

Positive proof of global warming.



**18th
Century**

1900

1950

1970

1980

1990

2006

Integrating climate change with business strategy

Global Compact Nordic Network Meeting
Reykjavik, Iceland
May 8th, 2008

Søren Houmøller, 1st Mile, Denmark

Søren Houmøller and 1st Mile

Søren Houmøller

- Founder, owner, managing director of 1st Mile
- M. Sc., energy engineering (1995)
- Executive MBA (2004)

- Formerly director, EGJ Development (venture investor in cleantech)
- Formerly department head, energy and environmental consultancies



- Est. 2007
- Cleantech only

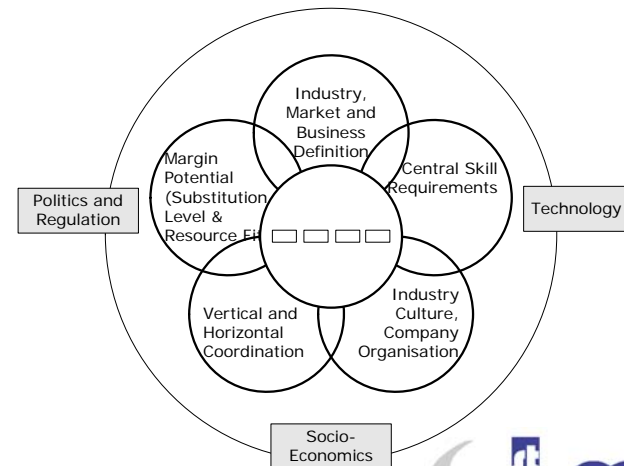
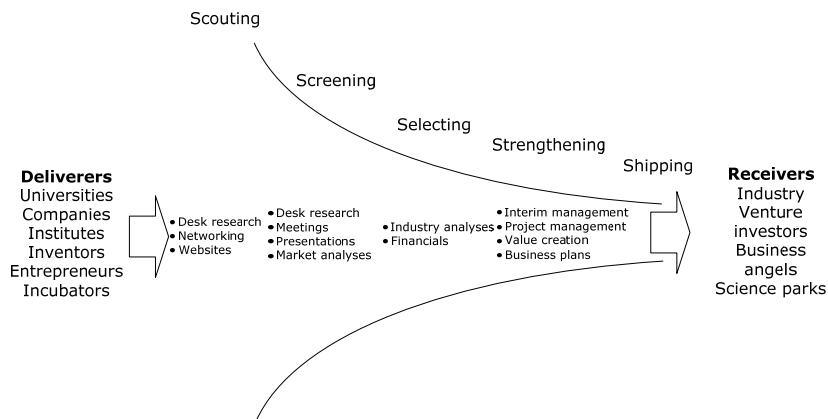
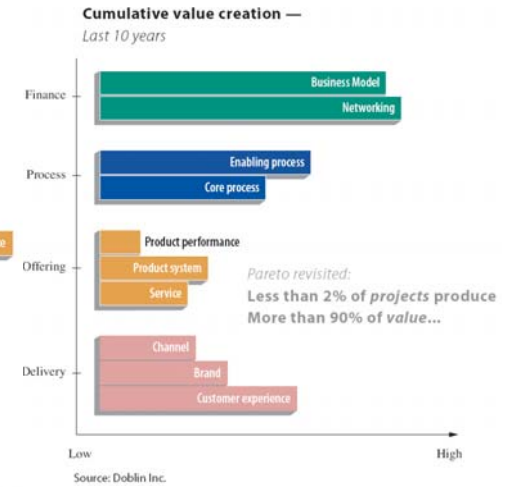
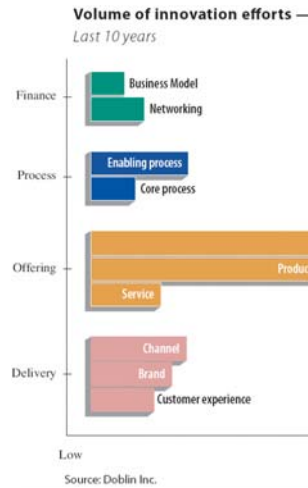
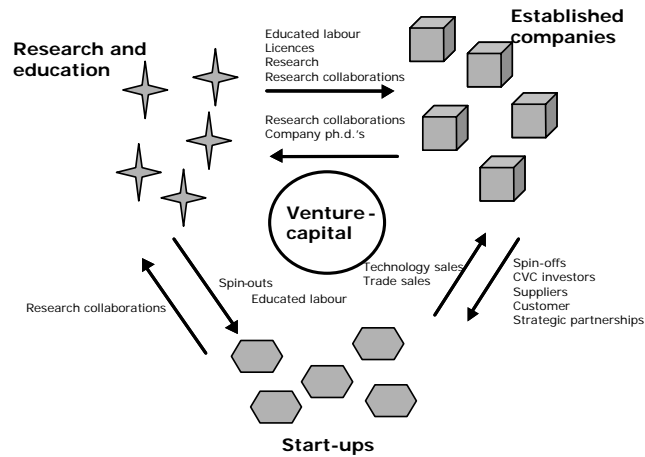
Linking technology with

- markets
- business strategy
- capital

Customers are large companies, SME's, research programmes, start-ups, investors.



Some of our passions



Our scene

Another scene: Sony's very expensive Christmas

- “Through the power of collective action, the Global Compact seeks to advance responsible corporate citizenship so that business can be part of the solution to the challenges of globalization”

Environment:

- Principle 7 | Businesses should support a precautionary approach to environmental challenges;
- Principle 8 | undertake initiatives to promote greater environmental responsibility; and
- Principle 9 | encourage the development and diffusion of environmentally friendly technologies.

Sonys very expensive Christmas - the cadmium crisis

- The Dutch government blocked 1.3 million Playstations in the weeks before Christmas 2001
- Trade war? Embargo?
- No – small, but legally unacceptable amounts of cadmium in cables
- Lost sales
- 6,000 factories searched, 18 months spent
- New supplier management system
- Total costs: \$130 million



Sony's Cadmium Heartburn The Cost of Non-compliance

by Ray Franklin, RoHSwell.com, 11/3/2004

On December 4th of 2001, CNN reported on the Netherlands government seizure of 1.3 million Sony Playstation game machines. The estimated value of the items seized was \$162 million US. The reason: Cadmium in some of the cables.

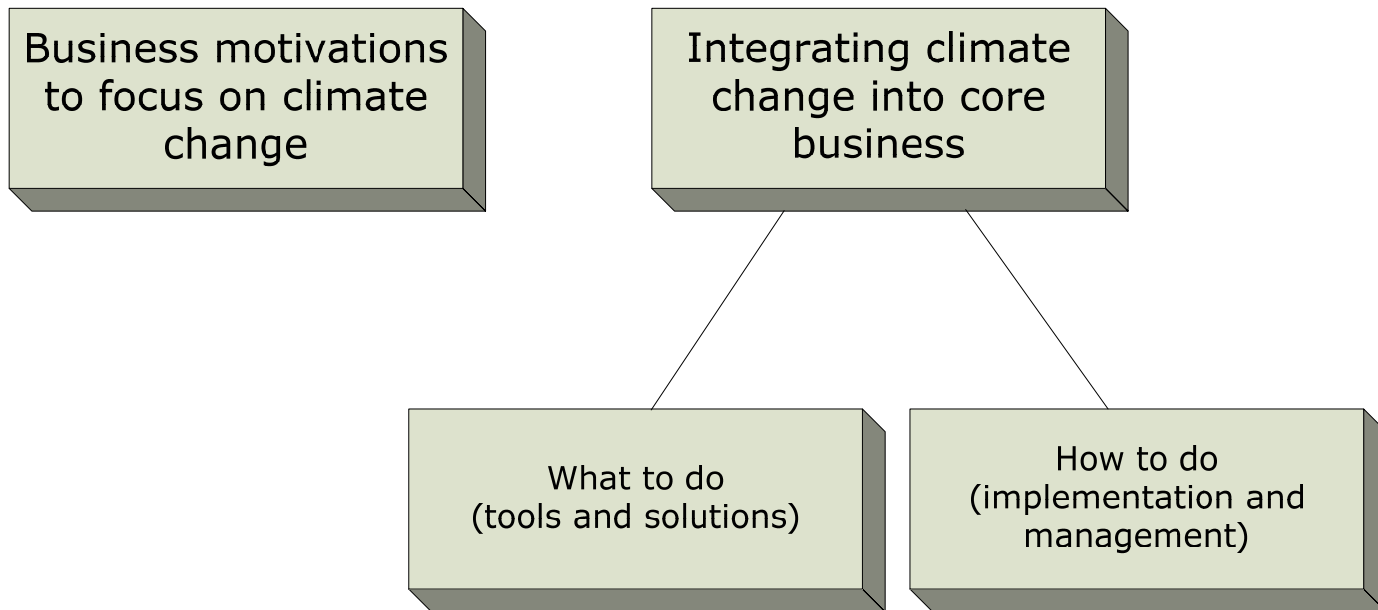
Sonys very expensive Christmas

- Sonys lessons

- Even the best companies can be surprised by environmental issues
- The environment is not a fringe issue – it can cost businesses real money
- Real benefits can come from seeing things in a new light
- Smart companies seize competitive advantage through strategic management of environmental challenges

So how to...?

Presentation content



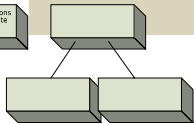
What are the various business motivations to focus on climate change?

Agenda, board meeting

- Revenue improvement, expense reduction, profit
- Share price, growth, market developments
- Mission, vision, values
- Productivity
- Work force, health
- Risk management, emerging market forces
- Security of supply, price, raw materials
- Customer retention
- Recruitment and talent
- Regulatory compliance
- Product quality and controls
- Teamwork
- Innovation
- ...

Saving the world never makes it to the list

Business motivations to focus on climate change



A broader view on stakeholders must replace the old shareholder value view

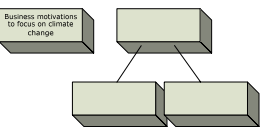
Old shareholder value:

- Make money
- Comply with regulations while you do it
- Avoid bad PR

Shareholders are not the only stakeholders

Strong drivers activate many other stakeholders

Today, a company cannot be commercially viable without addressing all stakeholders



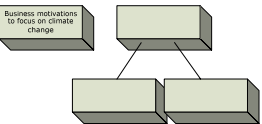
Drivers and stakeholders form basis for corporate motivation on climate change

Drivers

- Climate change
- Pollution and health
- Water shortage
- Oil/energy prices
- Risk of bad PR
- Politics
- Reputation / brand value
- Regulatory pressure
- Risk of getting caught

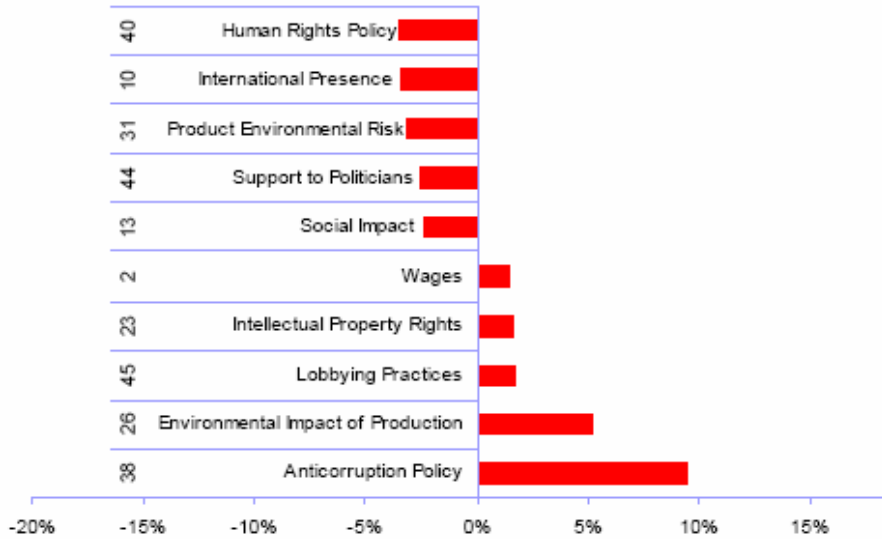
Stakeholders

- Customers – going green
- Shareholders – still there, and much more active
- Social activists, NGO's – protest, lobby, boycott
- Governments and regulators – regulate behaviour
- Financial sector – moving from tangible to intangible assets

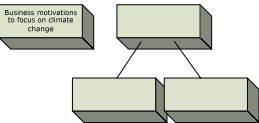
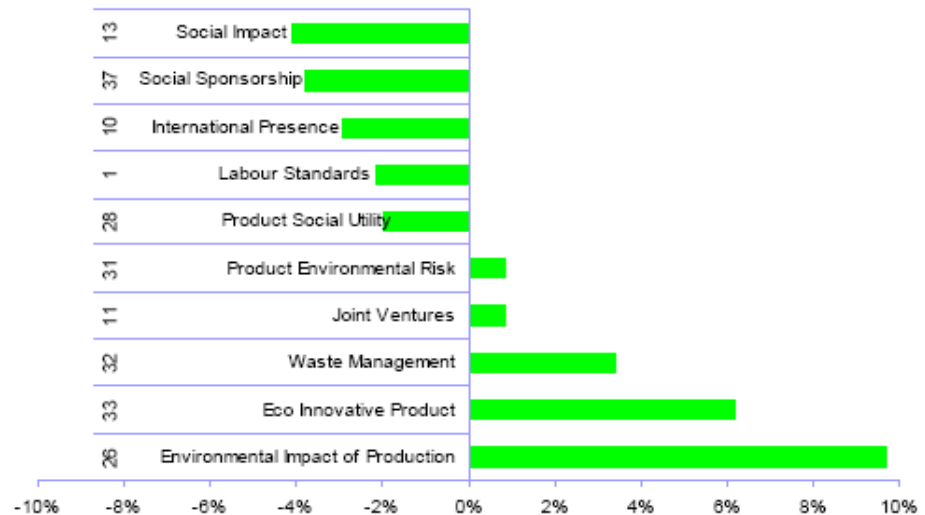


Environment beats human rights! A strong driver

Evolution of criteria weight within negative news 2007 vs 2006

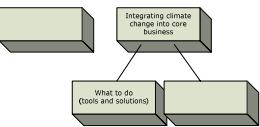
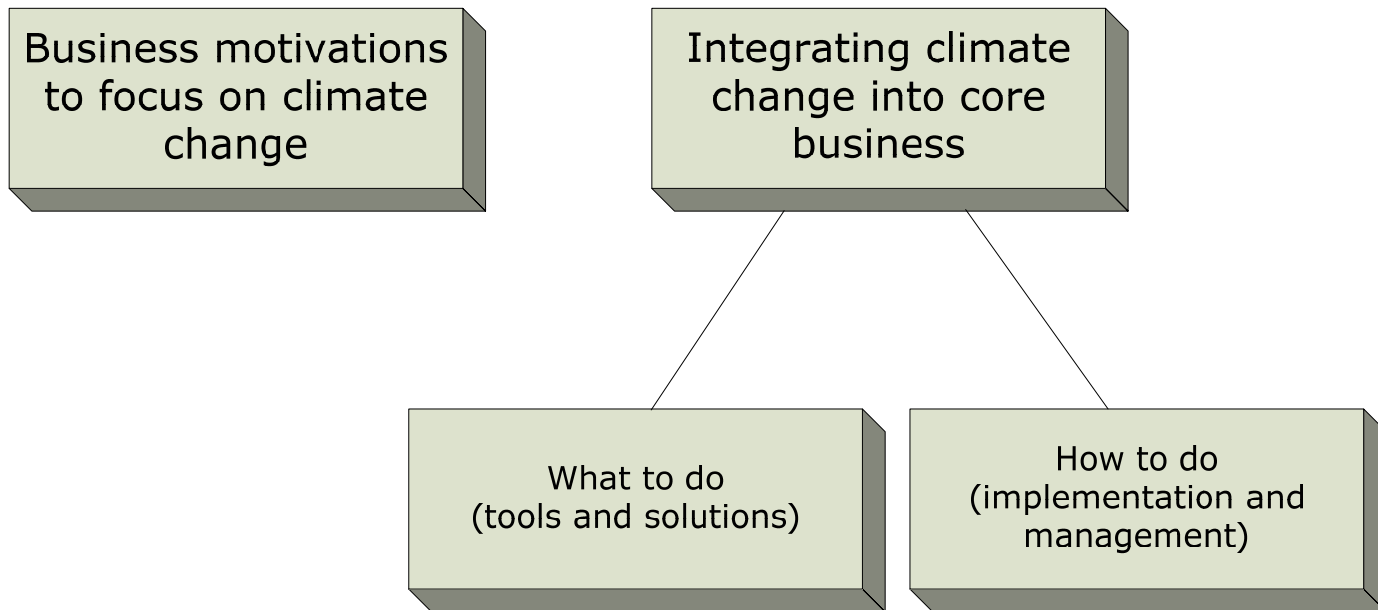


Evolution of criteria weight within positive news 2007 vs 2006



Covalence ethical rating 2007, January 2008

Presentation content



5 different stages and approaches for corporations – where do you want to be?

5. Purpose, passion

- Living it

4. Integrated Strategy

- Business Opportunities – “Carrots”
- Risk Management – “Sticks”

3. Beyond Compliance

- Eco-efficiencies
- Regulatory Threat
- PR Crisis

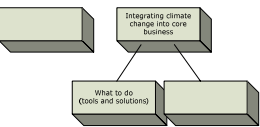
2. Compliance

- Regulatory Pressure / Enforcement

1. Pre-Compliance

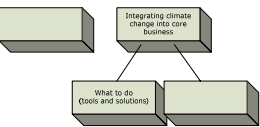
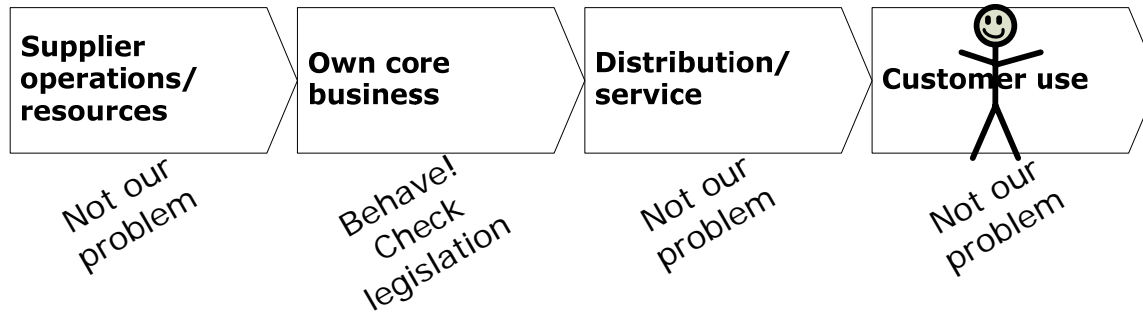
Proactive

Reactive

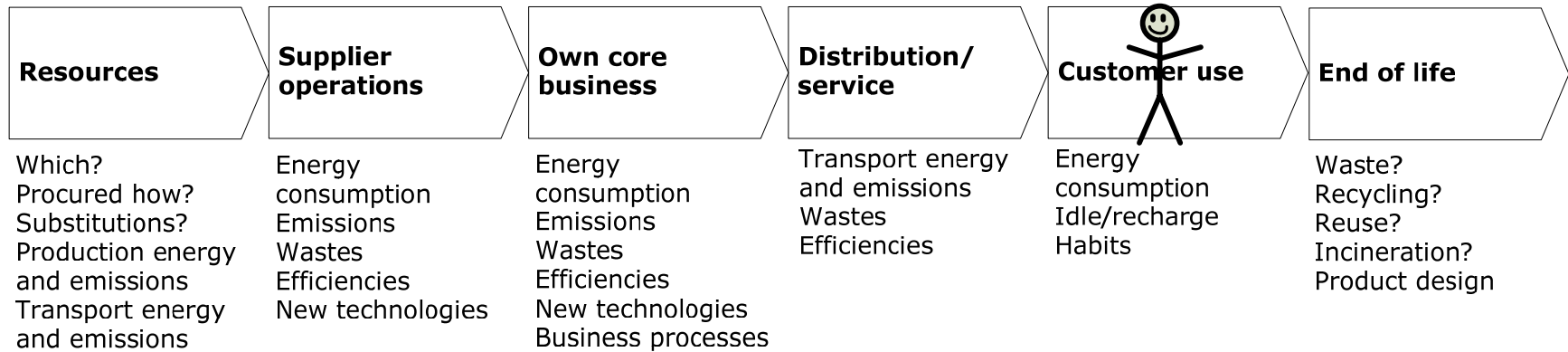


Adapted from Bob Willard: The NEXT Sustainable Wave

Moving from unsustainable value chain ...



... to sustainable value chain



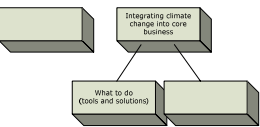
When Ford lost the battle at River Rouge

"Let's make the factory green", Bill Ford said.

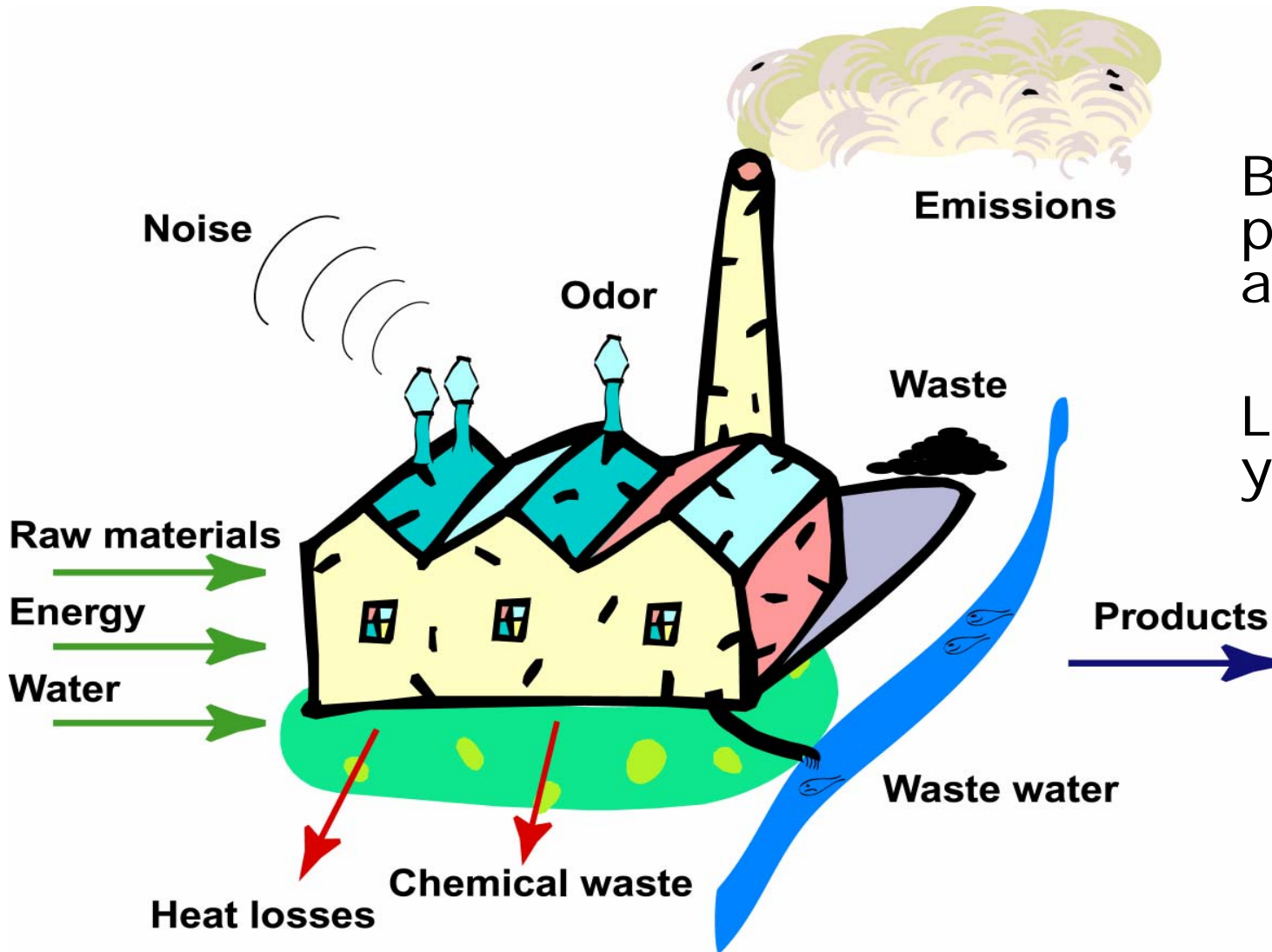
While Ford was planting grass, Toyota developed its hybrid cars.

Ford should have looked at its products and its footprint.

Ford missed the big picture and is now licensing Toyota technology.



Just replace factory with any thinkable process/product and iterate on supply chain

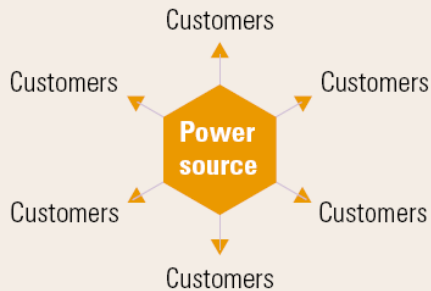


Beware of paralysis by analysis risk

LCA's can kill you

A lot of technology drive. Example: The challenges utilities face. Complexity is rising

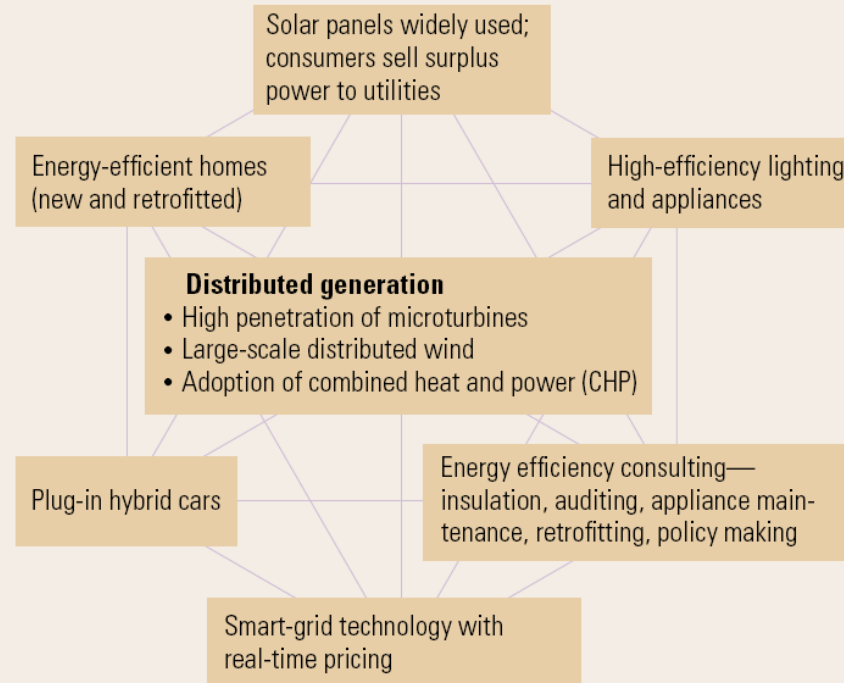
From the traditional utility . . .



Current utility business model

- Highly centralized asset model with focus on infrastructure, capital programs
- Interaction with customers consists of producing and delivering electricity to meet demand
- Success driven by regulatory relationships, core business performance

. . . to the utility of the future

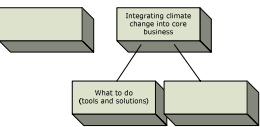


Potential utility business model

- Decentralized asset model with infrastructure featuring technology advances
- Customer interaction involves education/marketing, behavior modeling, and financing of services/new technology
- Success driven by revenue retention, partnering, and customer interaction

Identifying target risk areas

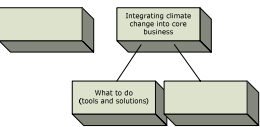
- Own core business
 - Environmental footprint
 - Resource dependency and use
 - Emissions to air and water
 - Water disposal
 - Up-to-date environmental management system
 - Risks of spills, leaks, releases
 - Known industry specific issues
 - Compliance with local, regional and national regulation
- Upstream
 - Resource dependency and use
 - Pollutions
 - Compliance with legislation
 - Substances used in products
- Downstream
 - Energy/water/other resources used by customer
 - Hazardous substances
 - Product disposal/take back



Adapted from Daniel Esty and Andres Winston: From Green to Gold

Identifying target opportunity areas

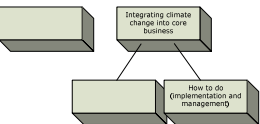
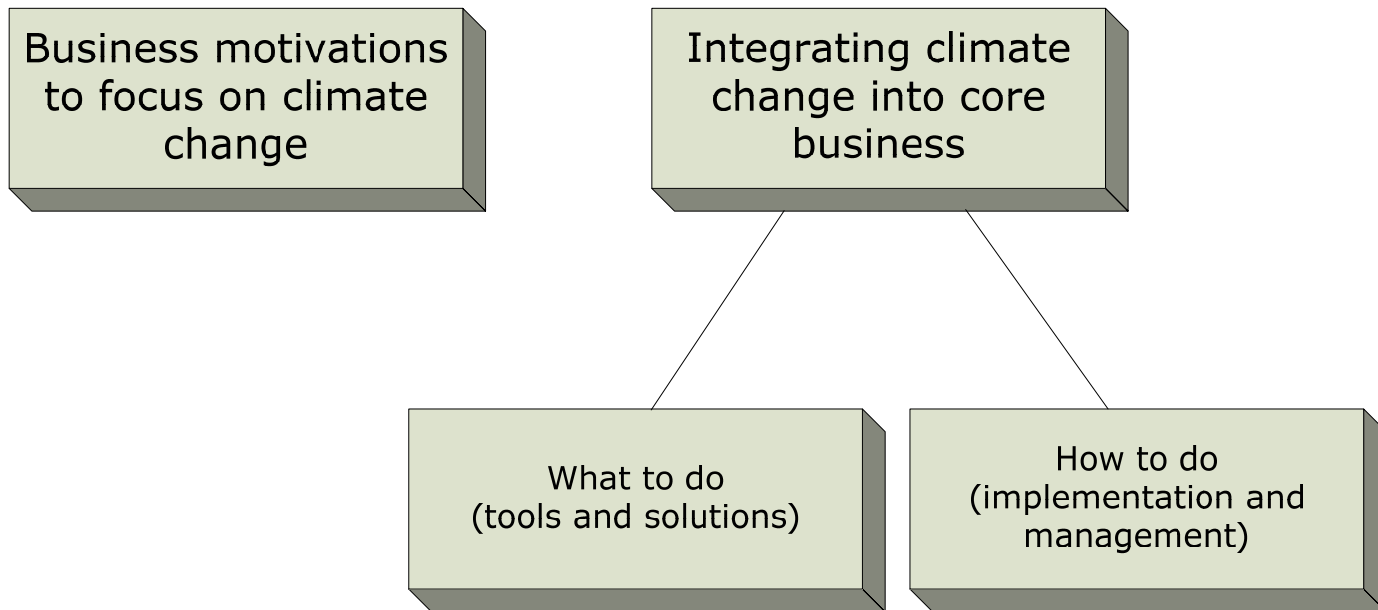
- Hiring top talent is easier
 - Attracting values and a wish to work in sustainable companies
- Retention is higher
 - Employees care and want to be part of a caring company
- Higher productivity
 - Energy from being part of something that matters
- Reduced manufacturing costs
 - Recycling, waste reduction, re-engineering, raw materials
- Increased revenue
 - Green customers are attracted to green products/services
- Reduced risk and easier financing
 - Less risk with good behaviour



Knowing your stage,
having done your value chain,
having identified your risks and
opportunities,

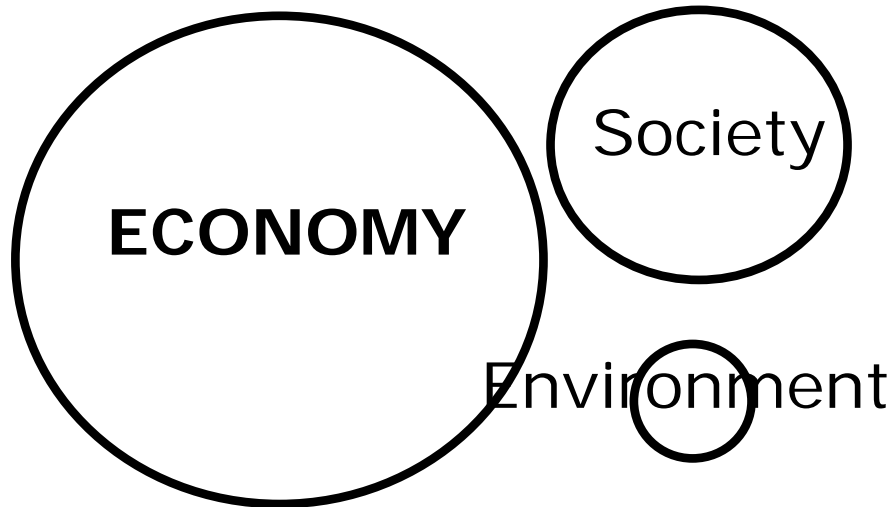
how to implement?

Presentation content

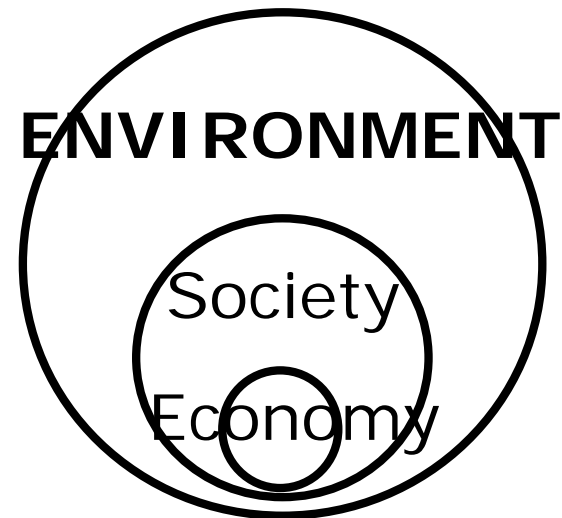


Worlds potentially far apart

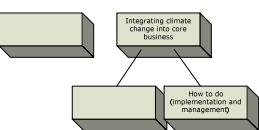
Executive



Treehugger



**Organisation?
Stakeholders?**



Very, very complex issue

- change management is crucial to implement

- Climate change involves many cross-company functions
 - HR, marketing, finance, operations, R&D, distribution...
- Complicated communication – inward/outward
 - Complicated messages to many target groups with predefined assumptions and views
- Broad variety of employee groups
 - All-knowing engineers, top-down finance guys, blue-collar workers

Focus on top management sponsorship, people, sufficient resource allocation and a thorough change process

Almost certain why-not's - just to bring out a few of the obstacles

Lack of support from senior leaders

- Too busy ... not strategic ... no pressure from important people ... not our problem ... too hard to change ... personal credibility issue

Fear of backlash

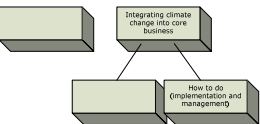
- Don't want to blow own horn ... green-washing accusations ... open the floodgates ... guilt-by-association ... skeletons in our closet

Weak business case

- Doing enough ... short-term ... perverse subsidies ... payback criteria ... insulting ... too good to be true

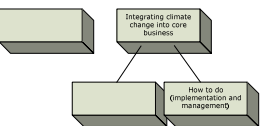
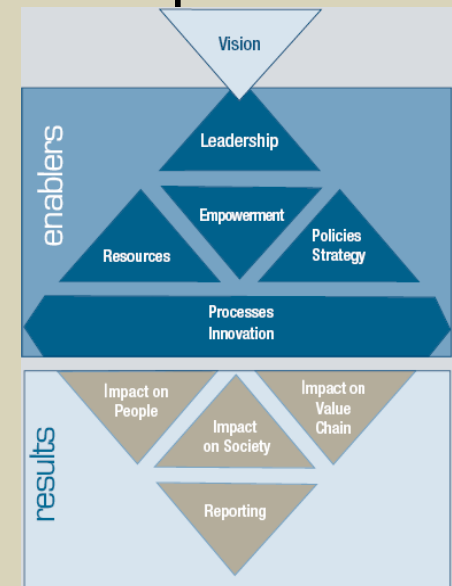
Mindset

- What problem ... anti-capitalistic ... govt's problem ... new idea ...

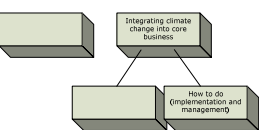
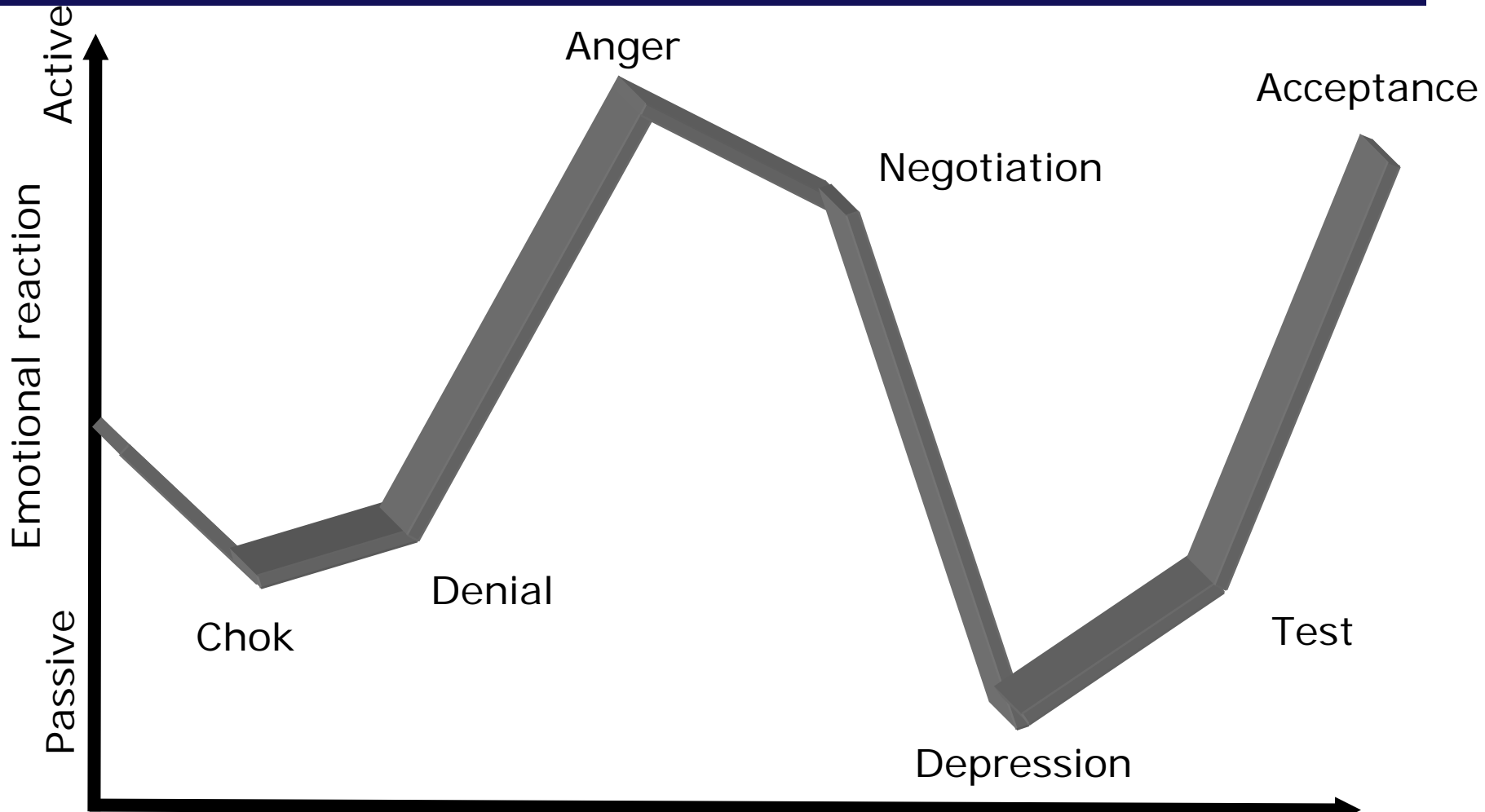


Integrating climate change in the core business

- To integrate climate change in the core business, a carefully design change management process is essential
- Half of all change effort fails in the initial phase
- Plan
- Allocate resources
- Go sequential
- Get results

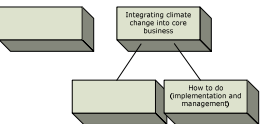
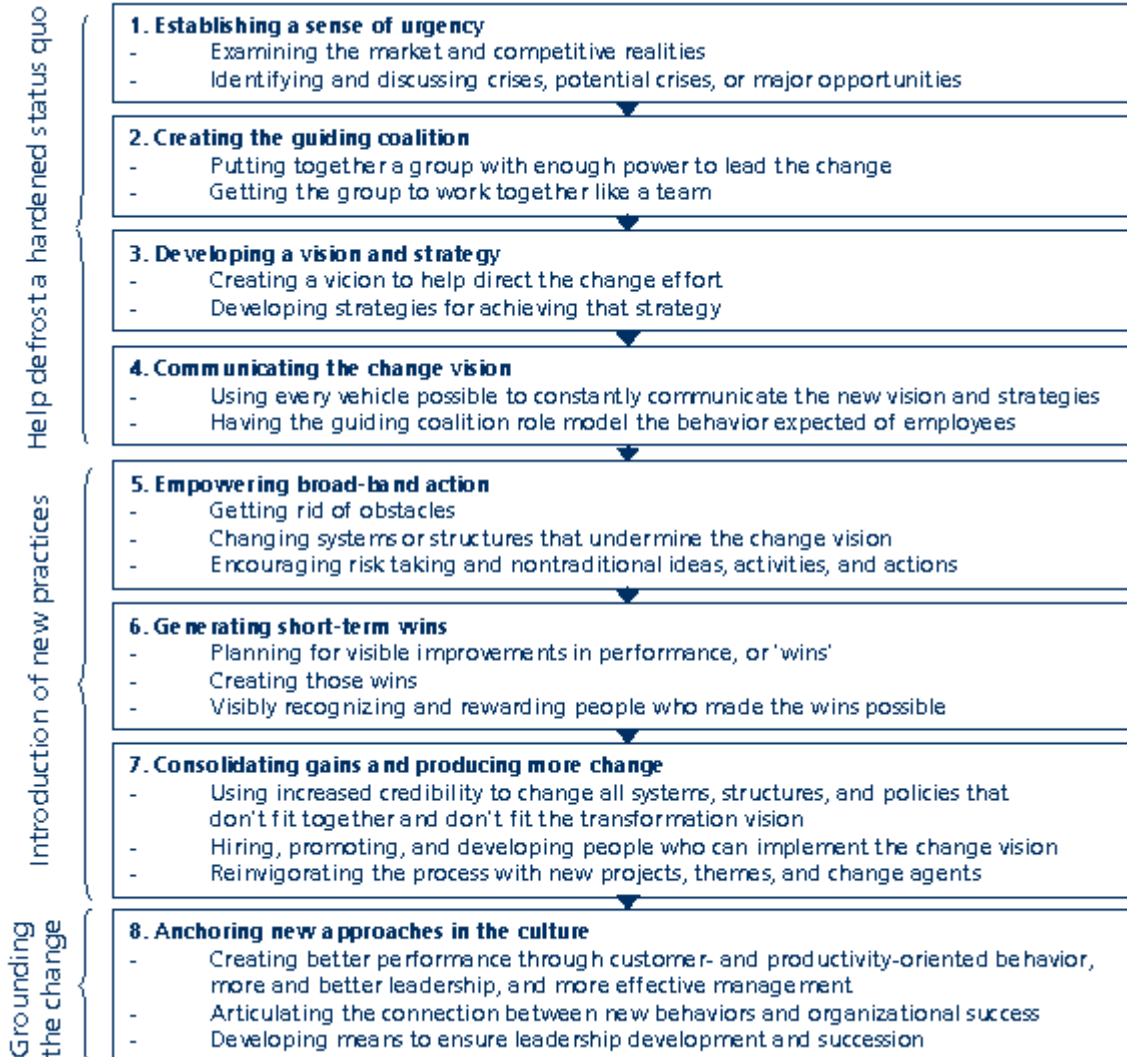


How do changes affect people? The emotional roller-coaster – some get sick...



Source: Kübler-Ross

Kotters framework works well, also for climate change, with some highlights



1. Establish a sense of urgency

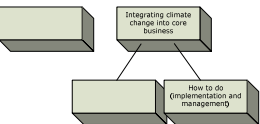
Seizing an opportunity

- Building a better brand or reputation
- Increase revenue
- Better customer and/or employee retention
- Reduce costs
- ...

Avoiding risk – a burning platform

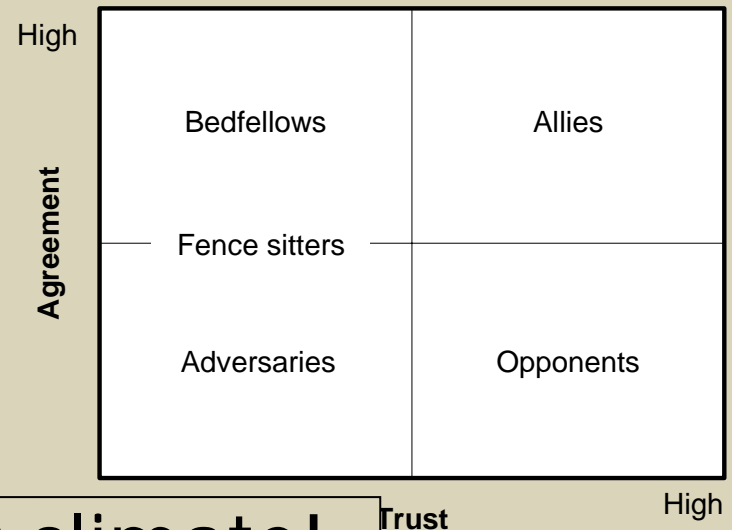
- Comply with legislation to avoid fines or shut-downs
- Avoid hazardous materials in products
- ...

Get the numbers right
Do the footprint

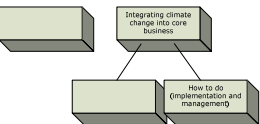


2. Form a Powerful Guiding Coalition

- Map internal and external stakeholders and their motivations, interests etc.
- Create top-level sponsorship (authorities)
- Identify change agents (implementors)
- Handle resistance
- Show enthusiasm
- Add energy



Pretty important for climate!
If failure, go back to 1!



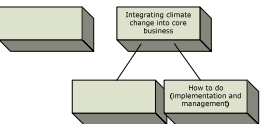
3. Create a Vision

“We choose to go to the moon (...) in this decade, not because it is easy, but because it is hard”

John F. Kennedy, September 1962

- People need to know where they are going – especially regarding climate change
- A clear vision and implementation strategies is essential
- A clear vision reduces the risk of failure
- The vision must state the direction but not understate that it will demand resources from everyone for the organisation
- Do not underestimate feelings – they are often much stronger than rationales

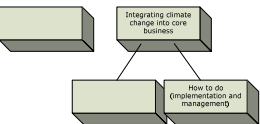
The vision part is relatively
easy for climate!



4. Communicate the Vision

- What is more important? The vision or the communication fo the vision?
- Benefits and necessities need to be communicated clearly and again and again
- People resist change, even though they are unsatisfied with the status quo
- Tell it, show it, live it!
- Keep it simple

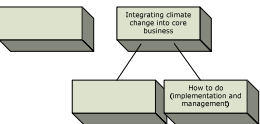
Complexity is high!
Get the messages across!



5. Empower Others to Act on the Vision

- Sense of urgency create, coalition formed, a clear vision developed and communicated – now, time has come to take action
- Many people must take action and need to be empowered to do so
- Employees, managers and executives resisting change often initiate obstacles
- Deal with obstacles, align structures, update skills, change roles

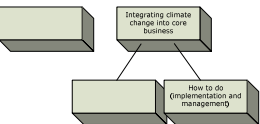
Same as any other place
- still difficult...



6. Plan for and Create Short-Term Wins

- The vision will not fuel the change forever – and people need to be reminded of sense of urgency
- Plan for visible wins, generated by the change effort
- Acknowledge the efforts (and perhaps sacrifices done by all levels of organisation)
- Recognize and reward employees involved in the improvements.

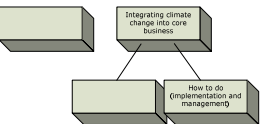
Also celebrate cross-functional cooperation wins!



7. Consolidate Improvements and Produce Still More Change

- Finish the job!
- The short-term wins are not the final goal, and declaring the fight over before the changes has been consolidated and institutionalised will not make it a long-term viable change process
- Continue with more changes until vision is reality
- Consolidation, revitalisation, discarding

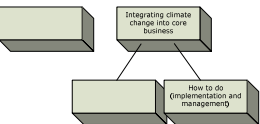
Climate is a good story to tell
and can fuel new success!



8. Institutionalise New Approaches

- Make it stick
- The change becomes the culture – but only when it is proven to improve performance
- The institutionalisation has to be founded in descriptions of connections between the new behaviours and organizational success.
- Tell the stories

The way we do things makes the world a better place!



Positive proof of global warming.



**18th
Century**

1900

1950

1970

1980

1990

2006

Thank you for your attention
Presentation available at www.1stmile.dk.