

# Capturing the value of sustainability:

Identifying the links between sustainability and business value

JANUARY 2018

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Report sponsored by:





## Foreword

It is important for the built environment sector to remember who our customers and stakeholders are. Our purpose is ultimately to deliver places and buildings that allow communities to thrive while not having a detrimental impact on the natural environment. More and more, responsible companies are realising how aligning business activities with sustainable practices can bring value. However, it is difficult to properly quantify how this subjective added value contributes to objective financial value. I believe we need to be far more sophisticated about the 'value targets' we're trying to achieve, and make sure that these are factored in at the start of all business activities to aid decision-making.

This report is designed for those organisations that have begun to integrate sustainable business practices into their company ethos, products and services and would benefit from measuring the value that this integration brings. Attempting to do this can seem overwhelming, so this document aims to be an intuitive, simple-to-use tool that sets out an approach to help businesses to understand what drives value and how sustainable activities can help contribute to these value drivers. It is not a "how-to" guide for calculating additional financial value, but an introduction for the built environment industry to begin exploring how investments made in society and the environment delivers value to an individual business.

Argent is intent on being a responsible developer and we are constantly striving to understand how best to capture the positive impact of everything that we do and embed this ethos into all of our business activities in order to demonstrate the value-add that we and our partners bring.

UKGBC will continue to advocate and assist industry in encouraging and capturing the value of sustainability and for it to become a mainstream issue in business leadership. We will encourage our members, and other businesses in the industry, to use the metrics in this report to undertake their own measurements and share their findings.

Collaboration across businesses within the built environment value chain, including customers, clients, suppliers and partners, will progress all aspects of measurement and prove our claim as a major value creating industry with the figures to back it up.

A handwritten signature in black ink, appearing to read 'David Partridge'.

**David Partridge**

Chair of the Board of Trustees at UKGBC  
and Partner at Argent LLP

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# Executive summary

The purpose of this report, and the guidance within it, is to empower businesses and individuals to make the business case for improving environmental and social impact activities and to enable them to measure and demonstrate the value their organisations derive from such practices.

11 value drivers were identified for built environment businesses. A value driver is defined as:

*“Any variable or factor (i.e. a resource, activity or condition) that can be influenced, measured, managed and controlled and, in turn, affects the value of the business by one or more of the following means: reduces risk, increases profitability, leads to future growth in profitability.”*

Sustainable business activities may positively impact one or many of the value drivers and in turn enhance business value. The four highlighted value drivers were identified by UKGBC members to be current high priority drivers of value and are the focus of the report.



## Priority value drivers

### COST SAVING

The construction and property industry has a significant cost base and operates on slim margins, with the industry's ten largest contractors having an average pre-tax profit margin of -0.5% in 2017.

Related sustainability activities include resource efficiency, waste management and energy efficiency.

### TALENT ATTRACTION AND RETENTION

Labour shortages are intensifying within the UK construction and property sectors and the costs of attracting and retaining staff are also highly significant.

Related sustainability activities include defining a business' social purpose, creating an open and inclusive work culture, flexible work schedules, encouraging health and wellbeing programmes and providing showers and cycle storage.

### BRAND AND REPUTATION

Brands are now expected to demonstrate a social purpose and the reputation of a brand is now in the top three most important risks to business and has the second greatest potential impact on growth.

Related sustainability activities include identifying and acting upon environmental and social purpose, and embedding it into internal and external messaging.

### CUSTOMER ATTRACTION AND RETENTION

Product performance and affordability is no longer enough to attract all customers, including investors and occupiers. They are increasingly seeking products and services which positively impact the society and the environment.

Related sustainable business activities include providing energy efficiency products and services, and moving towards a more long-term, collaborative landlord/tenant relationship which is centred around co-creating the positive outcomes and experiences that building users desire.

Performance indicators and methodologies were identified for each of the four value drivers. The key indicators are shown on the next page with a longer list within the full report.

This report has identified some means of measuring the link between sustainable business activities and financial success but the business community would benefit from more companies undertaking such measurements and sharing their findings.

UKGBC asks all its members, and other built environment businesses, to continue their work on improving their environmental and social impact, to identify how this drives value for their organisations, and to share their learnings with us so that together we can make a better built environment.

Improving performance in growth, profitability and sustainability has far greater results than only improving performance on two of the three.

Accenture's Competitive Agility Index, 2017

Over **50%** of SMEs recognise the cost benefits of implementing sustainable business practices and approximately **30%** have seen improved profitability as a result.

Lloyds Bank Commercial Banking, 2017

**18%** higher profitability for Standard & Poor's 500 industry leaders on climate change management compared to low scoring peers and **67%** higher than non-responders.

CDP, 2014.

**89%** of companies indicate that sustainability issues could have a financial impact on their business but **70%** don't believe their risk management practices are adequately addressing those risks.

The World Business Council for Sustainable Development (WBCSD), 2017

## Key value driver metrics

Performance Indicator	Unit	Methodology	Stakeholders
Savings through reduction in energy and water use	% cost differential	Cost reductions (annual or rolling) in energy and water relative to a baseline year. Note that energy price fluctuations will skew calculations and should be factored in	<ul style="list-style-type: none"> <li>Energy managers</li> <li>Facilities management</li> <li>Finance team</li> </ul>
Return on investment (ROI) of energy efficiency investments	%	Actual energy cost savings divided by the sum of opex costs and capex costs specific to energy investments, for a given period (to reflect the fact that capital expenditures do not yield their greatest savings immediately), or aggregated estimated ROI on energy capex projects	<ul style="list-style-type: none"> <li>Energy team</li> <li>Facilities management</li> <li>Finance team</li> </ul>
Proportion of job applications referring to or influenced by the sustainability of the organisation in the recruitment process	%	Ask the candidate during the application what their key attractions to the organisation were. Alternatively, track unprompted key terms e.g. 'sustainable business', 'responsible business'. Note that this should be based on unprompted, open questions	<ul style="list-style-type: none"> <li>HR team</li> <li>Business/department managers</li> </ul>
Proportion of quality candidates influenced by the sustainability of the organisation	%	Filter the applications above by those that progressed to interview	<ul style="list-style-type: none"> <li>HR team</li> <li>Business/department managers</li> </ul>
Employee satisfaction with key sustainability issues	Score	Employee satisfaction survey	<ul style="list-style-type: none"> <li>HR team</li> <li>Business/department managers</li> </ul>
Staff turnover due to poor performance on key sustainability issues	%	Use total number of exit interviews which quote key sustainability issues in turnover calculations	<ul style="list-style-type: none"> <li>HR team</li> <li>Business/department managers</li> </ul>
Brand value attributed to sustainability activities	%	Brand value calculations are complicated so work with a brand consultant to establish the value sustainability delivers to your brand	<ul style="list-style-type: none"> <li>Marketing team</li> </ul>
Stakeholder perception of organisational sustainability (by key sustainability issue)	Score	Stakeholder questionnaires and focus groups	<ul style="list-style-type: none"> <li>Client relationship team</li> <li>HR team</li> <li>Marketing team</li> <li>Business development team</li> </ul>
Impact of sustainability on tender submissions	Score	Calculate the weighting attributed to sustainability in all tender submissions and measure the average score achieved over time in your responses	<ul style="list-style-type: none"> <li>Business development/ client relationship teams</li> </ul>
Proportion of repeat business attributed to various organisational sustainability issues	%	Customer survey	<ul style="list-style-type: none"> <li>Business development/ client relationship teams</li> <li>Finance team</li> </ul>
Number of clients' sustainability targets that have been met due to delivery of service or product	%	Before each project discuss what your customer's sustainability aspirations are. Post project completion, review the proportion of these aspirations that have been met	<ul style="list-style-type: none"> <li>Sustainability team</li> <li>Procurement team</li> <li>Project managers</li> </ul>

NB: Not all performance indicators and metrics will be relevant or appropriate for a business. They should be selected based on the sustainable business activities and relevance of the value driver to the business.



# 1. Introduction



## PURPOSE OF THIS REPORT

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Built environment businesses, as well as those in other industries, are only just starting to demonstrate the link between their sustainability activities and creation of value at the individual business level. It is important to establish this relationship in order to demonstrate to employees, shareholders and customers why it makes commercial sense to be striving to improve environmental and social impact.

Therefore, the purpose of this report is to empower businesses and individuals to make the business case for environmental and social impact activities and to enable them to measure and demonstrate the value their organisations derive from such practices. The report focuses on the creation of value within a business, rather than the measurement of natural capital or social value<sup>[1]</sup>, or the specific link between sustainable built assets and greater financial returns.

The metrics and case studies within this report were gathered via industry research and due to the nascent stage of this topic they are not exhaustive or definitive.

However, we believe they do provide guidance to the increasing number of businesses who are starting the journey of identifying and measuring how their sustainable business activities create added value.

Following the launch of this report, UKGBC would welcome its members and other built environment businesses to embark on further measuring in order to capture the value of sustainability and build a stronger case for sustainable business. We are interested in gathering from our members case studies on implemented metrics and subsequent value calculations.

## WHO THIS REPORT IS FOR

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This report is aimed principally at businesses in the UK whose work involves owning, designing, constructing, managing, maintaining, or creating products for, buildings or infrastructure. However, much of the content is applicable to all types of business.

The information in this report can help:

- Board and C-suite members to link sustainable business activities to value creation
- Finance teams to evaluate the costs and benefits of investments in sustainability
- Corporate affairs teams to provide relevant information to analysts, investors and other relevant stakeholders
- Business development and customer relationship teams to identify the level of importance placed by clients on sustainability and integrate sustainability into product and service features
- Marketing and communications teams to integrate sustainability into the brand narrative and maximise the value that sustainability delivers to the brand and the business' reputation
- HR teams to identify the level of importance placed by new and existing staff on sustainability
- Sustainability teams to demonstrate their role in value creation.

## REPORT STRUCTURE

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*Sustainable business trends* discusses the meaning of sustainability and other related terms and why this report uses the phrase 'sustainable business activities'. The increasing importance of disclosing performance and the growing amount of evidence that links sustainable business activities with financial outperformance are both investigated. Examples are cited from online sources which are both in and out of sector.

*Value driver identification* classifies the eleven most significant value drivers for built environment businesses and how they relate to sustainable business.

*Fundamentals of measurement* provides guidance for ensuring robust and comparable data is recorded.

Chapters on *cost saving, talent attraction and retention, brand and reputation, and customer attraction and satisfaction* investigate these value drivers in greater depth. This includes their links to sustainable business, and the metrics and methodologies for measuring the impact of sustainable business activities.

As with all UKGBC projects, this report is the result of collaboration with our members and the methodology and list of contributors can be found in the appendix, along with a glossary of terms.

## 2. Sustainable business trends



### INTEGRATION OF SOCIAL AND ENVIRONMENTAL IMPACT

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At the business level, the word sustainability is often substituted with the word 'responsible' and the phrases 'corporate responsibility', CSR (corporate social responsibility), ESG (environmental, social and governance), or 'social and environmental impact'. The exact term used will differ between businesses and depend on the audience, but all denote a focus on activities which seek to improve the organisation's impact on people and the planet. Within this report we use the term 'Sustainable business activities'.

The range of activities encompassed by Sustainable business activities is increasingly broad due to changes in the natural environment, demographics, societal expectations, regulations, and the variances in underlying business activities. Many businesses now undertake a materiality assessment in order to identify which environmental and social issues are most relevant for them, thus enabling prioritisation and maximisation of return on investment. This has led to a move away from purely philanthropic and standalone activities to undertaking a broad range of environmental and social focussed activities that have relevance to the business. These often involve contributions in time and skills, working with a range of stakeholders and ultimately changing how the business operates and creates value.

Much has been written on how businesses are moving towards doing *more good* rather than *less bad*. The phrases 'net positive' and 'restorative enterprise' are now appearing within sustainable business circles, with both referring to businesses that put back more than they take and restore social and natural capital whilst making a profit. Such businesses may be termed as using a 'business with impact' approach or being a 'purpose driven' organisation. In this context, 'purpose' may be defined as 'an aspirational reason for being which inspires and provides a call to action for an organisation, its partners and stakeholders, and provides benefit to local and global society'.



## PERFORMANCE DISCLOSURE

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Acknowledging a business' sustainable credentials through a published policy is now a minimum expectation and an absence of sustainability information may be seen as a costly risk<sup>[3]</sup>. Frameworks for progressing non-financial capital measurement, valuation and reporting are coming to the fore with the aims of improving decision-making, using reporting to drive change from within, assisting with integrated performance management and delivering value to stakeholders. These frameworks can help businesses make transparency, reporting and disclosure more meaningful.

As of 2017, the Non-Financial Reporting Directive requires large companies within Europe to report on issues including: environmental protection, treatment of employees, social responsibility, diversity, respect for human rights, anti-corruption and anti-bribery matters<sup>[4]</sup>. Companies are recommended to assess the impact of consolidated reporting.<sup>[5]</sup>

The Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) released their recommendations report in 2017, which provides a framework for climate-related financial disclosures<sup>[6]</sup>. The recommendations are currently voluntary but the TCFD has identified the materials and building sector (including metals and mining, chemicals, capital goods, construction materials and real estate management and development) as having significant exposure to climate risks and the highest likelihood of climate-related financial impact.

*"I think disclosure is a key issue that will help mobilise capital at a more accelerated pace into the transition. Transition risk is complicated [...] and you've got people trying to analyse that without good data and good disclosure from companies."*

*Brian Cahill, Managing Director, Moody's Investment Services<sup>[7]</sup>.*

## THE LINK TO FINANCIAL VALUE

There is growing evidence that investors, customers and employees are demanding that businesses have a positive impact on the environment and society<sup>[8]</sup>, and that this leads to improved financial performance<sup>[9][10]</sup>. This is taking various forms including enhanced revenue and profit growth, greater returns on equity and assets, and lower cost of capital.

The Association of Chartered Certified Accountants (ACCA) concluded in a 2017 paper that, whilst there are the initial costs of integrating sustainability into the core strategy and reporting, this can be offset by cost savings and growth. This can be achieved through access to new markets and increased business opportunities; demand from a sustainable supply chain; advantages in overcoming barriers to entry to large supply chains; strategic benefits of building networks; capturing resources and talent; developing a more innovative workforce; and generating a better flow of knowledge and information<sup>[11]</sup>.

Despite this growing body of evidence linking outperformance to sustainable business activities, there persists a belief within many organisations that the business benefits are not clear. The remainder of this report identifies primary value drivers of businesses, then focuses on four particular value drivers, which UKGBC members believe are currently high priority drivers of value and which can be significantly impacted by sustainable business activities

*“Over the long term, environmental, social and governance (ESG) issues – ranging from climate change to diversity to board effectiveness – have real and quantifiable financial impacts. At companies where ESG issues are handled well, they are often a sign of operational excellence.”*

*Larry Fink, BlackRock CEO,*

*Annual letter to CEOs of Standard and Poor’s 500, 2016<sup>[12]</sup>.*

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Lloyds Bank Commercial Banking, 2017

### 3. Value driver identification



There is growing acknowledgement of a link between sustainable business activities and enhanced financial performance. However, within an individual business the link is often not so obvious. The internal costs of sustainable business activities are usually direct and easily measurable, but their financial value may be complex to calculate as the effects may be divided among differing parts of the business and the value created is often indirect and intangible.

For example, work undertaken by a facilities team to improve the air quality within a property may lead to increased staff satisfaction, which is an effect most likely to be identified within the HR function. The value created manifests in a different department and is both indirect and intangible. Therefore, the business needs to take a cross departmental view and needs to either qualitatively or quantitatively establish the intangible and tangible value.

A means of identifying and measuring the value derived from sustainable business activities is to link them to existing value drivers for that business.

From a review of literature, UKGBC has created a composite definition of what a value driver is:

*“Any variable or factor (i.e. a resource, activity or condition) that can be influenced, measured, managed and controlled and, in doing so affects the value of the business by one or more of the following means: reduces risk, increases profitability, leads to future growth in profitability.”<sup>[13,14,15]</sup>*

Different businesses will have different value drivers and they may change over time as new ways are found to create value. A UKGBC member poll identified and ranked the eleven most common drivers of value for businesses whose primary income is derived from built environment focussed products and services. However, these value drivers are very relevant for many other types of business, especially those who occupy a significant amount of property.

The 11 value drivers are:

- |  |                     |
|--|---------------------|
| ① Cost saving                          | ⑦ Access to capital |
| ② Talent attraction and retention      | ⑧ Innovation        |
| ③ Customer attraction and satisfaction | ⑨ Productivity      |
| ④ Brand and reputation                 | ⑩ Quality           |
| ⑤ Licence to operate                   | ⑪ Value of assets   |
| ⑥ Resilience                           |                     |

The diagram below shows the relationship between sustainable business activities, the value drivers and business value. It is worth noting that many of the value drivers overlap in their nature and there are many linkages between them which are not displayed on this diagram.



## CASE STUDY: AKZONOBEL



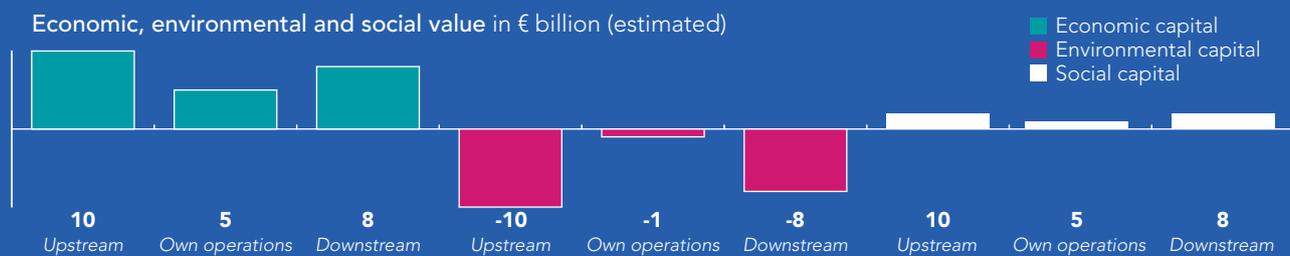
In 2014, AkzoNobel wished to gain more detailed insight into how profit and loss (P&L) is generated. This led to the launch of a 4D P&L accounting pilot study. The aim was to gain a deeper understanding across the value chain of AkzoNobel's environmental, human, social and financial impact. The reasoning was that the more that can be known about these four dimensions – including their monetary value – the more it is possible to identify potential improvements and increase business value.

The 4D pilot results looked at the whole value chain and highlighted positive financial capital, primarily through salaries, taxes and company profit, and negative natural capital, mainly from intensive use of materials and the use of fossil fuels as an energy source.

Based on the pilot's findings, specific actions, designed to reduce the negative aspects and build on the positive factors, were agreed and implemented. For example, the business increased its use of renewable resources and is implementing continuous energy and material efficiency improvements in its own operations. Additional community programs have also been launched – with those offering more value to society being prioritized – while additional talent development and training programs for employees have been introduced.

In addition to the insights for its own operations, AkzoNobel has been using this data with customers to improve their energy and resource efficiency, as well as motivating its suppliers to map their sustainability performance.

Economic, environmental and social value in € billion (estimated)



## CASE STUDY: GROSVENOR BRITAIN & IRELAND



Grosvenor Britain & Ireland ('Grosvenor') has a sustainability plan it calls "Your Contribution" to drive its improvement across the business and grow its social and environmental sustainability. Every target seeks to deliver shared value, following a recent review that removed goals that did not meet this criteria.

Programmes across the plan support the realisation of Grosvenor's strategic business plan as well as its 20 year vision for the London estate, in both cases providing value for the business, society and the environment. Progress is being tracked against a number of target metrics, including:

- The property portfolio's reduction in energy and CO<sub>2</sub> emissions
- Future rental income protected through upgrading properties to be resilient to climate change
- The reduction of vehicle movements across the estate as a result of delivery consolidation
- The amount of construction and operational waste diverted from landfill and recycled
- The proportion of construction, repairs and maintenance suppliers and service partners who pay the London Living Wage
- The amount of green space under management, both new and existing
- The number of direct and indirect beneficiaries of community engagement and support
- The number of new homes made available.

Grosvenor will collect and apply the data on these metrics to drive performance and find new efficiencies, to improve customer experience and cut business costs. Longer term, Grosvenor aims to apply this data to deepen its understanding of lifecycle costs, the wider benefits of long-term,

patient capital investment and a triple bottom line approach to business decisions.



## 4. Value drivers and sustainable business activities



It is important to understand how the value drivers relate to the business and how they are impacted by sustainable business activities.

### Cost saving

Capital and operational costs for a business include those associated with the use of energy, water and materials. Ambitions to improve the efficiency of all three will almost always be included within a sustainable business strategy. Resulting actions may have a higher cost at the capital phase, with the savings occurring through the operational phase, such as with the installation of LED lights. A collaborative working model with the supply chain is often used to identify and create the cost savings.

### Talent attraction and retention

Businesses that demonstrate a positive and integrated approach to building a sustainable organisation, both internally and externally, are more likely to be an employer of choice to both new and existing staff. Employees are seeking job satisfaction with a focus on purpose, transparency and work-life balance. Showing that a business values health, diversity and inclusivity, and community impact can help improve productivity, loyalty and efficiency, as well as provide a framework to enable job satisfaction through meaningful contribution.

### Customer attraction and satisfaction

A business can attract and retain customers by responding to the growing demand for products and services that embed sustainability into their delivery. Driving sustainable business principles within client organisations up and down the value chain can also help those customers avoid their own sustainability risks or obtain their own ambitions. Collaborating on social and environmental issues helps identify and maintain long-term opportunities for working together.



## Brand and reputation

Brand and reputation are increasingly considered amongst some of a business' most valuable assets. At the same time, customers and employees are raising their expectations of how they wish business to act towards the environment and society. Therefore, the incorporation of sustainability into a business strategy and brand profile can enhance reputation, with the associated value that derives from helping to attract new clients and talent. Sustainable business activities that may enhance brand and reputation include helping the local community, protecting the environment and developing skills and apprentice programmes. Conversely, the use of weak or unsubstantiated claims regarding environmental and social credentials, also known as 'greenwash', can lead to greater risk and reputational damage, given the increasingly critical audiences and the rapid spread of damaging claims.

## Licence to operate

There is an increasing amount of regulation associated with environmental and social impact, but legal compliance alone no longer ensures that a business will retain its licence to operate. To ensure this, a business must also understand what the societal expectations of it are. In turn, this is often a guide to areas of future regulation. Sustainable business activities usually include ensuring legal compliance with regulations focussed on issues such as energy use and pollution. Further areas of activity are often identified through a process of stakeholder engagement, which enables a business to understand the expectations placed on it by groups such as staff, investors, customers and the communities in which it operates. This may include actions such as convening a group of "critical friends" to assess the appropriateness of ongoing sustainable business activities, or undertaking an inclusive community engagement process as part of a new development. There is a strong link between licence to operate and reputation and brand.

## Resilience

Businesses need to have high levels of resilience in order to survive in our increasingly volatile, uncertain, complex and ambiguous world. A sustainable business strategy can help as it involves an assessment of risk to a business from social and environmental impacts and trends, usually with a long-term view. Therefore, many of the resulting activities help to improve the resilience of a business in case of sudden changes within the business' operating environment. This could include the mitigation of insurance costs and liabilities resulting from extreme weather events, as well as the mitigation of potential increases in costs of production due to reducing availability of resources and materials.

## Access to capital

There is an increasing amount of financial capital (equity or debt) that is being allocated on the basis of environmental and/or social factors. This may involve an assessment of how a business or specific project is managing risks from such factors as well as whether the business is actively playing a positive role to improve the environment and society. Investors may use various sustainability indexes such as GRESB (Global Real Estate Sustainability Benchmark) and DJSI (Dow Jones Sustainability Index), or create new sustainability focussed funds, while the number of "green bonds" is also on the rise. Therefore, the resulting benefits from sustainable business activities may include accessing pools of capital at preferential interest rates, avoiding negative shareholder screening and activism, and attracting capital from new sources.

## Innovation

A sustainable business will assess the environmental and social impacts that result from the production and delivery of its products and services, and identify related emerging trends. This work can identify new business opportunities and innovative ways of producing and delivering services. Sustainable business activities usually involve increased levels of collaboration between departments and supply chains, which is another means of furthering innovation. This could include new ways of procuring energy or using materials, or the creation of new products and service lines.

## Productivity

At its most basic level, improving the efficiency of energy, water and material use improves productivity levels as spend is reduced. Within the productivity of the workforce, reacting to changing workforce expectations, new methods of production and delivery and new technology can increase productivity rates. This could include improving internal air quality and light levels in response to new environmental data, or increasing employee engagement so that people can share their opinions and feel valued. Improving the efficiency of energy, water and material use can also improve productivity levels. There is often a strong link between innovation and productivity.

## Quality

A focus on environmental and social impact can result in quality improvements for products and services, including in the design, construction and management of buildings. This could include adhering to strong environmental standards and maintaining integrity through detailed policies regarding behaviours and values which are based on a social purpose. It can extend to a product, service or asset that is future-proofed and anticipates trends in the market and maintains its relevance to users over time.

## Value of assets

Embedding sustainability in line with investor, customer and stakeholder demand can increase the value of an asset. Assets that are designed, constructed and managed in line with the expectations of a sustainable business can benefit from enhanced occupier and investor demand, and should suffer less from obsolescence.

The four value drivers chosen for further exploration in this report are:

- Cost saving
- Brand and reputation
- Talent attraction and retention
- Customer attraction and satisfaction

Cost saving was chosen as built environment businesses are constantly striving to find greater efficiencies in a highly competitive industry and cost saving is often identified as a benefit of sustainable business, as for example, the link between energy efficiency and energy cost is both tangible and direct. The other three value drivers were chosen as they were identified within a UKGBC member survey to be current high priority drivers of value and to be significantly impacted by sustainable business activities.

# 5. Fundamentals of measurement



The links between sustainable business activities and value drivers are still emerging but the following steps will help a business measure and maximise the associated impact.

- 1 Scope of sustainable business activities**  
Undertake a materiality assessment to identify the key sustainability issues for an organisation and then define the business' sustainability activities.
- 2 Key value drivers**  
Identify which are the most important drivers of value for the business.
- 3 Performance indicators**  
Agree these based on sustainable activities, value drivers and how the data will be used. Link to existing data collection processes and organisational lexicon as much as possible.
- 4 Metrics of measurement**  
Decide based on how the data will be analysed and used. Often, an absolute number does not enable useful comparisons over time or between organisations. Therefore the metric will need to be normalised, such as by revenue, output, floor size. For example, kWh of energy use per sqft is often more useful than simply the total amount of energy use.
- 5 Method of data collection and reporting**  
Due to the indirect and intangible nature of the actions and impacts that sustainable business practices can have, a number of different departments within the business may need to work together on data collection and analysis. Metrics need to be consistently and regularly measured to enable comparisons over time and, particularly after any significant changes to sustainability strategies or actions.
- 6 How the data will be acted upon**  
Only collect data which is going to be analysed and acted upon. Stipulate how, when and by whom the data will be used.

## CASE STUDY: JLL UK'S APPROACH TO MEASURING THE VALUE OF SUSTAINABILITY



JLL's vision is to become a world-leading, sustainable professional services firm and to embed sustainability into everything it does. Having set this ambition across the UK business five years ago, its first steps were to fully engage its internal audience to ensure that staff would be sufficiently equipped to be advocates and able to engage with clients at a consistent level on sustainability. To support this, JLL's sustainability programme, Building a Better Tomorrow, was created which has now been adopted by the business globally.

In 2016, JLL decided to track the value of the investment being made in Building a Better Tomorrow in the UK. While there were the well-established metrics for energy, water, carbon and waste, these did not represent the whole business case, particularly for a professional services firm. JLL looked to apply a scientific process, supported by robust methodologies which allowed it to take a holistic rather than purely cost-saving approach. The business model was evolved over time and there was significant engagement with HR, Marketing, Finance and the major client service teams whilst the approach was being developed. Where proxies were used, JLL determined that the critical factor was consistency of application, to allow trend analysis over a long term.

JLL's key impact areas were identified as:

- Revenue: from embedded sustainability capabilities
- Revenue: from standalone sustainability and energy services
- Costs savings: operational environmental reductions
- Employee attraction and retention: graduate recruitment cost
- Employee engagement: impact of volunteering
- Brand: impact of sustainability on brand value (proxy measure used)

These metrics have now been tracked for two years, and in some cases JLL is able to backdate the value generated from Building a Better Tomorrow to a 2012 baseline year. Its metrics are predominantly set up to influence internal investment decision-making. A sustainability value metric dashboard has been set up, which is now submitted as a core paper for the UK Board and UK Executive. It has also been used to influence discussions by the Global Executive Board. The dashboard shows that the energy reduction in JLL's offices has delivered cost savings of £120,000 compared to 2012 baseline, the sustainability approach supports circa 18% of JLL's UK revenue and there is evidence that the programme supports the recruitment of emerging talent into the business.

## 6. Cost saving



### THE LINK TO SUSTAINABLE BUSINESS

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The construction and property industry operates rates on slim margins, with the industry's ten largest contractors having an average pre-tax profit margin of -0.5% in 2017<sup>[16]</sup>. Therefore cost saving is a high or very high priority for all business types and sustainable business and cost savings are no longer viewed as separate entities by organisations with a mature sustainability approach<sup>[17]</sup>. Cost saving is a measure of business expense, generally measured on an annual basis against a baseline year in both the short and long term, as operational expenditure reductions or capital expenditure reductions.

Waste management and energy efficiency are common areas through which businesses generate operational cost savings. These improvements can save on direct costs but can also lead to additional measures of cost saving, such as reusing building materials as a way of avoiding having to pay taxes, such as Landfill Tax<sup>[18]</sup>.

Employee behavioural change can be a catalyst for increased staff awareness and involvement towards implementing cost saving measures. For example, reducing business travel can provide savings through reduced expenses as well as increased profit by improved productivity from the use of internal communication methods such as video conferencing.

The implementation of cost saving within a business strategy in areas such as tax and insurance costs can also subsequently increase resilience and productivity, both within the business and also the supply chain<sup>[19]</sup>.

## METRICS FOR MEASURING IMPACT OF COST SAVINGS ON BUSINESS VALUE

Performance indicator	Unit	Methodology	Stakeholders
Landfill tax avoided	£	Recycled waste (tonnes)* Landfill tax rate	<ul style="list-style-type: none"> <li>• Sustainability/energy/facilities management</li> <li>• Corporate real estate</li> <li>• Commercial team</li> </ul>
Cost of energy	£	Natural gas and electricity (including CCL electricity) costs. These figures usually exclude renewables costs	<ul style="list-style-type: none"> <li>• Sustainability/energy/facilities management</li> <li>• Corporate real estate</li> <li>• Commercial team</li> </ul>
Savings through reduction in energy and water use	£	This would be the cost difference (annual or rolling) of energy and water relative to a baseline year (usually a target baseline year)	<ul style="list-style-type: none"> <li>• Sustainability/energy/facilities management</li> <li>• Corporate real estate</li> <li>• Commercial team</li> </ul>
Cost of water	£	Cost of water procured	<ul style="list-style-type: none"> <li>• Sustainability/energy/facilities management</li> <li>• Corporate real estate</li> <li>• Commercial team</li> </ul>
Cost of waste management	£	Total operational cost of handling and recycling waste (and landfill waste) and any capital expenditures (e.g. compactors)	<ul style="list-style-type: none"> <li>• Sustainability/energy/facilities management</li> <li>• Corporate real estate</li> <li>• Commercial team</li> </ul>
Waste management expenditure (opex and capex)	£	Opex cost of handling and recycling waste: contractor fees and landfill tax Any capital expenditures (e.g. cardboard compactors and other significant plant that is required for recycling/waste management)	<ul style="list-style-type: none"> <li>• Sustainability/energy/facilities management</li> <li>• Corporate real estate</li> <li>• Commercial team</li> </ul>
Energy spend efficiency	£	Actual energy cost savings divided by the sum of opex and capex costs for a given period to reflect the fact that capital expenditures do not yield their greatest savings immediately. OR Aggregated estimated ROI on energy capex projects (often normalised by floor space).	<ul style="list-style-type: none"> <li>• Sustainability/energy/facilities management</li> <li>• Corporate real estate</li> <li>• Commercial team and finance teams</li> </ul>
Waste income	£	Any fees generated from recycling. Often normalised by weight.	<ul style="list-style-type: none"> <li>• Procurement, commercial and finance teams</li> </ul>
Travel	£	Cost associated with all travel including taxi, train and planes.	<ul style="list-style-type: none"> <li>• HR/finance</li> </ul>
Paper and printing	£	Paper and printing use across all assets (e.g. commercial offices) multiplied by fixed costs	<ul style="list-style-type: none"> <li>• Facilities management</li> <li>• Finance teams</li> </ul>

## CASE STUDY: BARRATT DEVELOPMENTS PLC



Sustainable business is core to Barratt Developments PLC “Building Excellence” vision. In 2015, the Group set a corporate goal to reduce waste generation by 10% by 2020, compared to its 2015 baseline. The commercial team is responsible for gathering construction waste data from its main waste management contractors UK-wide, and processing it to provide a six-monthly update on waste management performance for the Group, and the 27 individual operating divisions, collating data from over 350 of its active sites. Internal oversight of this process is critical to ensure that any costs, and therefore tonnages, have been correctly allocated to the right division, site or waste stream.

In order to ensure that the Group can track the amount of waste generated in relation to productivity, waste data is normalised by 1000 sq.ft. built i.e. the equivalent area that has been built over a time frame. This is preferable to normalising by legal completion i.e. every house sold to a customer, as the metrics take into consideration the size of homes constructed. Normalising tonnages by revenue also does not provide correct management information as revenue is impacted by house price sales and land values. Normalising by 1000sqft equivalent build area also is a consistent measure which will become more useful as more homes are built using offsite manufacturing techniques.

Whilst regular management information is available to each division via an online portal, every six months the commercial team conduct a full analysis of the data. Comparisons are made based on benchmark costs on a per sqft basis and a RAG analysis identifies divisions that are above the group average. This gives a very easy visual reference point on both costs and tonnages for every divisional managing director and division commercial director.

Given that the true cost of waste is ten times that of the waste management costs, the rigor with which data is reviewed at a group level each quarter delivers key insights into areas for improvement. In FY 2017, over 15,000 tonne waste reduction was reported, saving the business in excess of £850,000 in waste management costs alone, and achieving its 2020 waste reduction target three years early and by an additional 3%. The key to this success was focussing on the commercial value and business case for waste reduction, whilst improving visibility of costs and wastage.

Additional costs such as reduced labour, handling, community impact from transport impacts etc. are not factored directly to the cost estimates, so the Group understands that the business benefits of waste reduction could be much greater.

**A study was carried out at Barratt Development’s Saxon Gate development in East Yorkshire to investigate the root causes of waste.**



## CASE STUDY: BAM



BAM has had targets in place since 2008 and 2010 to reduce carbon and waste, respectively. New targets, set in 2015, is to reduce carbon emissions by at least 15% by 2020 (with a stretch target of 25%) and to reduce waste by 25%.

To meet these targets, BAM has made improvements to the way carbon and waste are measured and managed as well as rolling out a range of improvement measures across the business, including efficient plant, accommodation, greening fleets, offsite construction and design for resource efficiency. The majority of carbon comes from construction sites and transport.

Since 2008 BAM has made relative savings of approximately £5.4 million across the company. Direct cost savings (cost of skips) from reducing waste since 2010 are approximately £5.6 million and it is estimated that the whole cost (including labour and materials) is closer to £9.1 million saved.

Calculations show that BAM could net additional savings of between £0.5 million - £1 million by meeting the stretch carbon targets and a £5.5 million saving from meeting the waste reduction target, or an estimated £8.9 million taking into account a proportion of materials costs. BAM acknowledges that the targets are challenging and cannot achieve them without action by others in BAM's supply chain e.g. designers and clients.



## CASE STUDY: ISG



ISG launched its first group-wide sustainability strategy in 2013. The company's global strategy is reviewed annually, with performance measured and benchmarked via ISG's Annual Sustainability Report. Current targets for 2021 include reducing global greenhouse gas emissions by 18%, in line with Science Based Targets, and reducing UK construction waste by 5% year-on-year. The business spends approximately 1% of its global turnover (£1.3 billion) on waste management, so bottom line savings are highly significant.

Robust monitoring and reporting procedures are in place for greenhouse gas emissions and the company regularly reports on the business risks and opportunities of climate change via

CDP's disclosure programme. In the UK, emissions reduction opportunities, via compliance with the Energy Savings Opportunity Scheme (ESOS), are reviewed and implemented where practicable.

The business has prioritised its emissions reduction focus to business mileage, where data analysis has identified the largest carbon and financial savings can be achieved. To meet the waste targets outlined in the 2021 Sustainability Strategy, ISG has rolled out a UK waste campaign focusing on educating site teams, streamlining waste management in the supply chain and collaborating with manufacturers and suppliers to reduce waste.

# 7. Talent attraction and retention



## THE LINK TO SUSTAINABLE BUSINESS

Labour shortages are intensifying within the UK construction and property sectors and were cited as an impediment to growth by almost two-thirds of respondents to an RICS poll in November 2017<sup>[20]</sup>. The ability to attract and retain employees is expected to be exacerbated by Brexit, as eight per cent of the UK construction workforce are EU nationals<sup>[21]</sup>. The costs of attracting and retaining staff are also highly significant, with employees accounting for on average 90 per cent of business costs<sup>[22]</sup>, the cost of replacing an employee is often estimated at twice their salary<sup>[23]</sup> and employers spend nine per cent of their costs on absenteeism<sup>[24]</sup>. Absenteeism and productivity levels can be used as proxies for staff retention as there is evidence that higher levels of absenteeism correlate with lower employee retention rates and higher productivity correlates to higher retention<sup>[24]</sup>.

A commitment to sustainable business activities has been found to improve statistics related to employee recruitment, retention, absenteeism and productivity<sup>[17]</sup>. Those businesses that undertake sustainable business activities can reduce average turnover time by between 25% and 50%<sup>[25]</sup>. Creating an open and inclusive work culture, flexible work schedules, encouraging health and wellbeing programmes, providing amenities within the business such as showers and cycle storage, and having high levels of engagement can all contribute to improving staff retention.

Employees are increasingly seeking ‘purpose-driven’ organisations, those businesses which seek to help improve the world environmentally and socially<sup>[26],[27]</sup>. Across income levels it has been found that it is the culture and values of an organisation which tie most closely into workforce satisfaction, rather than pay<sup>[28]</sup>. This is particularly evident within the group known as millennials, a generational cohort which reached adulthood in the early 21st century. Research shows that now 50% of millennials prefer purposeful work to a high salary, while 62% desire to work for an employer who seeks to make a positive impact<sup>[29]</sup>, demonstrating that sustainable business activities can help to attract talent.

## METRICS FOR MEASURING IMPACT OF TALENT ATTRACTION AND RETENTION ON BUSINESS VALUE

Performance Indicator	Unit	Method	Stakeholder Information
<b>Talent Attraction</b>			
Proportion of job applications referring to or influenced by the sustainability of the organisation in the recruitment process.	%	Ask the candidate during the application what their key attractions to the organisation were. Alternatively, track unprompted key terms e.g. 'sustainable business', 'responsible business'. Note that this should be based on unprompted, broad questions.	<ul style="list-style-type: none"> <li>• HR team</li> <li>• Business/department managers</li> </ul>
Proportion of quality candidates influenced by the sustainability of the organisation	%	Filter the applications above by those that progressed to interview	<ul style="list-style-type: none"> <li>• HR team</li> <li>• Business/department managers</li> </ul>
<b>Talent Retention</b>			
Staff turnover due to poor performance on key sustainability issues	%	Use total number of exit interviews which quote key sustainability issues in turnover calculations	<ul style="list-style-type: none"> <li>• HR team</li> <li>• Business/department managers</li> </ul>
Staff retention due to a new sustainability initiative	%	Measure staff turnover before and after the introduction of a new sustainability initiative	<ul style="list-style-type: none"> <li>• HR team</li> <li>• Business/department managers</li> </ul>
Employee satisfaction with key sustainability issues	Score	Asked in employee satisfaction survey	<ul style="list-style-type: none"> <li>• HR team</li> <li>• business/department managers</li> </ul>
Number of concerns raised about key sustainability issues	Number	Search for in exit interviews, personal development reviews and general complaints procedures	<ul style="list-style-type: none"> <li>• HR team</li> <li>• Business/department managers</li> </ul>
Difference in employee satisfaction levels for those involved in sustainability activities	%	Identify those who have been involved in key sustainability activities and compare their average satisfaction with those not involved. Note: this metric may suffer from bias in the volume of sustainability team respondents versus wider business and this should be factored in to results.	<ul style="list-style-type: none"> <li>• HR team</li> <li>• Business/department managers</li> </ul>
Difference in service duration for those involved in sustainability activities	%	Identify those who have been involved in key sustainability activities and compare their service duration with the wider business. Note: this metric may suffer from bias in the volume of sustainability team respondents versus wider business and this should be factored in to results.	<ul style="list-style-type: none"> <li>• HR team</li> <li>• Business/department managers</li> </ul>
<b>Indirect</b>			
Number of days of employee absence	Number	The number of days of absence due to illness. Details on department, location, role and type (e.g. short-term or long-term) should also be captured.	<ul style="list-style-type: none"> <li>• HR team</li> <li>• Payroll team</li> </ul>
Associated cost of employee absence	£	This could be calculated at an individual level or, with less accuracy, at an aggregate level using a calculation of 'daily wage or overall employee cost * days of absence'. Overall employee cost could include: salary, training costs, recruitment costs, equipment costs and space / real estate costs.	<ul style="list-style-type: none"> <li>• Finance team</li> </ul>

## CASE STUDY: HOARE LEA

Hoare Lea believes innovation plays a key role in creating a sustainable workplace and that a culture of true innovation comes from engaged and empowered employees, who take personal ownership in the business' success. Ensuring staff wellbeing is crucial for both sustainability and innovation strategies at Hoare Lea.

With the aim of understanding how best to invest in developing a truly innovative culture, the business has undertaken an investigation to value innovation in terms of talent attraction and staff engagement. It aims to better understand and quantify the extent to which an innovative

culture affects staff motivation and productivity, and also affects decisions to join or leave the business.

A simple methodology has been developed, starting from a general literature review of trends and metrics relating innovation with staff engagement, including examples of industry best practice. A 'wish list' of metrics was developed, based on literature review, to separately quantify four main issues: factors affecting an innovative culture, different innovation outcomes, staff engagement, and current investment in recruitment, retention and innovation. See the table below.

The metrics will be used, wherever possible depending on the availability of data, to identify trends for each aspect being measured. Then a correlation analysis will be undertaken to understand which variables are strongly related, with the aim being to develop indicators that quantify, ideally in monetary terms, the link between innovation and engagement. The results and recommendations from this analysis will then be used to inform Hoare Lea's innovation and people strategy.



### Hoare Lea's metrics 'wish list' for innovation, sustainability and staff engagement

Issue	Metric
<b>1. Factors of an innovative culture</b>	
Clear strategy	<ul style="list-style-type: none"> <li>Defined company strategy (mission, vision, objectives)</li> </ul>
Skills/inter-disciplinary workforce	<ul style="list-style-type: none"> <li>Staff qualifications and background</li> </ul>
Knowledge production and sharing	<ul style="list-style-type: none"> <li>Number of papers/case studies/research produced and disseminated</li> </ul>
Leadership/inspiration	<ul style="list-style-type: none"> <li>% of product/service or strategic innovation projects with assigned senior sponsors</li> <li>% of executive's time spent on strategic innovation versus day-to-day operations</li> </ul>
Management	<ul style="list-style-type: none"> <li>Existence of formal structures and processes that support innovation</li> </ul>
General culture	<ul style="list-style-type: none"> <li>Top 3 aspects staff identified as characteristics of our culture (e.g. via survey)</li> </ul>
<b>2. Factors to measure staff engagement and motivation</b>	
Staff turnover	<ul style="list-style-type: none"> <li>Annual turnover by grade</li> </ul>
Why staff leave	<ul style="list-style-type: none"> <li>Reasons for leaving from exit interviews by grade</li> </ul>
Why staff join	<ul style="list-style-type: none"> <li>Reasons for joining from entrance interviews</li> </ul>
Engagement	<ul style="list-style-type: none"> <li>Annual employee survey results</li> </ul>
Opportunities to grow	<ul style="list-style-type: none"> <li>Number of promotions</li> <li>Determinants for promotions (why people are promoted)</li> <li>Career paths</li> </ul>
<b>3. Investment (different aspects)</b>	
<b>Innovation</b>	
R&D	<ul style="list-style-type: none"> <li>Annual R&amp;D budget (total and as % of revenue)</li> </ul>
Training and development	<ul style="list-style-type: none"> <li>Total investment in technical training</li> <li>Total investment in non-technical training (e.g. soft skills)</li> </ul>
Developing new services/business models	<ul style="list-style-type: none"> <li>% of capital invested in innovation activities such as submitting and reviewing ideas for new products and services and developing ideas through an innovation pipeline</li> </ul>
<b>HR retention</b>	
Recruitment	<ul style="list-style-type: none"> <li>Cost of recruitment (agency cost etc.)</li> </ul>
Motivation	<ul style="list-style-type: none"> <li>CR budget</li> <li>Social budget</li> </ul>
<b>4. Innovation outcome</b>	
New services	<ul style="list-style-type: none"> <li>Number of new services launched in new markets in the past year</li> </ul>
Opportunities	<ul style="list-style-type: none"> <li>Number of new-to-company opportunities in new markets</li> </ul>
Ideas generation	<ul style="list-style-type: none"> <li>Number of ideas submitted by employees</li> </ul>
High performance organisation	<ul style="list-style-type: none"> <li>Revenue growth</li> </ul>

## CASE STUDY: CUNDALL

Cundall's new headquarter offices, One Carter Lane, is an expression of Cundall's belief that people should be the focal point of design and spaces should inspire a creative, healthy and collaborative workspace. Designed by Cundall and Studio Ben Allen, One Carter Lane achieved BREEAM Excellent and SKA Gold as well as WELL Building Standard Gold certification, demonstrating that health, wellbeing and sustainability are compatible.

The early findings from post occupancy evaluations show substantial improvements in staff engagement over the previous office:

- Perceived wellbeing up 25% to 76%
- Perceived productivity up 27% to 73%
- Sense of community up 28% to 79%
- Corporate image up 38% to 88%
- Enjoyment in the environment up 48% to 82%

In HR terms, absenteeism rates have reduced significantly; they are 22% lower than those of a typical new office development, equating to a £90K annual saving. Staff turnover is down 27% in the year, compared with stable levels for the five years before the move, equating to a £122K annual saving. The effects on staff productivity, presenteeism and attraction are still being quantified but anecdotally they have also all substantially improved since the office move. In financial terms the result is a return on investment of months rather than years.

# CUNDALL



Images © Cundall

## 8. Brand and reputation



### THE LINK TO SUSTAINABLE BUSINESS

The reputation of a brand is one of a business' most valuable assets<sup>[30]</sup>, acting as a true differentiator with the ability to create and build trust with employees, customers and other stakeholders. Due to the potential impact of the built environment on society and environment, the risk of reputational damage can be very high for property investors, house builders, contractors, engineers and architects. At an industry level, the built environment has considerable room for improvement. For example, the government and industry joint Construction 2025 Strategy states that there must be a fundamental change in how the construction industry is perceived by the general public<sup>[31]</sup>, and a 2016 YouGov survey found that two-thirds of the public would never consider a career in construction, with just 11 per cent saying it was 'exciting'<sup>[32]</sup>.

The KPMG Global CEO Outlook 2017 found that reputation and brand was the third most important risk to business, as well as having the second greatest potential impact on growth in coming years<sup>[33]</sup>. Poor branding can add 10 per cent to the cost of hiring, while a survey of over 1,000 individuals found that almost 50 per cent would not want to be associated with an employer with a negative reputation<sup>[34]</sup>.

Harmful association to the brand due to negative social impact, but not necessarily illegal, behaviour can have catastrophic effects on reputation and consequently business value. Recent examples include Uber, VW, Bell Pottinger, American Airlines and many major banks since 2007. Customer and employee attraction and loyalty is often affected as a result.

Brands are now expected to have not just functional benefits but demonstrate a social purpose<sup>[35]</sup>. A recent study by

Unilever found that more than a third of consumers now choose to buy from brands that they believe are actively doing good, as demonstrated by sustainable business activities<sup>[36]</sup>. Expectations and action in sustainable business activities are increasing across all sectors, with corporations such as Nike declaring their ambition to "double our business, with half the impact"<sup>[37]</sup>. Regular disclosure of progress takes place and supply chain transparency is a particular area of concern to stakeholders, with businesses needing to ensure that all those associated with that brand must adhere to the same principles<sup>[38]</sup>.

Identifying environmental and social purpose, acting upon it to become a sustainable business and embedding it into internal and external messaging will help brand positivity and reputational value. Ways of measuring impact include peer reviews and surveys of customers and staff.

## METRICS FOR MEASURING IMPACT OF BRAND AND REPUTATION ON BUSINESS VALUE

Performance Indicator	Unit	Methodology	Stakeholders
<b>Brand</b>			
Brand value attributed to sustainability activities	£	Work with a brand consultant to establish the value sustainability delivers to your brand <sup>[2]</sup> .	<ul style="list-style-type: none"> <li>Marketing team</li> </ul>
Ranking against competitors as a sustainable organisation	Ranking	Stakeholder questionnaires and focus groups	<ul style="list-style-type: none"> <li>Client relationship team</li> <li>HR team</li> <li>Marketing team</li> <li>Business development team</li> </ul>
Social media content attributed to sustainability activities	Number	Search social media management platform for key search terms	<ul style="list-style-type: none"> <li>Marketing team</li> </ul>
<b>Reputation</b>			
Stakeholder perception of organisational sustainability (by key sustainability issue)	Score	Stakeholder questionnaires and focus groups	<ul style="list-style-type: none"> <li>Client relationship team</li> <li>HR team</li> <li>Marketing team</li> <li>Business development team</li> </ul>

### CASE STUDY: LANDSEC

Sustainability performance is an important part of Landsec’s brand identity and plays a key role in how it wants to be perceived by its stakeholders. Targeting, achieving and measuring this type of performance is a vital tool in customer and investor engagement and forms an important part of Landsec’s value proposition, both to their customers in helping to reduce the service charge and also to investors to demonstrate that investing for the future can have a positive impact on asset valuation.



To communicate the value of Landsec’s sustainability programme to stakeholders, data was analysed on renewable energy installations and their operating cost reductions, which were proven to have a significant positive impact on rental income. For example, a 249kWp PV panel installation at Gunwharf Quays, installed in 2012, resulted in income of £178k and cost savings of £127k since installation. With a saving of £67k in the year to March 2017, using their average portfolio yield of 4.5%, this equates to a £1.5m increase in valuation of the properties.

This demonstrates that renewable energy installations not only reduce operating costs, but have a valuation benefit to the portfolio.

Further analysis of 101 property assets in the Landsec portfolio demonstrates

that BREEAM certification is a significant variable in rental performance. BREEAM Excellent assets outperform non-certified assets by more than 100%, with an

average contracted rent of £47.5/ft<sup>2</sup> vs £23/ft<sup>2</sup>. 28% of variability in contracted rents can be explained by BREEAM certification, which is a significant finding.



© Landsec

## CASE STUDY: MARKS & SPENCER



Building a business case for sustainability has been central to the success of Plan A, M&S's pioneering sustainability strategy. In 2017, the business announced a £185 million net benefit generated in the previous financial year and a total £810 million generated since Plan A was launched in 2007.

The timescales to observe a return took three years, as it was a cost in its first year, cost neutral in year 2 and delivered £105 million in year 3. Much of the first year of positive returns came from resource efficiency, however the wider benefits have come to the fore in the following years. However, this only took place when the business abandoned silos and began to think in the round.

Plan A was implemented with stringent project management controls and with a means of calculating the true costs and benefits. Following its implementation, M&S recognises it has saved money, inspired employees, opened up new revenue streams, driven innovation in anticipation of disruption in the retail sector, made its supply chains more resilient and strengthened the brand.

The link between brand and Plan A pivots on trust, which M&S view as an increasingly important component of business success. The transparency now available to the public to examine a business' supply chain, combined with the low confidence in regulations for ethical business behaviours and the ease with which damaging social media campaigns can develop, trust is a potent business differentiator. Many studies have identified Plan A as a key positive driver for the M&S brand.

### Identification of value drivers affected by Plan A



### Evolution of the financial return on Plan A



# 9. Customer attraction and retention



## THE LINK WITH SUSTAINABLE BUSINESS

The last couple of years has seen the property industry place much greater significance on the ultimate customer – the building end user – which has resulted in moving from ‘space as a commodity’ to ‘space as a service’<sup>[39]</sup>. At the same time, customers, including investors, are increasingly seeking products and services<sup>[40]</sup> which positively impact the society and the environment<sup>[17,42,43]</sup>. This is combining with an increased realisation across markets that sustainable goods and services can be competitively priced rather than being sold at a disproportionate premium. The result is that product performance and affordability is no longer enough to attract all clients<sup>[44]</sup>. Within the construction sector, tenders and pre-qualification questionnaires (PQs) with environmental and social impact sections have become increasingly common<sup>[45]</sup>.

Some businesses have responded by offering sustainable choices within product lines, whereas others have chosen to integrate sustainability across their entire range. Marks & Spencer’s Plan A integrates sustainability within product value<sup>[46]</sup>, while GE’s Ecomagination product line offers customers both energy efficiency and cost savings and had generated \$270 billion in revenue by 2017<sup>[47]</sup>. Responsible procurement practices were identified as a way for Hewlett-Packard to engage with customers whose combined green procurement requirements totalled \$15 billion of existing and potential business revenue in 2015<sup>[48]</sup>.

New customer acquisition costs a business approximately five times more than retaining them. This suggests that reducing customer defection by five percent could increase profitability by 25-130%, and increase a business’ value by 30%, depending on the industry<sup>[49]</sup>. In these circumstances, building longer term opportunities with customers is critical. Customer lifetime value, which is the net profit earned over the course of a business’ relationship with a customer<sup>[50]</sup>, alongside traditional customer attraction and satisfaction metrics are key.

For the built environment sector, understanding what drives procurement and how to satisfy end users of built assets is vital. Turning downstream customers’ values into upstream products and services has been demonstrated through initiatives such as BRE’s occupier focused Home Quality Mark for new residential construction.

There is also a re-interpretation of ‘customer service’, which is moving away from traditional landlord/tenant relationships of providing spaces, well-worded contracts, and keeping clients satisfied and instead moving towards a more long-term, collaborative relationship including the concept of service which is centred around co-creating the positive outcomes and experiences that building users desire.

## METRICS FOR MEASURING IMPACT OF CUSTOMER ATTRACTION AND SATISFACTION ON BUSINESS VALUE

Performance Indicator	Unit	Methodology	Stakeholders
<b>Customer attraction</b>			
Impact of sustainability on tender submissions	Score	Calculate the weighting attributed to sustainability in all tender submissions and measure the average score achieved over time in your responses.	<ul style="list-style-type: none"> <li>• Business development</li> <li>• Client relationship teams</li> </ul>
New customer perception of organisation as sustainable	Score	New customer on-boarding process	<ul style="list-style-type: none"> <li>• Business development</li> <li>• Client relationship teams</li> </ul>
<b>Customer retention</b>			
Financial value of repeat business with sustainability features	£	Compare sustainable services and products performance with non-sustainable services and products	<ul style="list-style-type: none"> <li>• Business development</li> <li>• Client relationship teams,</li> <li>• Finance team</li> </ul>
Proportion of repeat business attributed to various organisational sustainability issues	%	Customer survey	<ul style="list-style-type: none"> <li>• Business development</li> <li>• Client relationship teams</li> <li>• Finance team</li> </ul>
Number of clients' sustainability targets that have been met due to delivery of service or product	%	Before each project discuss what your customer's sustainability aspirations are. Post project completion, review the proportion of these aspirations that have been met.	<ul style="list-style-type: none"> <li>• Sustainability team</li> <li>• Procurement team</li> <li>• Project managers</li> </ul>
Number of downloads/visits of digital sustainability material	Number	Extract from web analytics	<ul style="list-style-type: none"> <li>• Marketing, business development</li> </ul>

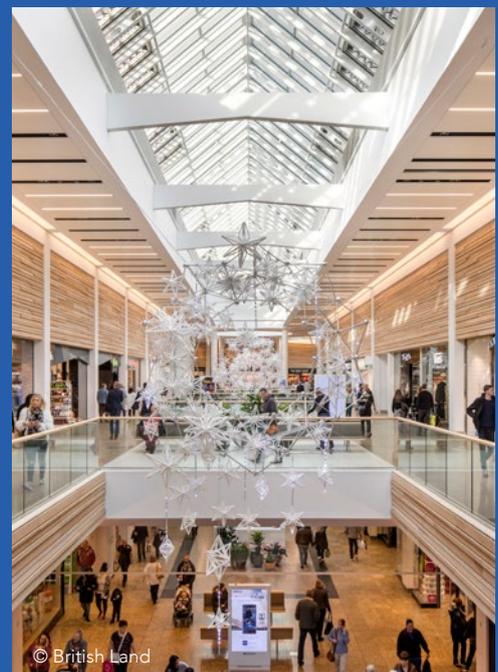
### CASE STUDY: BRITISH LAND



British Land's strategy for creating "Places People Prefer" has sustainability values at its core. It aims to drive demand for its properties and generate long term growth for the business, delivering sustainable long-term value for all stakeholders and creating positive outcomes.

At Meadowhall shopping centre, British Land built in measurable direct economic and social benefits for the Sheffield community into a recent retrofit programme. One in three construction jobs were filled by people living in Sheffield, creating over 200,000 hours of employment. 70% of construction spend also went to local firms, boosting the regional economy by £32 million. This optimisation of the project for regional benefit built a healthier economy for shoppers and contributed to unanimous support from Sheffield's Planning Committee for a major leisure extension, which subsequently received Resolution to Grant consent.

British Land's customer surveys show that people who feel a strong community association with a retail centre visit at least 30% more often and are over 50% more likely to recommend it to friends, so the company understands that social value and commercial benefit can go hand in hand. To build community relationships, British Land has expanded initiatives such as its Young Readers Programme with the National Literacy Trust to 28 shopping centres around the UK and London campuses. This programme aims to encourage reading for enjoyment, which research shows this can have a lifelong impact on health, confidence, employability and happiness. Over 19,000 schoolchildren have participated in recent years, making a positive local contribution and helping to foster strong community associations with British Land's places.



**CASE STUDY:  
SKANSKA**



Skanska UK’s ambition is to integrate natural and social capital accounting into its financial reporting systems to inform strategic decision making. The benefits of this approach include demonstrating the company’s value to society; improving the attractiveness of Skanska as an employer; understanding the wider risks and opportunities; and helping Skanska’s customers understand their impacts and make better decisions.

Combining natural and social capital accounting with Skanska’s corporate tool for measuring green, the Skanska Color Palette™, helps to support more holistic decision making, including project selection.

Projects are assessed at tender stage to identify opportunities to introduce green innovations and improve performance on the Skanska Color Palette, driving towards a near zero environmental impact (defined as “Deep Green”).

Skanska’s work on social capital accounting is led by an internal steering group, chaired by the Chief Finance Officer. The group, which comprises representatives from Skanska’s Environment and Finance teams, is improving awareness among internal stakeholders of financial and non-financial measurement of environmental and social impacts and the added-value generated by projects for the local community, such as local employment.



Skanska Color Palette™ Building			
	Vanilla Compliance	Green Beyond Compliance	Deep Green Future Proof
Energy			Net Zero Primary Energy
Carbon			Near Zero Carbon Construction
Materials			Zero Unsustainable Materials Zero Hazardous Materials Zero Waste
Water			Net Zero Water

**CASE STUDY:  
MITSUBISHI ELECTRIC**



Mitsubishi Electric measures "economic benefits from environmental conservation activities", such as its customer’s savings from electricity efficiency. It also measures "economic benefits from environmental conservation in products and services", such as reduced electricity costs of finished products.

Mitsubishi Electric actively encourages a more collaborative approach to applying environmental solutions to all buildings, with early engagement being key to the most sustainable solutions. This approach is based on its Green Gateway principle of ‘doing the right thing’ – ensuring optimum efficiency, achieving real carbon reduction and, employing renewable energy sources at a building scale.

The customer service approach is based on open, inclusive, collaborative dialogue and adopting a 360 degree approach to building services. Every element of a product’s lifecycle from pre-purchase, installation, operation and responsible disposal and recycling, is analysed in order to find ways to reduce energy use, carbon emissions and the customer’s energy costs.

Mitsubishi Electric worked closely with Whitbread with the aim of ensuring that their building stock is as comfortable and energy efficient as possible:

- At the new Hub Hotel in London’s Kings Cross Mitsubishi Electric worked closely with Whitbread’s designers and in-house installers to develop the best solution for Whitbread and hotel guests.
- The 400-bed hotel has a BREEAM Excellent rating and uses about a third less energy over its lifetime whilst still delivering everything that guests demand in terms of energy needs.
- Mitsubishi Electric worked to match Whitbread’s own sustainability programme, ‘Force for Good’ which is focused on how Whitbread is making its buildings more sustainable.

# 10. Progressing the business case



The business case for sustainability continues to grow but further research and evidence is required. A demonstrable link between sustainable business activities and financial value will hopefully convince all companies to integrate sustainability across their business functions.

UKGBC will be further exploring these issues with its industry-leading members. We are seeking out those businesses which are tracking sustainability data and linking it to value creation in order to develop further metrics and new case studies. Further reports on the remaining seven value drivers will depend on the take-up of metrics and interest in this initial report. There is also the potential to run a lab project in which we would work with our members to implement, test and refine metrics which capture the value of sustainability.

UKGBC asks all its members and other built environment businesses to continue their work on improving their environmental and social impact, to identify how this drives value for their organisations, and to share their learnings with us so that together we can make a better built environment.

# 11. Appendix

## GLOSSARY

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**CDP:** CDP, formerly known as The Carbon Disclosure Project, is a UK independent not-for-profit organisation aiming to create a lasting relationship between shareholders and corporations regarding the implications for shareholder value and commercial operations presented by climate change. Currently institutional investors use the CDP carbon data repository to understand the business risks and opportunities of climate change to the world's largest companies<sup>[51]</sup>.

**Corporate responsibility (CR) or Corporate Social Responsibility (CSR):** Corporate responsibility or corporate social responsibility refers to a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis<sup>[52]</sup>. It is recognised as a shift towards companies taking responsibility for their impact on society.

**Environmental impact:** Environmental impact refers to the direct effect of socio-economic activities and natural events on the components of the environment<sup>[53]</sup>. In this report, it specifically refers to the effect an organization's actions have on the natural environment.

**ESG:** Environmental, social and governance (ESG) is a generic term used in capital markets by investors to evaluate corporate behaviour and to determine the future financial performance of companies. The consideration of ESG factors is thought to lead to better investment decisions, better managed risk and to generate sustainable, long-term returns<sup>[54]</sup>.

**Materiality:** Materiality is the quality of being relevant or significant. In corporate sustainability, it refers to the environmental, social and governance issues which are most significant to an organisation<sup>[55]</sup>.

**Materiality assessment:** A materiality assessment is an exercise in stakeholder engagement designed to gather insight on the relative importance of specific environmental, social and governance (ESG) issues. The insight is most commonly used to inform sustainability reporting and communication strategies, but it also is valuable to strategic planning, operational management and capital investment decisions<sup>[55]</sup>.

**Natural capital:** Natural capital is defined as natural assets in their role of providing natural resource inputs and environmental services for economic production<sup>[53]</sup>. Meaning it is the elements of nature that directly or indirectly produce value to people, and includes ecosystems, species, freshwater, land, minerals, the air and oceans, as well as natural processes and functions<sup>[58]</sup>.

**Net positive:** Net positive refers to an ambition taken by organisations to ensure they 'put more back into the environment or society than an organisation takes out, with a resulting overall positive impact'. In 2014, the Net Positive Group, an industry-led coalition of a dozen organisations coordinated by Forum for the Future, set out principles to characterise a Net Positive approach<sup>[56]</sup>.

**Purpose driven organisation:** A purpose driven organisation is one that sets out for itself a clear social purpose and organises its operations behind that ambition. This is considered to be vital for sustainable businesses, as a shared purpose is said to be able to galvanise people to 'ignite long lasting positive change, driving growth and innovation'<sup>[59]</sup>.

**Restorative enterprise:** A similar concept to 'Net positive', restorative enterprise refers to the ambition an organisation has to do more good for the earth than harm. The term implies the need for people to reverse previous environmental destruction and was most famously used in a speech by Ray Anderson in 1994 where he laid out his ambition to make carpet manufacturer Interface the world's first sustainable company<sup>[60]</sup>.

**Social impact:** Social impact is defined as a significant, positive change that addresses a pressing social challenge<sup>[61]</sup>. In this report, it specifically refers to the effect an organization's actions have on the strength and wellbeing of communities.

**Social value:** Social value refers to wider financial and non-financial impacts of programmes, organisations and interventions, including the wellbeing of individuals and communities, social capital and the environment. In this report, it specifically refers to the net social and environmental benefits generated by an organisation to society through its corporate and community activities<sup>[62]</sup>.

## UKGBC'S VISION

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A sustainable built environment is one that enables people and planet to thrive by:

- Mitigating and adapting to climate change
- Eliminating waste and maximising resource efficiency
- Embracing and restoring nature and promoting biodiversity
- Optimising the health and wellbeing of people
- Creating long-term value for society and improving quality of life

The UKGBC vision of sustainability is comprised of social as well as environmental factors and we believe that these are integral to a financially successful built environment industry.

In 2012, UKGBC published 'A Plan for Growth in a Resource-Constrained World'<sup>[63]</sup> and in 2013, 'The Business Case for Green Building'<sup>[64]</sup> which was produced together with the World Green Building Council. That report examined whether or not it was possible to attach a financial value to the costs and benefits of sustainable buildings and looked specifically at issues around design and construction costs, asset value, operating costs, productivity, health and risk mitigation.

## REPORT METHODOLOGY

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As with all UKGBC work, this report is as a result of a collaborative process, working with our members.

The primary content for this report has been sourced from desktop research, compiling the existing sources of information on this topic to form the basis of the report.

The findings of the secondary research were then tested through a UKGBC-led member workshop. The workshop aimed to reveal existing and future practices within the UKGBC membership around capturing value and compile workable and practical metrics that could be implemented in follow on projects. The participating members represented a cross-section of the UKGBC membership, spanning the entire built environment value chain.

Workshop attendees participated in discussions on one of three value drivers: securing and retaining talent, brand and reputation, or customer attraction and satisfaction. Each participant had to fulfil one of two criteria:

1. Work within a department which impacted on the value driver; or alternatively
2. Hold a sustainability-related role which could comment on the value driver.

The results of the workshop were assimilated into the deep-dive chapters on the value drivers as well as the metrics for each value driver.

Additionally, an aim of this project was for the final output to appeal to senior decision makers in financial roles. To this end, several senior financial professionals from within member organisations have been consulted to ensure that the content resonates with this community.

Several members of the UKGBC Members Advisory Group kindly reviewed draft reports and provided valuable feedback.

All members and stakeholders who have participated in the research are credited within this report.

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# 13. Contributors

The “Capturing the Value of Sustainability” report was principally researched by a team at UKGBC and JLL (who provided half of their sponsorship contribution in-kind) with a member steering group comprising five sponsoring organisations, that shaped the output, along with input from other UKGBC members. At key points in the development process the report has gone for wider UKGBC member participation and review, especially from those in senior finance roles. UKGBC would like to thank all those who have contributed to this new report.

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