

DRIVERS FOR CHANGE & THE BUSINESS CASE FOR CORPORATE SUSTAINABILITY IN THE BUILDING DESIGN PROFESSION

Introduction

Residential and commercial buildings consume 30% of all energy requirements in Australia. Of this energy only 6% originates from renewable sources, with 76% being provided from oil and coal, both major contributors to carbon emissions and climate change. Buildings thereby provide a significant impact upon the sustainability of the global environment.

Design consultants provide building and infrastructure solutions for the corporate and government sector, institutional clients, buildings developers and residential clients. They are able to influence their clients and other stakeholders and so have the opportunity to contribute to a sustainable built environment and sustainable organisations through their own corporate sustainability strategies.

Through an examination of the drivers and impediments to change, this report will demonstrate there is a powerful business case for the development of corporate sustainability strategies in design consultant organisations in the building industry, as an alternative to a business as usual approach that does not consider social and environmental impacts. It will show that in most cases organisations *cannot afford not to* implement some level of corporate sustainability practices and for those whom have already implemented some practices, there may be considerable market benefits in the expansion of these strategies.

External drivers include those commitments made by professional industry organisations on behalf of their members where for example the Royal Australian Institute of Architects require all members to provide sustainable design and business practice commensurate with international charters.

This report will also review the benefits of adopting corporate sustainability strategies including greater competitiveness, sustainable shareholder value, new market opportunities and the reduction of risks such as the costs of inaction and reduced employee attractiveness. Other benefits will be shown to include the opportunity for improved design outcomes, remaining ahead of clients and providing leadership in the development of sustainable design in the construction industry.

Background

Context for report

This report applies to all design consultants including architects who design building envelopes and interior fit-outs, structural engineers who design building structures, services engineers who design mechanical, electrical and hydraulic services and landscape architects who provide solutions for outdoor spaces.

The national political context for this report is the recent release of the Garnaut Report (Garnaut 2008) and the subsequent Commonwealth Green Paper (Commonwealth of Australia 2008). This document is anticipated to be the pre-cursor to new commonwealth legislation that will require the largest 1000 corporations in Australia to report their carbon usage. This is likely to include key construction companies such as Stockland, Bovis Lend Lease and Leightons Holdings, whom engage external design consultants to complete the majority of their building and infrastructure design.

Historically corporate sustainability has emerged from external pressures upon large public companies. Events such as the proposed sinking of the Brent Spar oil platform by Dutch Shell in 1997 resulted in demands from the public for greater accountability and transparency. Other pressures included calls for sustainable development from the Brundlandt Report in 1987 and the Kyoto Protocol Climate Conference in 1997.

Traditionally design consultants in Australia are engaged by private companies and partnerships and have not been directly subjected to these same pressures. Until recently the focus has been upon sustainable design practices only, a sub-set of corporate sustainability strategies, resulting from a

traditional focus by architects and landscape designers upon climate sensitive design in tropical regions of Australia.

Scope of report

This report considers the drivers and business case for the application of corporate sustainability to design consultancy organisations' internal practices, external projects and other applications such as academic research and third party project reviews. It does not consider the business case for the broader construction industry although there are key inter-relationships between these sectors as will be demonstrated.

The report forms the background for a proposed discussion paper submission to the board of directors of Architectus, an international design consultancy providing architectural, interior design and planning services.

A definition of corporate sustainability

Corporate sustainability can be defined "as meeting the needs of a firms direct and indirect stakeholders (such as shareholders, indirect stakeholders, clients, pressure groups, communities etc), without compromising its ability to meet the needs of future stakeholders as well" (Dyllick 2002 p 131).

Analysis

Corporation and government clients are changing

Corporations and government form the majority of clients to design consultants. Changes to their business operations are becoming a major driver for consultant change.

The principal external pressure faced by clients is their need to manage stakeholder expectations and so maintain company valuations and share price on behalf of their shareholders. Climate change, reputational loss and product litigation represent major business risks to large business clients (Dunphy 2007).

Corporations have incentives to adopt sustainability strategies including the implementation of building energy rating tools to their building stock in order to avoid decreased asset values and to avoid prescriptive legislation that may otherwise be introduced (Hawken 1993).

Drivers of change in the building design consultancy sector

- ❖ *Global social responsibility*
Disparities in global wealth are demonstrated by there being 1.2 billion people in poverty (Dunphy 2007) with the majority of wealth owned by corporations.
- ❖ *Social responsibility to society*
Reynolds argues that the individual, the corporation and society are inseparable. The corporation is embedded in society to whom it provides services and holds a "license to operate" (Reynolds 2007).
- ❖ *Emissions trading scheme*
Recent statements by Investa Property and Commonwealth Bank state a view that an emissions trading scheme is a more significant driver of corporate sustainability than corporate reporting (AGO 2007).
- ❖ *Client corporate sustainability requirements – supply chain changes*
Large corporate clients and government will increasingly require their consultants to perform to minimum sustainability criteria, corresponding to their own legislative requirements, market expectations and need for corporate reporting (McIntosh 2003).
- ❖ *Business opportunities & competition, strengthen brand preference*
Sustainability provides opportunity for service differentiation and improved competitiveness through improved knowledge systems, reputation and credibility.

- ❖ *Legislative change – enhancements to BCA Section J and Australian Standards*
Current commonwealth initiatives towards an emission-trading scheme will lead towards further changes to legislation (Commonwealth of Australia 2008). This may lead to additional changes to the Building Code of Australia.
- ❖ *Increasing uptake of voluntary building rating tools*
Corporations and governments are increasingly seeking properties with improved energy performance and so adopting voluntary rating tools. This will provide increasing demands for architectural and engineering services in sustainability.
- ❖ *Professional industry groups*
Groups including the Royal Australian Institute of Architects commit their members to national sustainability policies and principles (RAIA 2001). The Planning Institute of Australia have published a position paper on climate change and its impacts upon professionals [Online] 2008.
- ❖ *Decreased operating costs*
Reduction of in-house energy usage, travel and paper can reduce operating costs. Improvements in sustainability design tools, dedicated resourcing and knowledge management can result in more efficient project delivery and reduced costs (Robert 1997).
- ❖ *International best practice sustainable design*
International consultants driven by more stringent legislation and market pressures, provide examples and experience of best practice in sustainable design and management practices. For example the alliance between the Australian practice Architectus and Eindhoven Architects from Germany is delivering the first 6 Green Star rated commercial tower in Australia.
- ❖ *Director fiduciary duty*
The Corporations Act 2001 requires directors to exercise a fiduciary duty to current and *future* shareholders of the company. This duty to future shareholders may require current directors to ensure that business practices today are sustainable and preserve share value (Baxt 2005).

Resistors of change in the building design consultancy sector

- ❖ *Client constraints – market position and additional costs*
A clients project brief and budget availability will often constrain the capacity of a consultant to implement sustainability measures to projects and thereby to the consultant organisation.
- ❖ *Lack of sustainability measures*
A lack of baselines and meaningful standards to differentiate the scope and quality of corporate sustainability strategies offered by organisations results in little real differentiation, thereby reducing the value of implementing such strategies.
- ❖ *Minimum compliance legislation*
Section J of the BCA requires minimum compliance approximately equivalent to a 2.5 star building. Performance beyond this is voluntary (Australian Government 2007).
- ❖ *Constraints of voluntary building rating tools*
Rating schemes are voluntary and tend to be adopted by the higher end of the market only, thus providing the remaining market with little incentive for change.
- ❖ *Lack of training of professionals in use of rating tools*
Low levels of professionalization in the use of design and ratings tools are an impediment to the provision of sustainability services (University of Sydney 2007).
- ❖ *Difficulty in costing sustainability strategy benefits*
The financial benefits of building and organisation sustainability are often difficult to measure and long term. Building rating tools such as Green Star do not provide for any certification of actual performance and costing benefits.

❖ *Fiduciary duty*

Company directors owe a fiduciary duty to the company only and not to society or employees (Baxt 2005).

Possible framework for a business case

The UK Office of Government Commerce business case structure (5 point concise version) has been adopted for the development of an outline business case for the proposed adoption of corporate sustainability strategies at Architectus, an inter-national design consultancy based in Australia (UKOGC 2008). The methodology used was discussion with directors and senior staff and examination of policies published on their web site.

1 Strategic fit: the strategic case

Implementing a corporate sustainability strategy is consistent with the existing values and objectives of Architectus as stated on their web site. Strategies would also fulfill obligations made by the RAIA Environment Policy on behalf of members (RAIA 2004).

Corporate sustainability strategies would be a further development of existing environmentally sustainable design (ESD) services and in house skills. They could be accommodated into existing IT and CAD strategies. They could provide additional business opportunities and income, enhance reputation and minimize the risk of losing business to competitors and to clients with changing supply chain requirements.

Establishing support by the directors would require additional consultation however their emphasis on design quality and a track record for projects and awards in sustainable architecture and planning would be expected to support a strategic fit.

2 Options appraisal: economic case for implementing corporate sustainability strategies

The key benefits identified from the analysis of drivers can be summarized as:

- ❖ Improved income opportunities through development of new business
- ❖ Improved competitiveness and reputation
- ❖ Greater staff satisfaction and reduced turnover
- ❖ Reduced in house costs resulting from more efficient use of energy and others resources
- ❖ Cost savings
- ❖ Reduced risks and maintaining of company share value for future directors and employees

The key risks of not implementing strategies can be summarized as:

- ❖ Loss of competitiveness
- ❖ Loss of income due to non-compliance with supply chain requirements of clients and regulations.
- ❖ Reduced staff retention
- ❖ In-efficiencies resulting from poor knowledge management and procedures
- ❖ Loss of future share value and related succession planning.

A complete business case would be developed through an appraisal of these benefits and risks against the following options:

- (i) Business as usual (BAU) or no change
- (ii) A minor change approach – increased staff training/tools accreditation, internal energy reductions and policies
- (iii) An intermediate change approach - increased staff training/tools accreditation, new business unit and director of sustainability, knowledge management system, environmental management system, measurement of internal and project indicators.
- (iv) A major change approach - increased staff training/tools accreditation, new business unit and director of sustainability, knowledge management system, environmental management system, client and academic alliances, measurement and publishing of internal and project indicators.

3 Commercial aspects: the financial case

The proposal could be procured internally through the resource commitment of one director, the quality assurance manager and one senior architect for a period of 12 months. External consultants would be required for the implementation and auditing of an EMS. The use of specialist staff trainers would be considered on a monthly basis for a period of 12 months.

The proposal could be considered by all offices of Architectus thus providing the opportunity for consistent policies and client management whilst reducing the costs of implementation per office.

4 Affordability: the financial case

The required expenditure is unknown. An assessment of the affordability and available funding would be required including projected the whole-life cost of the proposal. Opportunities for partial external funding could be sought from the Australian Greenhouse Office whom are offering funding for projects that can be demonstrated to reduce greenhouse emissions.

5 Achievability: the project management case

The key outcomes, milestones and dependencies would be developed together with key roles, skills and experience. Additional specialized staffing may be required during the development and implementation phases to achieve options 3 and 4.

Discussion

A time for reflection?

The many external drivers and the rapid changes in the needs of clients, demonstrate that design consultants need to evaluate their business values and goals and the case for integrating new or additional sustainability measures in their organisations.

Not all professionals will decide to pursue sustainability beyond the level of compliance and minimum standards. Nevertheless the current political context and high level of industry competition, combined with the "traditional" interests of designers in subsets of sustainability such as passive solar design and natural ventilation, suggest that now is a good time to reflect on their values, goals and systems. This is already happening in many practices such as Hassell Architects whom have engaged EcoSteps to review their sustainability strategies and market opportunities [Online] 2008.

Have we been here before?

Corporate sustainability and associated environmental management systems share many characteristics of the introduction of quality assurance in the 1990's. Experience showed that quality assurance did not necessarily lead to an improvement of professional services, focusing instead on providing auditable practices. This same criticism could be made of corporate sustainability where strategies and reporting may not lead to tangible improvements of social and environmental performance (Atkinson 2007 p.376).

Nevertheless the business case for implementing quality assurance at that time may not have envisaged that some businesses who decided not to adopt ISO 9000 were no longer able to provide services to the government or some private sector clients as a result.

But we are already doing this!!

Many organisations do incorporate sustainability practices into their businesses. This includes internal responses such as voluntary reductions in energy and paper usage and increased use of video-conferencing. However organisations that consider adopting a more global view and responding to new drivers may see major opportunities for new and ethical business. Organisations such as Gensler in the USA provide specialised sustainability consultancy services, typically only provided by external consultants in Australia [Online] 2008.

Organisation leaders need to consider if their knowledge, tools and case studies are accessible to all staff or only reside with a small number of specialists or an external consultant. Does this ensure a sustainable organisation, where the departure of a few key staff may lead to the loss of knowledge, reputation and income? Have they researched possible changes to their clients supply chain needs?

Is the organisation considered an industry leader and if so can their clients measure their sustainability strategies and outcomes?

The Sustainable Organisation – a business case?

A business that preserves social, knowledge and financial capital for future shareholders, stakeholders and staff whilst providing broader societal and environmental benefits could be considered a sustainable organisation. There is some evidence that corporations whom engage in corporate responsibility may better assess medium and long term risks and opportunities (PJC 2006) and that corporations with a clear mission and business case may be longer lasting (Collins 1997).

Conclusion

Design consultants are increasingly subject to external pressures to comply with changing legislation, market expectations and client supply chain requirements as well as to improve skills and knowledge management systems in order to be competitive and so maintain profit and market position. Corporate strategies that recognise these drivers and overcome impediments such as a lack of professionalisation of the industry can lead to organisations with the superior skills, credibility and procedures necessary for sustainable economic futures and succession planning.

Corporations and government form the majority of clients to design consultants. Changes to their business operations are becoming a major driver for consultant change. An appreciation of the key pressures upon clients can provide consultants with the strategic opportunity and intelligence they require to change their own organisations.

The drivers for the development of new or enhanced sustainability strategies present a powerful case for change in the organisational values and practices of design consultants. They indicate that whilst some drivers such as individual skills in environmentally sustainable design are internal, the majority of drivers are increasingly external and so require new responses that are both measurable and transparent.

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