

## The business case for leadership in sustainability: Alan Young

X Energy, 24 October 2017

I think my job this morning – is simply to set out the business case for sustainability. It is a business case founded on my 16 years' experience of working for SSE, the UK-listed energy provider.

The first thing I always say when describing SSE is that we provide a product that people need – not just one that they want. The nature of energy means it is a lifeline service. And it is one that was previously provided by the public sector. In other words, we only exist in the way we do because of an Act of Parliament. To me – that means we must have a particular respect for the product we sell and the needs of our customers.

Or to put it another way: we need to earn our right to make a profit.

So, with that context of my particular company, I believe the business case for sustainability expresses itself in five key ways. It is based on the requirements **of** investors, customers and employees, and on the requirements **for** resilience and growth.

### **[1. Investors]**

First: our investors insist on a sustainable approach.

There is little doubt, that mainstream equity investors are increasingly coming to the realisation that poor governance of what can be called 'externalities' can impact on a company's future earnings. These investors – coming at us from all angles – are using qualitative and quantitative data to assess the sustainability performance of their investments.

I think this is a very welcome development - and it seems to me – these requirements are only going to get greater in the months and years ahead.

So, even the most unengaged Board or management team are going to find it difficult to avoid the increasing insistence for disclosure and data on everything from human rights to environmental impact.

## **[2. Customers]**

Secondly: our customers demand it.

Now, there is something here that is a bit more complicated. I do not believe there is yet compelling evidence that customers reward companies for enhanced sustainability credentials on things like playing fair by tax or treating their employees fairly with the real Living Wage.

There is limited evidence that customers – en masse – vote with their feet towards sustainability credentials you could describe as basic business ethics. What is clear – however – is that these customers will certainly vote with their feet to punish firms that have behaved outrageously and unethically.

The only area where I think there are emerging signs of the more proactive customer case – is with B2B customers. Whatever the reason – it appears to us that business customers concerned about their carbon footprint – also seem to be concerned about their social performance too.

I think this is interesting: and our sustainability team is spending as much time completing detailed ESG questionnaires from business customers as they are completing questionnaires from potential business energy customers.

### **[3. Employees]**

The third business case for sustainability: is that our employees expect it.

All of us who work for SSE are simply products of the society we exist in. So when there is widespread resentment about the apparent tax practices of a few, employees share those views too. There's little pride in working for a company with a tarnished or toxic reputation.

But there is evidence – I'm sure you've seen it first hand – that the new generations joining the workforce have high standards when it comes to ethics and corporate responsibility.

I'm not saying that us baby boomers and generation X-ers are an ethical wasteland: of course that's not the case. But our new recruits definitely demand that their employer is progressive and enlightened. That means – if you want to attract and retain the brightest and best – you need to be able to demonstrate your values and what you stand for.

### **[4. Resilience]**

My fourth business case related to the resilience of the company.

Clearly this point is related to being resilient to the demands and expectations of investors, employees and customers. But my point goes further than that too.

Resilience is the consequence of managing externalities. Or put it another way, bad things are less likely to happen. Or they will be less bad if they do.

Companies with a continuously open window to the outside world build a management team and employee base that sees the bigger picture and understands the role of their company within that picture.

#### **[5. Long-term sustainable Growth]**

Finally – and most importantly of all - our long term growth depends upon it.

Rather than the business case for sustainability being built simply on the risk management case; a truly sustainable company will be one who's future growth depends on it.

Take SSE's case. Ten years ago we were one of the biggest emitters of carbon dioxide in Great Britain. Understanding fully the imperative to decarbonise GB's electricity system, we have undergone a ten-year transformation. Shifting our electricity generation portfolio from one dominated by coal and gas to one dominated by renewables and gas. And – at the same time we've been building an electricity transmission network in the north of Scotland to increase the capacity of onshore wind connected to the grid, and therefore providing low carbon electricity to consumers in the south.

It has been the response to the imperative to mitigate climate change that has provided SSE's economic growth in the past ten years.

#### **[Conclusion and the importance of transparency]**

So the business case for sustainability is exposed in 5 ways: through investors, employees, customers – company resilience and – most of all – in the potential for long term growth.

I personally believe that an absence of a business case for sustainability will mean little progress will be made on some of the most important and intractable challenges facing our society and natural environment.

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But – I want to end on one final reflection from SSE’s experience of the past few years and the importance of enhanced disclosure and transparency.

Sometimes we need to be prepared to expose ourselves to criticism – and push disclosure far further than we ever thought. Of course, this helps the investors – with extensive qualitative and quantitative data to delve in to. But the more important implication of transparency and disclosure is its function in generating further momentum for change.

SSE has been working at this for a number of years. I’m not saying we are the most transparent – and there are many companies that deserve recognition and admiration for their efforts.

What we have tried to be – is an early adopter of new transparency rules – at the same time as publishing more information on the sustainability impacts that are core to our business. From enhanced workforce disclosure and the gender pay gap – to the quantification of impacts from jobs to visual amenity.

I firmly believe companies should not be fearful of disclosure because while being transparent may not be pretty it shows leadership that you are addressing the issue. And, arguably, if you are able to tell the bad things, the good things might be a bit more believable too.