

CEDA Speech 10 October 2006, Sydney Australia

Sustainability is something that business must get right.....

In the many years that I have run various Lend Lease businesses outside of Australia, one surprising fact shone through - that much of the Australian economy and particularly the property market was world competitive and Lend Lease, by virtue of having competed successfully in Australia, actually had a competitive point of difference when we got out into the big bad world. Much of our offshore success was achieved by leveraging what we had already learnt in Australia.

What I am seeing now is that many businesses around the world are either willingly or being forced, to build another operating discipline in their kit bag. That is, to do what they do well, and do it in a sustainable fashion.

Disturbingly for Australian business, and long term Australian competitiveness, the big hurdles we are being forced to jump are not here in Australia.

The risk for Australia and Australian business, is that as global and northern hemisphere companies get on top of sustainability and build genuine company cultures around it, many Australian domiciled businesses could be left behind. A number of this year's CEDA lunches have had a sustainability and environmental theme. I wanted to spend my time today building on this from a "what might this mean to business" perspective.

This is as opposed to taking the platform today to tell you:

- not to buy coastal property because it will be flooded in 20 years
- or to stock the cupboards with bottled water before it all runs out.

I will speak for 20 minutes and am happy to take questions at the end.

I want to focus on 3 key themes today:

Firstly - I want to provide some insights into a few of the sustainability trends we are seeing around the world that will, and are, impacting businesses and which I feel are relevant to an Australian audience - an audience that is broader than just the property industry.

Along the way, and to help bring this to life, I thought I would give you some examples of where we got it right and where we didn't.

Secondly - I want to come back to the point I was making in my introduction - which is that Australia and Australian business are not leading the way in sustainability and the medium term risk this poses to the overall competitiveness for our organisations both at home and abroad.

And finally - I want to focus you all on the younger part of your workforce and talk about their psyche and how mostly they are already predisposed and pre-wired to think of the environmental, social and economic issues that face the world. I want to share with you how Lend Lease and a number of our client companies are harnessing this to drive their overall company ethos towards true sustainability.

I am pretty proud that I have managed to talk this long on one of the most derided and misused words around – without even putting a definition up!

Before I move on I want to now correct this – just to make sure you understand some of the points I will be making later.

To be sustainable is to achieve:

“Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”

Therefore, when thinking “sustainability” do not just think environmental. The term covers social and economic outcomes as well.

Lend Lease has an aspiration to become a sustainable organisation and more and more, this aspiration is pervading our culture and defining both the way we do business and what business we do. It affects us organisationally, and it impacts each and every project we look at.

So while it means a commitment that our projects exceed environmental standards and lead the market in green building design and performance, just as importantly it means a number of other things:

- actively working to eliminate work-related death and injury;
- providing opportunities for the development of employees that will retain and attract talent to our organisation;
- contributing to the long term health of the communities that live and occupy our developments and buildings by focusing as much on the social and economic components as we do on the physical spaces we build. *We call it getting the software right.*; and
- ensuring our relationships with clients and partners are long lasting and mutually successful.

As I said in my opening remarks, the world is moving on the broader sustainability agenda and no matter what business you are in, or where you have operations, it is hard to avoid. Almost counter intuitively some of the worst offending organisations from 10 to 20 years ago are becoming the most progressive.

These companies were the obvious first targets for the many NGOs that sprang up around the world like Green Peace and Amnesty International. The oil companies have been well and truly scrutinised from an environmental perspective, the pharmaceutical companies for having life saving patented drugs that are too expensive for people in developing countries to afford, and many larger international companies have come under serious attack when they take decisions which might be sound on a global stage, but which have dramatic social and economic impacts at the local level.

When you get inside the companies that have successfully worked their way through these issues over many years you find two things:

- that they take sustainability very seriously; and
- that they are not faking it.

The very survival of their organisations depended upon this becoming a real and genuine value - part of the organisational DNA.

This trend started to have consequences for Lend Lease around six or seven years ago - not directly, but through a number of our relationships with organisations like BP and Pfizer. Where we worked for, or with these organisations they demanded we lived up to their aspirations and values, and not just while working for them, but holistically across all our operations.

A good example is how Lend Lease's safety awareness and cultural change programme was driven and inspired from Lend Lease working with BP as a client.

After a couple of serious safety incidents in our Alliance with BP I got to meet John Browne (Lord Browne) the BP group CEO. It was not exactly the first meeting with him I had hoped for. The essence of my "invitation" to meet him was to convince him of how we were going to fix what he saw as a total lack of safety culture in both the Lend Lease business and the BP Lend Lease global alliance.

The meeting was not particularly pleasant and I left with the clear understanding that we had six months to show material progress. If we failed, he would terminate all our BP contracts around the world. At the time, this represented some 15% of Bovis's annual profits. The focus this caused within Lend Lease was real and ultimately has made us a better company.

The Lend Lease BP alliance now achieves “best in class” safety approaches and statistics when compared with all of BP's operations and even more importantly, getting it right with BP, translated to an entire rethink of our own approach around worker and employee safety across all of Lend Lease's businesses world wide. As of today that covers operations in some 44 countries.

Coordinated activism through NGOs, or other well-organised groups of people continues to grow rather than diminish. It is not hard to make the leap that the Property Industry and its participants are likely to experience growing attention over the coming years. A simple look at some of the statistics bears this out:

- buildings through energy consumption contribute 40% of global greenhouse gas emissions;
- they also consume one third of the world's resources from the materials used to construct them;
- construction activities are responsible for 40% of the world's waste, and are one of the biggest industrial killers in the world; and finally
- much development activity continues to regularly contribute in creating tomorrow's urban slums.

I thought I would bring this last point to life through this slide showing a picture of social housing apartments being built in Elephant and Castle in London around 40 years ago. They were a disaster within 10 years of being built, creating whole pieces of London with no demographic diversity and chronic in-built social problems.

Predictably, we are now competing for a regeneration project, of which the first phase is to knock down the 20,000 apartments that were built back then. This slide shows a tract of new suburban development in America, and clearly we are not learning from our mistakes. That in itself provides great potential competitive advantage for companies who have learnt these lessons, sometimes the hard way, but who now have the means to apply them effectively across multiple markets.

The rising reality of community activism and the direct impact it has on political decision making (or not making) is a lesson that has been well learnt by Lend Lease in the many years, since we first popped the champagne corks in 1993 upon being appointed development manager of the then ADI St Mary's site in Western Sydney.

Back in 1993, as far as we could tell, we had 1500, juicy hectares of infill residential community development ahead of us. What a cake-walk! We thought we would hire the best master planner in the world, drop the solution on the Council, and everyone would just love it. Well, 13 years later the development is nearly half the size of the original scheme and we've only just started to sell the first the home sites in the Eastern Precinct, "Ropes Crossing".

In many ways, St Mary's has been a litmus test for some of the extraordinary changes in planning for sustainable development over the past decade. It has been very frustrating at many times but we have learned a great deal through the process and I think it is fair to say, we now have a development outcome that will be a great ongoing sustainable community.

Ropes Crossing - which is the first area in which we are now selling home sites, incorporates much of the 'software' I mentioned earlier:

- a commitment to create around 5500 permanent jobs over the life of the project (our skilling and training centre has already found work for 226 people);
- flora and fauna reserves that deal with the extensive wildlife on the site;
- integrated education outcomes;
- diversity in housing price points to ensure a true community and not a one-size-fits-all extension of the western Sydney suburban sprawl; and
- many other "standards" we would now apply when approaching any community development.

If only we had started with these themes at the beginning.

Another trend of notable importance is the rise of various business based organisations. These can generally be classified as either:

- trying to measure how well you are achieving sustainable outcomes;
- themselves trying to represent business and set the agenda as to what government should be trying to do; or
- setting up investment vehicles that will only invest in sustainable and accredited companies.

I'll pick one of these and talk briefly about the United Nations' Global Reporting Initiative - or GRI. This initiative seeks to make reporting on economic, environmental and social performance by all organisations as routine as financial reporting. It provides reporting guidelines that enable the assessment and communication of an organisation's sustainability performance, in a framework that allows for comparison between companies, as well as benchmarking and informed target setting. More than 1000 organisations reference the GRI in their Sustainability Reporting and the number increases dramatically every year.

As a side note, GRI is a key criteria used to assess companies that are included in the Dow Jones Sustainability Index. As well as providing universal reporting guidelines, the GRI also provides a number of 'sector supplements'. This is in response to the unique and sometimes detailed needs of particular sectors. Many of these sector supplements are being developed as we speak.

As a result of an apparent lack of awareness and engagement from both Australian Government and business, there is a real likelihood that these reporting standards will be laid down without much Australian industry discussion and involvement. For our part, Lend Lease is actively engaged in the development of a GRI property sector supplement. We want to make sure it makes sense and is relevant to how we see we should be reporting on sustainable issues in the property industry.

Our view is that the GRIs will become the reporting framework for public companies. It is therefore disappointing the Australian Government is on a “let’s monitor the uptake of the GRI” approach and industry bodies – including the Business Council of Australia - have been slow to engage at best.

I would now like to bring these world snapshots together with a handful of key take-aways.

Even if sustainability issues are not a real issue for your business now directly, they could be very real for your customer base. Find yourself out of step with them, or incapable of dealing with their philosophical position, and you may find yourself not doing business with them.

Sustainability, and caring about it, is not something you fake. The companies that are best at it have spent years driving and forging the entire company culture in this direction.

Understand who you work for. If they are really behaving in an unsustainable fashion themselves, be very careful of doing business with them. Someone might see you as the point of leverage to get to them.

Make sure you understand what your industry and your impacts are. You might be next on the hit list of organised activism.

The broader sustainability agenda is getting driven outside Australia and is starting to get a real head of steam. You should understand it and influence it if necessary.

This roam around the world brings me to my second theme, which is my perspective on Australia's competitive outlook against the backdrop I just described.

Australia has one of the most competitive property industries in the world. This is thanks to a combination of the outward looking companies that have made up our market, and progressive and open economic policy settings that have forced the industry to compete on a global stage for a long time. Business around the world is now adding a new tool kit to their basic 'must have' operating systems and that is sustainability.

Lend Lease, by virtue of our international activities has had to embrace this and drive it holistically across its businesses around the world.

This represents itself in many different ways:

- implementing GRI to both stay in the various sustainability investment indices as well as effectively compare and contrast our progress against competitors;
- needing to take safety to the next level to continue to work for the likes of BP, Pfizer and a growing number of others; and
- establishing a business in the UK that focuses exclusively on achieving social housing outcomes. This is so we can effectively deal with the City of London's mandated target of 50% affordable housing in each and every housing development.

The list goes on ...

My point is simple.

Australia is not leading in the area of sustainability and being able to achieve sustainable outcomes. As a result, businesses in Australia are at risk of being increasingly left behind and becoming increasingly vulnerable to international competitors.

The final point I want to make is that starting this journey is not that hard and the answer lies within the younger part of your workforce as they already get it. The education system, TV, the internet, and society in general are producing a cadre of people who are naturally aware of these issues and generally take them very seriously. So if you can organise your business to harness this, they will naturally drive your organisation forward with the culture and values you need to succeed.

This actually cuts the other way as well. You will not attract the best and brightest unless your organisation has a sincere and transparent culture that aligns with this group. Australia has the lowest unemployment figures in 27 years. We, as employers, are under pressure to attract, recruit and retain key employees. In a recent survey of over 1000 people conducted by Hays, skills shortages were regarded as the major factor influencing business today, ahead of global and national economic trends and increased regulation and compliance.

The Generation Ys (*those loosely under 30*) are the young recruits of today and are the future of the talent we need to maintain business success.

To a Generation Y, an organisation's reputation or brand, a meaningful profession and a belief in what the company stands for are important elements in their decision to work for an organisation. 72% of Generation Y will not apply for a role with an organisation if they do not believe in what it stands for. Likewise, nine out of ten Generation Y candidates view the reputation or brand of an organisation as important in their decision to work for a company.

So how do you move your company and start this journey?

Firstly, the leadership of the business has to believe they need to get moving with sustainability.

Secondly, you need to create an environment where the people who are passionate about the variety of issues that sustainability covers get some head room to start to drive a cultural revolution through your business.

I could spend hours on this but rather than slip into a lecture on changing your companies culture I thought I would give you a snap shot of how we, and a number of companies we are working with, are approaching this. And yes, you have guessed, it is another property example.

Many of the most progressive companies in this area, including Lend Lease, are using their office accommodation and amenity of their work environment to reinforce corporate culture and to create a working environment that employees truly value. Let me pause and play this out in reverse.

Let's say, like most, you are a company that somewhere says you are sustainable or aspire to be sustainable or something along those lines.

Then let's cut to your Head Office.

Environmentally how does the base building rate? How does your fit out and the use of your fit out rate? Have you asked your staff whether their working environment reflects the beliefs and standards that you expect others to understand and accept about your organisation?

If you have a stated social conscience as an organisation have you even looked at what might be happening in the area directly around your offices? Have you engaged as an organisation in these local social issues? To bring this to life I want to explain what Lend Lease was trying to achieve when it moved into it's new corporate headquarters at 30 The Bond in Hickson Road.

Developing The Bond three years ago was the start of Lend Lease holistically formalising its drive to underpin our business culture with a genuine sustainability theme. A theme that went beyond what we did on our projects and for our clients. As I said earlier, the key decision for leadership to decide to do this at that time was simply a matter of empowering our people and getting out of the way. The brief the team had was to both make the building sustainable, as well as to make how we used the building a catalyst for sustainability across our entire organisation. The only caveat was that we were not prepared to pay any more in rent than a normal commercial building.

They exceeded our wildest expectations.

The building set new environmental benchmarks around the country. Innovations in the way the base building was developed, the materials used and the approach to building services allowed us to achieve Australia's first 5 Star ABGR rating, exceeding the bench mark by 20%. Equally, our approach to how we built and then used the fit-out achieved similar outcomes. This allowed us to work both more efficiently and cost effectively.

The net result was we exceeded the 5 Star tenancy rating by 40% or in other terms were only consuming 25% of the average office tenancy. The building created a great work space with a 'wow' element to the design. It achieved transparency, flexibility, lots of bump factor, and an ability to put the relevant business units close to each other.

We also looked outside our own office accommodation and engaged with the local community. In The Rocks area immediately around us there is a large social housing community with many single parent homes having many difficulties in raising their children.

Engaging with this group has lead to 50 Lend Lease people being trained as individual mentors to work one-on-one with many of the teenage kids and to the establishment of a not-for-profit that has 13 members from business, government and the industry in the area who now work collaboratively with the local community on a range of issues.

Lend Lease has received many accolades for The Bond and what we are doing for the community in the area. I'd love to stand here and say that this was all my idea - that it was the brainchild of enlightened management. But clearly it wasn't. These were staff initiatives, and the credit belongs with them.

The lessons learnt from 30 The Bond have been transferred to not only our clients' projects but to our own offices, including our new premises in London and the design of our new Melbourne office building and fit out, which I am sure will set new bench marks for us.

I would like to leave you with the following thoughts.

Business around the world is getting fighting fit to achieve sustainable outcomes combined with delivery bottom line results for shareholders.

The agenda is being driven much more aggressively from outside of Australia so be careful not to miss what is happening.

Sustainability is not something you can fake and you need to think of how you craft a culture in your organisation that is genuinely engaged on this issue.

Not getting this right will put you out of step with the values and morals of the younger element of your work force and ultimately limit your ability to attract the best talent.

And finally, that Lend Lease would only be too happy to help you rework your office accommodation to get you started on this journey.

Thank you