand and corporate reputation study carried out by Millward Brown, calculated that on average about 20 per cent of sales are influenced by corporate reputation and about 10 per cent of the corporate influence is directly related to perceived environmental behaviour. This equates to two per cent of all sales—which for many companies represents millions of pounds.

However, our analysis demonstrates that only a relatively small number of FTSE 100 companies are currently setting targets to cut carbon. Therefore, there is still a window of opportunity (albeit a narrowing one) to build competitive advantage by developing an in-depth carbon strategy to improve efficiencies, meet the demand for sustainable products, services and practices, and to define workable, stretching targets which the enterprise can strive to achieve.

Businesses have essentially reached a tipping point: a combination of pressures is forcing companies to raise the bar on carbon reduction performance, including the requirement to respond to consumer demand. According to our research, the number of shoppers that would shun brands that don't take steps to measure and reduce the carbon footprints of their products has doubled in the last year to almost one in two shoppers (45 per cent).

Businesses currently have an opportunity to set targets and demonstrate a wider appreciation of the environmental pressures emerging on the business, social and political landscape, including an understanding of how water, waste and packaging contribute to their environmental footprint. By acting on this opportunity, these businesses will be better placed to help drive green growth in the low carbon economy, and to benefit from it. Now is the time to act, while businesses still have a chance to carve out a leadership position by creating a vision for a profitable and sustainable future.

http://www.carbontrust.co.uk/news/news/press-centre/2011/Pages/carbon-performance-risk-reward.aspx