



NOA Green Steering Committee

White Paper

Greensourcing: The challenges facing the business world



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1.0 Introduction

This initial paper is the collation of key points arising from the first NOA green steering committee meeting. The paper establishes how important the green agenda is within the outsourcing community, whether carbon neutrality is an unreachable aspiration or an achievable reality and finally what needs to be done to ensure fair and effective measuring of carbon emissions.

1.1 About the National Outsourcing Association

The NOA is the UK's only outsourcing trade association. Advocating best practice, the NOA represents outsourcing end users, vendors and other companies which support outsourcing, such as legal firms, consultancies and HR. The NOA is involved in research, events, education and public affairs. The vast quantity information that the NOA has collected is referred to as the BOOK (the Body Of Outsourcing Knowledge).

The NOA strives to promote best practice in all areas of outsourcing and offshoring and strongly advises that organisations, which adhere to best practice, are more likely to succeed in outsourcing endeavors. This sentiment was the principal driver behind investigation into the green agenda in the outsourcing community.

1.2 About the NOA green steering committee

The NOA green steering committee is formed of industry experts with specific sustainability and/or green experience. The committee represents a variety of organisations including analyst firms, public sector organisations, suppliers and end users.

The steering committee aims to explore the green challenges facing the outsourcing community and offer guidance to government officials as well as produce informative guides for the outsourcing community.

2.0 Background

The green agenda has increased in significance at an incredibly rapid rate over the past few years. New legislation and hefty carbon reduction targets mean that all businesses are incorporating green strategies into their overall business plan.

The Climate Change Act 2008 starts by imposing a statutory duty on the Secretary of State to “ensure that the net UK carbon account for the year 2050 is at least 80% lower than the 1990 baseline”. This is an ambitious and imposing target that looms over the UK and, due to the growth of the global economy, this target will affect any company that conducts business with UK organisations, no matter where they are in the world. The European Commission has also set legally binding carbon targets including a 20 percent reduction in greenhouse gasses, an increase in the share of renewable energy by 20 percent and the same amount of improvement in energy efficiency, all by 2012.

It is therefore evident that governments across the globe are taking the green agenda very seriously. In the UK, The Carbon Reduction Commitment (CRC), currently being drafted by the Department for Energy and Climate Change, aims to target around 20,000 large public and private sector organisations for carbon reduction.

The outsourcing industry is no stranger to the green agenda. Many large organisations within the industry have already implemented green policies. However, despite the growing legislation surrounding the issue of carbon emissions and climate change, businesses are finding it increasingly difficult to cut through the chaff and establish exactly what it is they need to do in order to implement an effective green strategy.

3.0 Does green matter?

The overwhelming consensus to the question of whether green still matters is yes. However, this commitment to green issues is not driven by an altruistic need to reduce carbon emissions; instead, green issues are high on the boardroom agenda because of three factors: Cost savings; government enforcement and competitive advantage. The committee also agreed that the ease with which companies can show off their green credentials, especially over other aspects of the Corporate Social Responsibility (CSR) agenda, is also a catalyst to implementing a green agenda.

3.1 Cost savings

This year's Green Outsourcing Survey found that among 460 outsourcing technology operations leaders, 97 percent felt that high energy costs are the driving factor behind implementing a green strategy. Other motivations for carrying out green initiatives included public opinion, client demand and corporate viability.

The green agenda can actually be led by cost savings, which of course makes it more attractive to implement. If a company is more efficient it will enjoy a reduction in utility overheads and a reduction in waste. The maturity of carbon trading is also adding significant value to green initiatives. Now businesses are engaging in this 'green currency' far more than previously anticipated.

Escalating energy prices are also fueling the green fire. The 2009 Green Outsourcing Survey found that 84 percent of respondents felt that outsourcing to control energy costs was a top priority. CxOs will not think that green processes are implemented at any price, there needs to be a distinct ROI in order for them to engage in any green initiative. By highlighting the cost savings that can be associated with green issues, businesses and public bodies alike can reinforce the importance of the green agenda.

Cost incentives are perhaps the biggest catalyst behind the green agenda. As businesses across the globe have to deal with a turbulent economy and ever nearing carbon reduction directives, cost, as in much of the outsourcing community, is indeed king.

3.2 Enforcement

The growing legislation surrounding climate change and in turn carbon reduction will affect everybody, regardless of whether a company is a supplier or end user. The enforcement of carbon reduction directives will have a direct impact on the outsourcing market, ultimately determining just how important the green agenda is.

The UK Government is committed to reducing CO2 emissions by 80 percent and all government departments and agencies have specific targets that not only focus on ICT but also recycling, waste and water consumption. As time goes by the number of regulations won't reduce, organisations will only face more regulatory compliance. If voluntary targets are not met, then sanctions, penalties and enforcement will only get tougher.

The proposed CRC initiative, coming into effect in 2010, has significant penalties associated with it from the outset. A fine of £5000 will need to be paid for any qualifying company that has not registered for the scheme. For each subsequent day that an organisation does not register, there is a further £500 fine. The CRC draft guidelines also refer to the publication of non-compliance as a penalty, highlighting the importance of image when dealing with green issues. Of course, organisations who fail to comply with the CRC initiative will face uncapped fines and imprisonment of accountable personnel.

Carbon reduction targets are dictating the future of business operations. ICT is responsible for two percent of the global CO₂ emissions and as one of the major sectors within outsourcing, it is plain to see why carbon reducing green policies are becoming essential.

3.3 Competitive advantage

ICT vendors, manufacturers and service providers are looking to the green agenda to give them the competitive advantage. Developing green initiatives and implementing the strategies, means that businesses can prove exactly how green they are.

However, the green agenda is not something that organisations can simply pay lip service to. Frequently, RFPs are seeking green credentials within the selection criteria. This is especially true for public sector contracts, where green is now part of the standard criteria.

The procurement process for any organisation looking to outsource will almost certainly consist of some element of green. Businesses will be looking to maximize the service provided by the suppliers and that includes enhancing the overall green strategy of the end user. Organisations not taking the green agenda seriously will find themselves very quickly ignored at the procurement stage. Not having green credentials will mean you are not even considered for the business.

4.0 Carbon Neutral – Myth or Reality

Ever since the green agenda has been brought to the attention of the media and the general public, organisations have been desperate to get on the green band wagon. Both the private and public sector have been inundated with organisations claiming various green credentials including carbon neutrality.

4.1 The hype

'Greenwash' is a term used to describe green business practices that give the image of a proactive green strategy while actually achieving very little. Greenwashing became synonymous with major international brands wanting to capitalise on the tidal wave of green news stories and shift in public opinion.

A 2007 report on the myth of carbon neutrality published by the NGO, Carbon Trade Watch, claimed that organisations were delaying any real progress to the green agenda whilst simultaneously increasing their competitive advantage. The report goes on to highlight advanced greenwashing, which meant that companies were claiming carbon neutrality through a variety of ineffective offsetting schemes.

The hype surrounding carbon neutrality and over zealous green claims also meant that businesses who actually were implementing an effective green strategy, had difficulty in getting any credit for their efforts. The hype has died down in recent months as more organisations realise that real green measures need to be implemented in order to meet rigorous targets. The scrutiny of the media, the public and green monitoring organisations has become more robust and unfounded green claims are quickly discarded or criticised.

However, there is still a distinct problem within the green debate which creates issues for any organisation trying to establish, implement and exhibit an effective green strategy. That primary problem is a lack of definition and measurement of carbon neutrality and green strategies.

4.2 Defining the problem

What does it mean to be carbon neutral? Unfortunately there is no definitive answer to this question. Organisations have a huge amount of directives to wade through when investigating what needs to be done within the green agenda. However, these directives can sometimes be conflicting and lacking in any real definition. DEFRA is still yet to agree on a carbon neutral definition or offer a clear set of check points for businesses to follow.

This lack of definition has allowed the hype, addressed in the previous section, to take place. Without any definitive guidelines, companies are left at a loss as to what to do. It also allows marketing teams to exploit the lack of definition by either coming up with their own, usually ineffective, measurement standards or by taking part in an equally ineffective outside audit.

As well as a lack of definition and set of guidelines, outsourcing suppliers are left with other problems when addressing carbon reduction and neutrality. Currently, an outsourcing supplier is penalised when taking on a client's data centre. Regardless of whether the client's data centre has become more efficient and greener, the supplier will have to log an increase in carbon emissions and therefore face possible criticism from government organisations and NGOs, or even face penalties and sanctions.

This unfair form of measuring reduces any incentive associated with suppliers offering greener technology. Client demand will act as the only catalyst for a supplier to switch to green technology. However that supplier will then pay for that investment as well as any carbon trading or offsetting that needs to take place in order to make up for the increase in carbon emissions.

Clearly there needs to be an investigation into the issue of defining and measuring carbon neutrality. There is plenty of legislation that is due to come into effect that looks to impose tough penalties on organisations that fail to meet certain criteria. However, there is no legislation that addresses the issue as a whole and until this is explored, green initiatives will not be as effective as they can be.

5.0 Measurement for the masses

There is an obvious need for an effective, overarching, carbon neutral definition and measuring process. It is therefore essential that a uniform standard of measurement is explored. By bringing all organisations in line with a single standard, green initiatives will become much more robust and measurable. Once a standard has been determined, governing bodies can then implement separate agendas that look to further advance the green agenda and ultimately reach the current carbon reduction targets.

5.1 The ultimate green tick

There are a vast amount of green ticks of approval offered by various NGOs, consultancies, analysts and seemingly irrelevant firms. Essentially, this means that any organisation, from SME to giant corporate, can pay a certain amount of money to an organisation, undergo an unaccredited audit process and emerge with a mark of approval. This mark of approval can then be exhibited to clients and the public without any real approval process having been undertaken.

By creating one standard, organisations will have to meet a set of uniform requirements in order to classify themselves as green/carbon neutral. This standard would need to be internationally agreed, as organisations engaging with offshore suppliers will still have to meet homeland carbon regulations and so will need to ensure that the vendor's green initiatives are in line with their own.

The ultimate green tick would allow organisations to conduct business with vendors, safe in the knowledge that they have met international regulations. Suppliers would also be able to tender for projects knowing that they have met the minimum green requirements established by the international community. This would create a safer and greener market for organisations to engage in, as any business that did not have this standard approval, would not be able to tender for work that demanded it as part of the selection criteria.

Defining exactly who would conduct the audit process is another point to consider. The uniform standard would need to be agreed by government bodies from across the globe and it may arise that a particular organisation is either created or chosen to conduct the audit process. This organisation would also need to regularly examine the audit checkpoints as the green agenda will inevitably change and so the audit process would also have to evolve.

A definitive green tick would greatly enhance the green agenda globally. It would eradicate false claims, support legitimate green organisations and bolster any other green policy.

5.2 Uniform measurement

The measurement of an organisation's carbon emissions and green initiatives also needs to be examined in depth. How far should an organisation's carbon emissions be audited in order to get an idea of how carbon neutral they are?

It is safe to say that many organisations claiming to be carbon neutral are only taking into account their internal processes with few looking at their outside suppliers. It is therefore necessary to explore an organisation's supply chain in greater depth.

An organisation claiming to be carbon neutral may not take into account their telecoms provider, their waste management providers and other suppliers. A uniform measurement standard must be developed in order to examine internal processes, suppliers, reporting structures and other carbon relevant criteria. Of course, it is unreasonable to consider examining the entire supply chain therefore this uniform measurement needs to have set boundaries, establishing exactly where the carbon emission assessment stops.

Again, by developing a uniform measurement system, organisations can be judged appropriately and fairly on their carbon emissions. A uniform measurement also means that a fair comparison can be made between industries, sectors and organisations. The proposed CRC initiative does incorporate a uniform measurement system; however, this is only for select organisations. There is yet to be a standard form of measurement for organisations across the board, whether public or private, SME or large corporate.

5.3 Supplier carbon measurement

End users frequently turn to suppliers to improve their green initiatives, especially when outsourcing data centres. This is a legitimate form of improving your carbon emissions, with many suppliers provide greener technology as part of their standard service offering. However, steps need to be taken to help suppliers offer this service rather than penalise them for taking on more emissions.

Regulatory bodies currently only measure the overall carbon emissions a supplier has. This means that a supplier taking on a client's data centre will inevitably have increased carbon emissions. The supplier would then either need to engage in an offsetting arrangement, which may take money away from new technology investment, or face possible penalties.

By acknowledging the green improvements made to an outsourced process when auditing carbon emissions, suppliers will be better placed to improve technology, decrease carbon emissions and contribute further to the green agenda.

6.0 Conclusion

The green agenda is more important than ever. Cost saving, legislation and competitive advantage are all fuelling the need to implement a robust green initiative. However, there is still a significant lack of understanding when evaluating an organisation's green strategy.

A lack of definition coupled with confusing and sometimes conflicting guidelines has meant that organisations have over hyped their green initiatives with unaccredited stamps of approval, aggressive marketing campaigns and ineffective carbon offsetting.

Therefore it has been suggested that there needs to be a definitive green standard that all organisations can engage with. This green standard will need to be internationally regulated and approved so that there can be a level playing field within the global market. This uniform standard will reduce the amount of scrutiny needed to establish whether or not a company is green. The outsourcing community will benefit from a greater understanding of exactly which supplier conforms to green standards. This will allow end users to establish exactly who they can partner with to ensure a greener future for their business.

Uniform measurement also needs to be considered. This will create a fairer carbon emissions measurement system and will deter organisations to wrongly claim carbon neutrality. A more robust measurement system will include examining the supply chain in greater depth as well as all aspects of organisation's processes. This will be a definitive measurement system that will allow for effective comparison of performance across sectors and industries.

It is evident that there is a considerable problem when measuring an outsourcing supplier's carbon emissions. Many more organisations are choosing to outsource their ICT to a third party, not only to provide a better service but to also improve the carbon neutrality of their ICT. It is therefore imperative that any new carbon measurement initiative takes into account the improvements a supplier makes to an end user's carbon emissions.

6.1 Looking ahead

This paper has highlighted key areas that need to form part of a call to action campaign. It is the intention of the steering committee to develop an approach to help overcome these issues. The committee will aim to advise relevant officials and regulatory bodies on how best to approach the issue of carbon reduction and the green agenda, with specific focus on the outsourcing space.