

# Foundations

**Better Decisions, Real Value toolkit**

**Version 1.1**

[www.forumforthefuture.org/projects/better-decisions-real-value](http://www.forumforthefuture.org/projects/better-decisions-real-value)



This is Version 1.1 of the Better Decisions Real Value toolkit. We hope you find it useful.

We'd really like your feedback to help us improve it.

- What do you like about the toolkit?
- What don't you like about the toolkit?
- How could we improve it?
- What would you need to help you use the entire toolkit in your organisations?

Please send your thoughts to [bdrv@forumforthefuture.org](mailto:bdrv@forumforthefuture.org)

For more information on the project and to download the latest versions of the toolkit visit:

<http://www.forumforthefuture.org/projects/better-decisions-real-value>

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# **introducing the Better Decisions, Real Value toolkit**

## why do businesses need to make better decisions for real value?

Climate change, resource shortages, a rapidly growing global population – sustainability challenges like these are transforming the world in which companies do business.

Successful companies need to understand these trends, which in many cases are already affecting short-term performance. They need to recognise the threats and opportunities ahead and understand how they can safeguard long-term profitability by becoming more sustainable.

The Better Decisions, Real Value toolkit is designed to help sustainability professionals understand the many business cases for sustainability and win support to put them into practice. We want to help companies make better decisions which create real value.

# winning support for sustainability

Sustainability professionals need to implement a range of activities but they often find it hard to make the business case.

The complexity and uncertainty of sustainability challenges and the way they will affect each company create major barriers:

- Numbers are much “softer” than decision-makers are used to
- Companies get stuck in a vicious cycle: they want a business case before giving permission for action, but the business case can only be generated from the experience of going ahead
- Financial tools are ill-equipped to deal with the uncertainties of sustainability

The Better Decisions Real Value toolkit provides a set of tools designed to help companies overcome these barriers and build successful business cases for sustainability projects.

# the Better Decisions, Real Value toolkit

## version 1.1



Foundations

**Foundations.** This sets out the general business case for sustainability, equipping you with the arguments you need to start making your case.



Entry  
Points

**Entry points.** This is a step-by-step guide to winning permission to go ahead with a sustainability project.



Pathways

**Pathways.** This summarises the different ways sustainability can create financial value and gives guidance on how to collect evidence to make your business case.



Ready  
reckoner

**Ready Reckoner.** This helps you assess the most important pathways for your project and calculate numbers good enough to get the go-ahead.

Download from: [www.forumforthefuture.org/projects/better-decisions-real-value](http://www.forumforthefuture.org/projects/better-decisions-real-value)

# overview of 'Foundations'

# introduction to Foundations guide

This guide provides Forum's latest thinking on the business case for sustainability, and so equips you with the arguments to start finding your business case.

## Understanding the 'leadership' business case

- This section uses the familiar notion of the 'win-win' to describe the difference between the 'standard' business case and the 'leadership' business case

## The business case at different levels of the company

- This section explains how different levels (product, function, business unit, corporate) of a company have different business cases

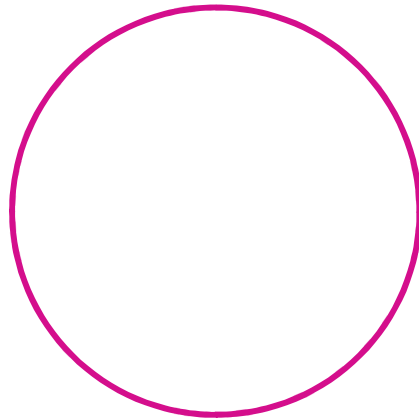
## Nine lessons on trying to find the business case

- This section uses the 'win-win' diagram to provide nine lessons from trying to find the business case

# **understanding the 'leadership' business case**

# today's win-wins

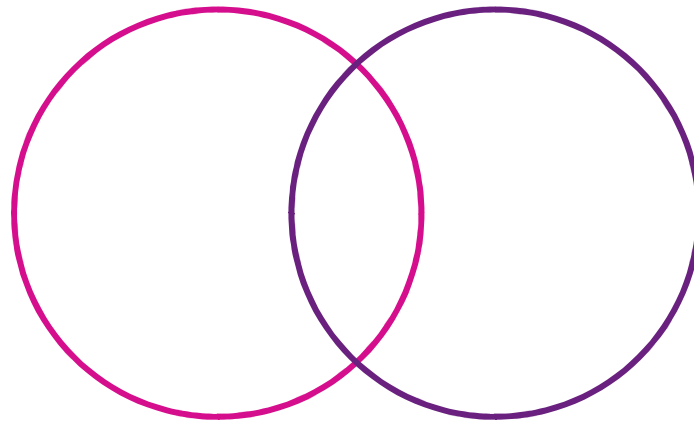
Activities with a business case:  
returns that satisfy shareholders



# today's win-wins

Activities with a business case:  
returns that satisfy shareholders

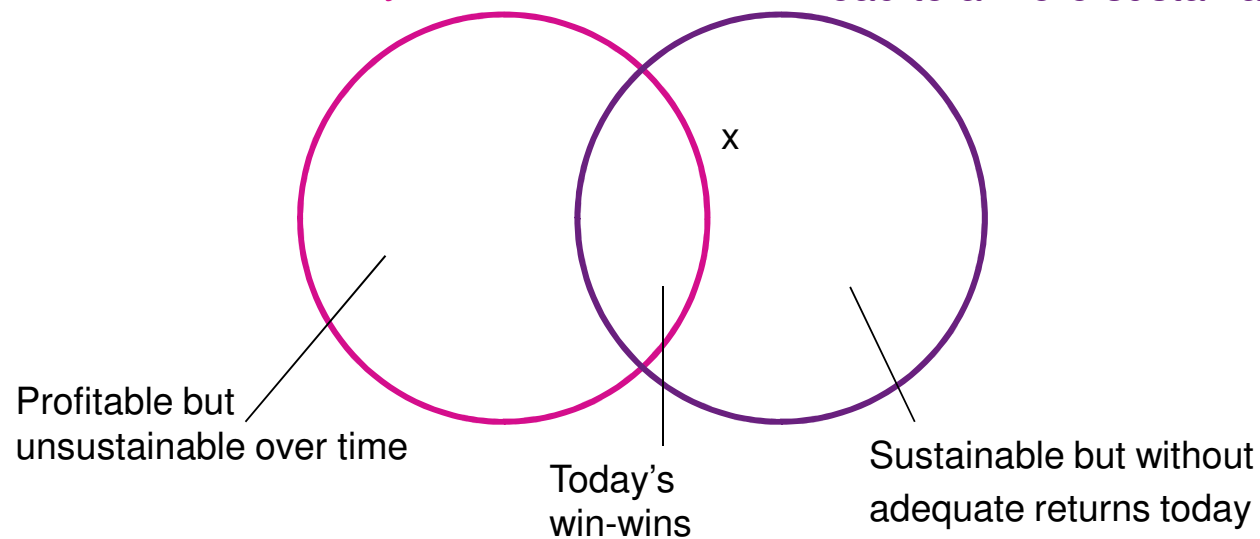
Activities with a societal case:  
lead to a more sustainable future



# today's win-wins

Activities with a business case:  
returns that satisfy shareholders

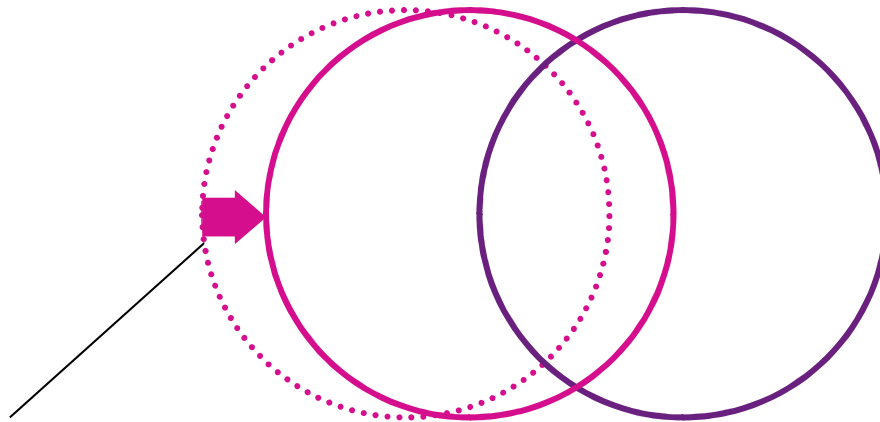
Activities with a societal case:  
lead to a more sustainable future



# tomorrow's win-wins

Activities with a business case:  
returns that satisfy shareholders

Activities with a societal case:  
lead to a more sustainable future



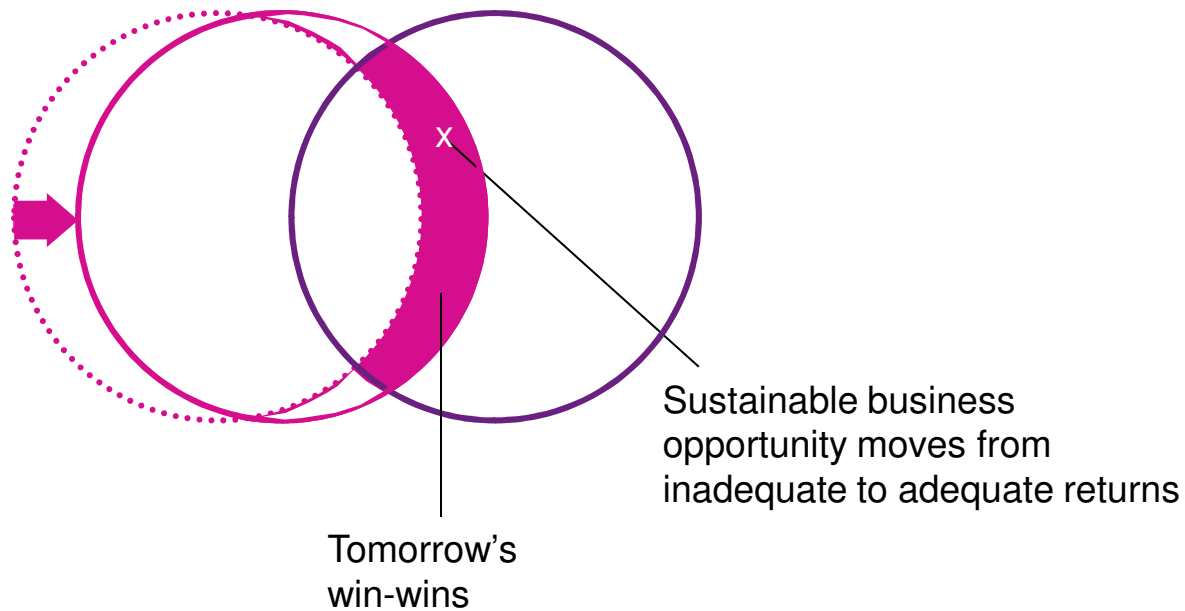
Moves due to sustainability issues including:

- regulation (e.g. EU Emissions Trading Scheme)
  - customer behaviour (e.g. the rise of fair trade)
  - innovation (e.g. the falling cost of solar panels)
  - competition (e.g. UK retailers positioning their brands on sustainability)
- and more.

# tomorrow's win-wins

Activities with a business case:  
returns that satisfy shareholders

Activities with a societal case:  
lead to a more sustainable future



# linking long-term value creation with sustainability

1. Long-term value creation requires:
  - satisfying owners (i.e. shareholders) in the short-term
  - creating the foundations for future success.
2. Sustainability challenges are already driving the business context in which companies will have to create value.
  - In many cases, sustainability challenges are already affecting short-term financial performance.

**So sustainability is inextricably linked with long-term value creation.**

# how companies can respond

## 1. 'Standard' business case

“Capture known win-wins”

- The most common response
- Tends to be about improving the current business through, for instance, efficiency gains or innovating current product ranges
- There are risks:
  - acting too late compared to the company's peers
  - commitment too small to gain significant competitive advantage

# how companies can respond

## 2. 'Leadership' business case

“Shape a sustainable context for the business so you can create and capture more win-wins than currently exist”

- Companies can create a sustainable context by aligning the drivers of business success with the needs of society by
  - improving the current business (as in standard case above) **and**
  - making long-term commitments that change customer demand, investor expectation, the innovation pipeline and supplier capabilities, the regulation they face and so on.
- There are risks, including: moving too far before customers, investors, suppliers and others are ready

“Do the profitable thing now, and do it as responsibly as possible. At the same time, press hard, on a moral basis, for making more of those responsible things more profitable in the future.”

Jorgen Randers,  
Just Values BT/Forum for the Future, 2003

# **the business case at different levels of the company**

# the business case is different for different levels of a company

Where you sit in the business makes a big difference to the sort of business case you are interested in:

<b>corporate CEO / FD</b>	– how will it make the whole group more successful?
<b>business unit MD / FD</b>	– how will it make my company more successful?
<b>function chief</b>	– how will it help me do my job for the company?
<b>product manager</b>	– how will it help my product?

- ⇒ 1. tailor your business case arguments to suit the different levels
- ⇒ 2. be aware that the leadership case can only be articulated at the business unit level and above, because only they explicitly consider the foundations for future success

## what this means for the business case: -corporate level

**Level** - The holding or parent company of a group

**Key question** - What business should we be in?

### The business case for sustainability

- **at a minimum**, we should only be in businesses which have the prospect of enduring value creation in a context driven by sustainability issues.
- **leadership case**: we should drive financial value by creating a sustainable context for the business.

## what this means for the business case: -business unit level

**Level** - The distinct businesses within a group (can be: geographies; service lines; products...)

**Key question** - How can we gain competitive advantage?

### The business case for sustainability

We can gain competitive advantage now and into the future by:

- **grasping opportunities** through innovation
- **mitigating risks** through early and considered action
- attracting, retaining and motivating the **right people**
- building **intangible management qualities** like learning and dealing with uncertainty
- retaining our **licence to operate** (legal and civil permission to profit)

All of these can be pursued from a 'standard' or 'leadership' perspective

## what this means for the business case: -function level

**Level** - The functions – like marketing, operations, HR – that serve business unit(s)

**Key question** - How can we enable the business to succeed?

### The business case for sustainability

Each function can play its part enabling sustainability for success, including:

- **HR**: attracting, retaining and motivating the right people
- **Operations**: reducing costs through efficiencies and reducing risks
- **Marketing and sales**: building an authentic and appropriate brand
- **Supply chain management**: reducing risks and costs, and increasing quality
- **Finance**: supporting decision-making for a successful, sustainable future

## what this means for the business case: -product / service level

**Level** - The individual products or services (including their brands)

**Key question** - How can this product or service be more successful?

### The business case for sustainability

Some products or services can become more successful through a combination of:

- **increasing sales** through differentiation or enhanced reputation
- **reducing costs** in the production process

# what this means for the business case:

## >summary

Level	Key Question	Business case
<b>Corporate</b>	What businesses should we be in?	<p><b>At a minimum</b>, we should only be in businesses which have the prospect of enduring value creation in a context driven by sustainability issues.</p> <p><b>Leadership case</b>: we should drive financial value by creating a sustainable context for the business.</p>
<b>Business unit</b>	How can we gain competitive advantage?	<p><b>We can gain competitive advantage now and into the future by:</b></p> <ul style="list-style-type: none"> <li>– <b>grasping opportunities</b> through innovation</li> <li>– <b>mitigating risks</b> through early and considered action</li> <li>– attracting, retaining and motivating the <b>right people</b></li> <li>– building <b>intangible management qualities</b> like learning and dealing with uncertainty</li> <li>– retaining our <b>licence to operate</b> in the long term</li> </ul>
<b>Function, such as marketing or operations</b>	How can we enable the business to succeed?	<p>Each function can play its part enabling sustainability for success, including:</p> <ul style="list-style-type: none"> <li>–<b>HR</b>: attracting, retaining and motivating the right people</li> <li>–<b>Operations</b>: reducing costs through efficiencies and reducing risks</li> <li>–<b>Marketing and sales</b>: building an authentic and appropriate brand</li> <li>–<b>Supply chain management</b>: reducing risks and costs, and increasing quality</li> <li>–<b>Finance</b>: supporting decision-making for a successful, sustainable future</li> </ul>
<b>Product / service line or brand</b>	How can this product be more successful?	<p>Some products or services can become more successful through a combination of:</p> <ul style="list-style-type: none"> <li>–<b>increasing sales</b> through differentiation or enhanced reputation</li> <li>–<b>reducing costs</b> in the production process</li> </ul>

# **nine lessons on finding the business case**

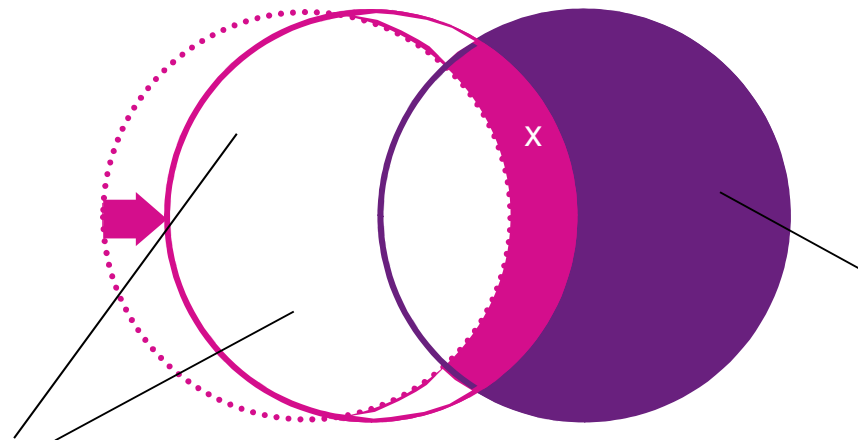
# nine lessons on finding the business case

<b>1. the societal case does not equal the business case, yet</b>	⇒ choose the win-wins you want to build your business case around carefully
<b>2. there is no one size fits all business case</b>	⇒ only look for your company's business case
<b>3. tomorrow's win-wins are uncertain</b>	⇒ committing to a strategy in the face of uncertainty requires leadership but offers competitive advantage
<b>4. the business case was smaller in the past</b>	⇒ don't be put off by a weak business case in the past; the case going forward might be stronger
<b>5. inertia and 'sunk costs' prevent action even with a business case</b>	⇒ a business case by itself is not always enough; you will need to influence key decision-makers
<b>6. 'opportunity costs' prevent action even with a business case</b>	⇒ examine the assumptions that make less sustainable opportunities seem more attractive for the time being
<b>7. improving current business is more certain</b>	⇒ here's where to look for known win-wins with quick returns that build credibility
<b>8. capturing new opportunities is more uncertain but probably larger over time</b>	⇒ here's where to look for the foundations of future success and long-term value creation
<b>9. the more you look, the more you find</b>	⇒ build in the chance to learn from experience

# 1. the societal case does not equal the business case, yet

Activities with a business case:  
returns that satisfy shareholders

Activities with a societal case:  
lead to a more sustainable future



Many ways of adding to a sustainable future do not have a business case yet, or in the near-future

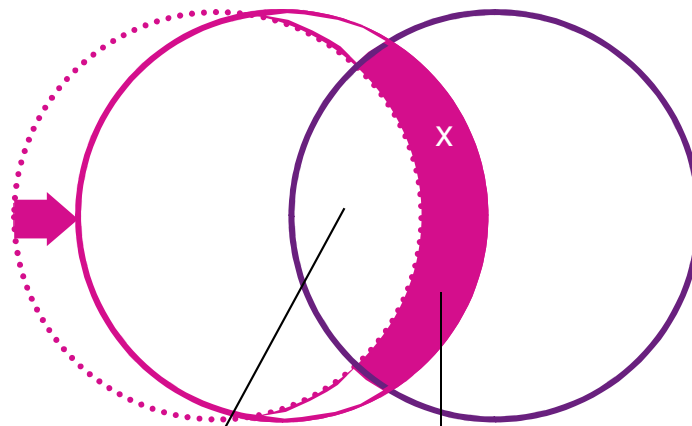
Many ways of making money still detract from a sustainable future

⇒ choose the win-wins you want to build your business case around carefully

## 2. there is no 'one size fits all' business case

Activities with a business case:  
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Activities with a societal case:  
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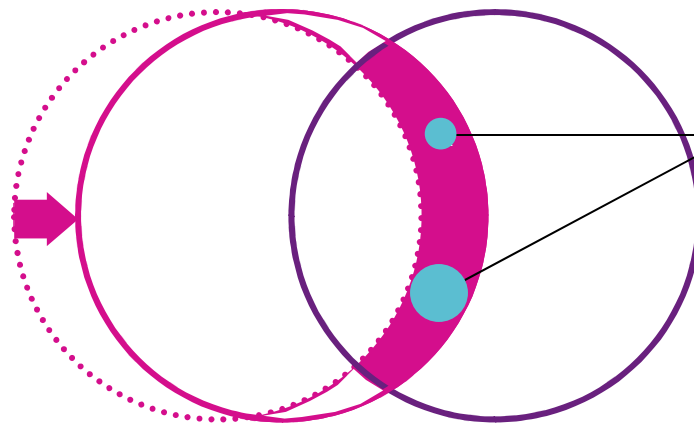
Today and tomorrow's win-wins  
vary by company, sector, location...

⇒ **only look for your company's business case**

### 3. tomorrow's win-wins are uncertain

Activities with a business case:  
returns that satisfy shareholders

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Tomorrow's win-wins are difficult to predict:

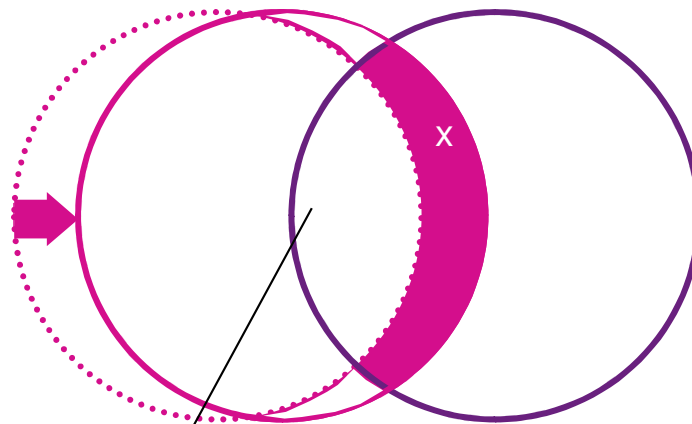
- which will be largest?
- what order will they appear in?
- which opportunities is the company best placed to capture?

**⇒ committing to a strategy in the face of uncertainty requires leadership but offers competitive advantage**

## 4. the business case was smaller in the past

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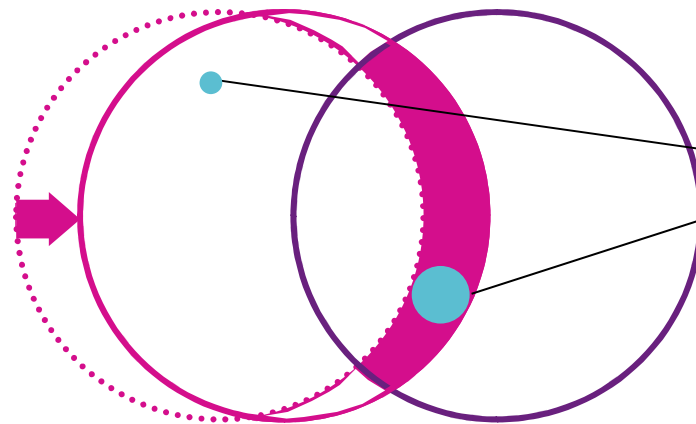
Yesterday's win-wins were smaller  
than those available today

⇒ don't be put off by a weak business case in the past;  
the case going forward could well be stronger

## 5. inertia and 'sunk costs' can prevent action even with a business case

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Activities with a societal case:  
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Allocating resources from an existing business to the sustainability opportunity requires:

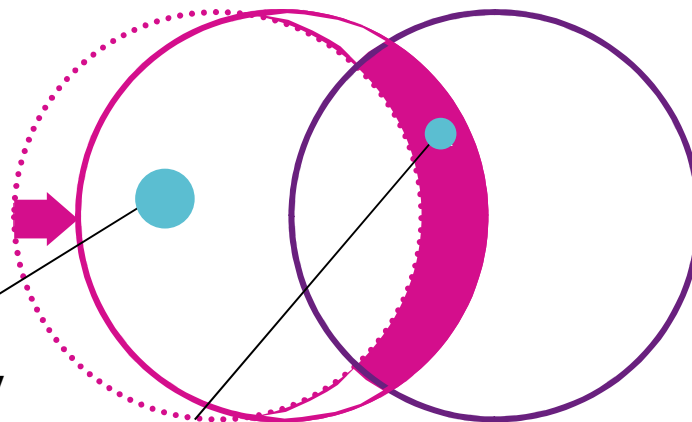
- overcoming organisational inertia
- realising that 'sunk costs' might hide a business with a limited future

⇒ a business case by itself is not always enough; you will need to influence key decision-makers

## 6. 'opportunity costs' can prevent action even with a business case

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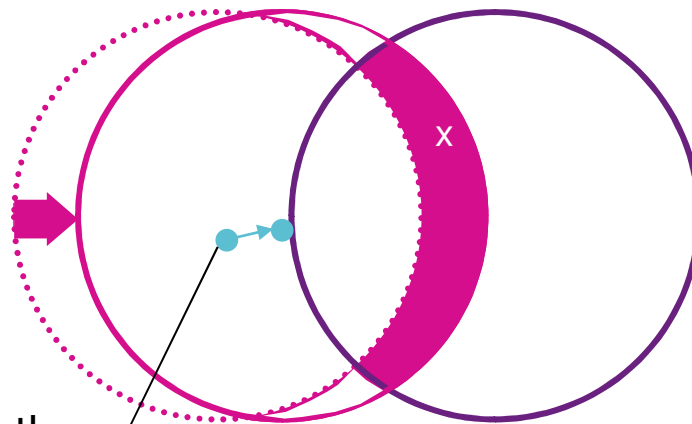
Another opportunity may earn more than the sustainable one, at least for the time being. Making the sustainable choice may impose an 'opportunity cost'.

⇒ **examine the assumptions that make less sustainable opportunities seem more attractive for the time being**

## 7. improving current business is more certain

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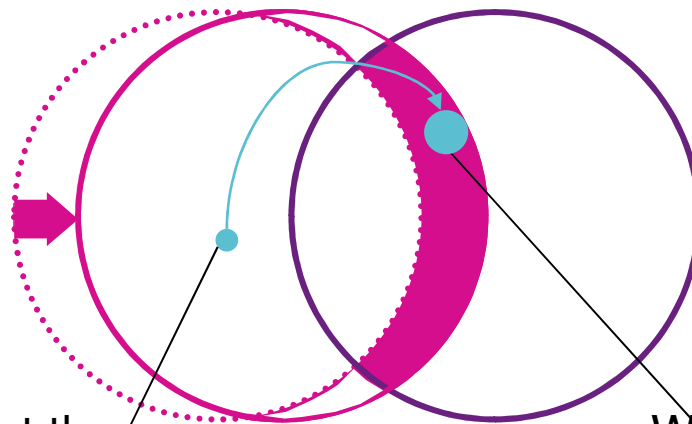
It is easier to predict the financial effect of using a sustainability lens to improve or protect the current business

⇒ here's where to look for known win-wins with quick returns that build credibility

## 8. new opportunities are more uncertain but offer greater rewards over time

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returns that satisfy shareholders

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It is harder to predict the financial effect of trying for a new opportunity.

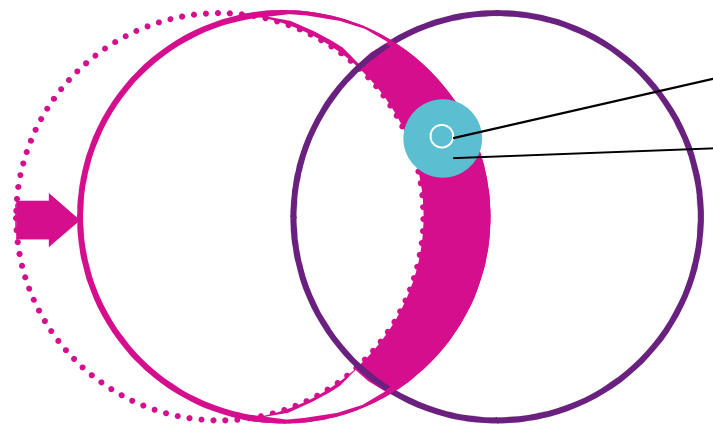
With strong growth prospects, the financial returns will eventually be better than improving current business

⇒ here's where to look for the foundations of future success and long-term value creation

## 9. the more you look, the more you find

Activities with a business case:  
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1. original estimate

2. actual result

As companies have more experience, they find a larger than expected business case

- estimating costs is easier than estimating benefits at the start
- over time the company learns how to improve financial returns

⇒ **build in the chance to learn from experience**

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