

THE NATURAL STEP ORGANIZATIONAL CASE SUMMARY

SCANDIC HOTELS AB Headquarters: Stockholm, Sweden

A. THE BUSINESS

Scandic Hotels AB is the largest hotel operator in the Nordic region, comprised of Denmark, Norway, Sweden and Finland, and one of Europe's most successful hotel chains. It operates full service hotels in the three and four star categories which are generally situated either in city center locations or on the outskirts of cities and major towns with easy access to local airports and/or major road networks. With headquarters in Stockholm Sweden, the Scandic chain consists of more than 120 hotels of which 109 are in the Nordic region. The balance are operated under the Holiday Inn banner in Germany, the United Kingdom, Austria, Belgium and the Netherlands. Scandic has the highest market penetration of city-center-located hotels in Sweden, and has captured more than 20 percent of the total room capacity in Sweden. The company's business mission is "to offer many people the highest value for money when staying in its hotels, during work and leisure".

Founded in 1963 as the Esso Motor Hotel chain by US petroleum giant, Exxon, to bring the American concept of a motor hotel to northern Europe, Scandic has transformed itself over the intervening years to an independent, publicly traded company, and the first dedicated hotel operator to have its shares listed on the Stockholm Stock Exchange. Consolidated revenues and operating income for the 12-month period ending December 31, 1998 were roughly US \$580 million and US \$36, respectively. Currently Scandic employs about 6,600 people.

B. PRINCIPLE MOTIVATION FOR CHANGE

In 1992, Scandic was a company in deep trouble struggling to survive with accumulated losses between 1990 and 1992 of approximately 350 million SEK (approximately US \$50 million at the time). The parent company owner brought in a new CEO, Roland Nilsson, who created a new management team to deal with the crisis of survival. The new team found that the company's marketplace had changed significantly over the years, and the company's former management had lost touch with the changing values of their market. Scandic did not have a set of unifying core values with which either its customers or its own employees could identify.

The company needed a new vision and new values for a changing society and a changing market. The new CEO determined that the way forward for the "new" Scandic had to be based on a whole new set of core values —values based on a profound caring for Scandic's customers, its co-workers, its shareholders, the communities in which it operates, and the natural environment.

C. CHOOSING THE NATURAL STEP ("TNS")

CEO Nilsson realized that concern for the Earth and the impact of business on the natural world had become a significant value for many people, and Scandic had not kept pace with this value shift in its marketplace. The company needed to (a) find a way to quickly educate senior management and all employees on environmental issues, and (b) effectively bring environmental values into the strategy and operations of their very competitive business. The company researched the environmental sector and determined that the one organization that had credibility in both environmental and business circles was The Natural Step. Nilsson met with the founder of The Natural Step, Dr. Karl-Henrik Robèrt. He was impressed with the clarity, simplicity, and profound implications of Robèrt's approach. Consequently he invited Robèrt to make a presentation to the management group to give them the opportunity to learn more about The Natural Step methodology. That meeting confirmed that Scandic would proceed with The Natural Step as the basis of its environmental education and programs. Nilsson chose The Natural Step approach because he saw it provided a knowledge platform with which to proceed in the environmental realm.

D. TNS INTRODUCTION AND IMPLEMENTATION

To communicate the seriousness of the internal values shift and change in vision, and to mark the transition from the old regime to the "new" Scandic, in 1994 Nilsson took his entire senior management team of over 100 people including all of the hotel general managers on a five day corporate retreat and workshop. To demonstrate his seriousness about the importance of the environment to the business of the new Scandic, Nilsson provided Dr. Robèrt with one full day of the five days of their corporate retreat to give all of Scandic's senior management an introductory training in The Natural Step. Initially sceptical, many of the company's senior executives and hotel managers described The Natural Step training as "life-changing" and "the most powerful presentation that I have ever attended." Most executives now see that event as the turning point in the company. It powerfully signalled Scandic's new vision for the future of its business.

Few companies before or since have engaged The Natural Step with such immediate commitment, intensity, and understanding, or on such a grand scale. Within the first year of Dr. Robèrt's one-day workshop with Scandic's entire senior management team, all 5,000 Scandic co-workers had received The Natural Step training, and over 1,500 operational suggestions had not only been put forward by staff, but had actually been implemented. From the very beginning, CEO Roland Nilsson understood that The Natural Step was the knowledge platform that he needed for the new Scandic to drive forward with his vision of interactive values creation between his customers and his people.

Because of the breadth and depth of integration of TNS-based sustainability into Scandic's corporate strategy and operations, it is not possible to do more than mention some of the highlights here. Natural Step-based sustainability is now as integral to Scandic's operations and worldview as any other core element, such as financial control or quality of service. It is fully embedded as a key part of the way Scandic does business. Please refer to the section on Additional Information below.

Scandic initially developed its environmental program in the spring of 1994. It began by training 15 trainers in The Natural Step framework. This group then worked together to design a training program specific to Scandic. Extensive materials were prepared for the trainers and networkers. The training program Scandic developed based on The Natural Step is called “The Environmental Dialogue,” consisting of four components:

1. An **environmental guide** is provided to each Scandic employee. The guide contains information, ideas, and tips to stimulate environmental thinking and action. The guide also contains a description of the Environmental Dialogue process. It outlines Scandic’s vision to the year 2000, environmental goals, policy, and recent activities. It covers the basic principles behind The Natural Step framework including re-incorporating human activities into nature’s cycles and the four TNS System Conditions.

2. An **environmental meeting** that takes place about a week after co-workers receive the environmental guide. These meetings begin with an introduction to Scandic’s environmental work after which co-workers work in groups of six to eight colleagues to explore ways to make environmental improvements in their hotel. These teams are cross-functional, bringing together people from different departments to work on a common framework of issues. The co-workers in the hotel decide on the priority areas for their hotel based on the suggestions made in the environmental guide.

3. An **environmental program**, or action plan is created through the group process at the environmental meeting. Several groups in each hotel work in parallel to generate suggestions on how the individual hotel can take steps to reduce its impact on the environment. These suggestions are coordinated through the hotel’s environmental networker, who divides them into three categories: concrete activities that could be carried out immediately; ideas that need further investigation; and ideas that need investment consideration. Then the suggestions are discussed with the hotel manager and prioritized further. The environmental program is then distributed to all employees and made available to hotel guests. A copy is also sent to Scandic’s environmental headquarters and included in the hotel’s business plan.

4. The **environmental index** is a quarterly report containing a status report from each hotel with respect to meeting the goals set out in the environmental program.

In the first year of the Environmental Dialogue process, all of Scandic’s then 5,000 employees in eight countries participated. Each hotel made up an environmental program of activities to improve their environmental impact. More than 1,500 measures, generated through the Environmental Dialogue, were implemented. Some of these measures were large and sweeping, others were small. Each was a step toward reducing Scandic’s environmental impact and making Scandic more resource efficient and effective. Since the first year, Scandic has implemented an additional 500 measures that required more time or investment to implement.

To maintain an on-going level of interest and involvement, environmental issues are included in daily, weekly, and monthly meetings at each hotel — which are the “production units” of a hotel chain. Involvement is also bolstered through friendly competitions that occur between hotels with respect to meeting environmental goals, achieving high scores on environmental indicators, and through recognition individually

and collectively of the tangible contribution to protecting the environment that is derived from Scandic's policies and actions. In addition, a large part of Scandic's environmental program is communicated by means of the company's intranet where it can be accessed by all employees.

Another very significant area where environmental aspects are integrated into daily operations is purchasing. Ola Ivarsson, who directs Scandic's environmental program, combines this role with the functional responsibilities of Director of Purchasing. The senior and functional levels of this position indicate the intention to integrate environmental thinking into the heart of Scandic's operations. Ivarsson points out that enormous opportunity exists for picking the "low hanging fruit" at the moment a company selects its suppliers and products. Scandic develops projects jointly with their suppliers to improve environmental performance to their mutual benefit.

Scandic, like every quality hotel, must invest in constant renovation and refurbishing of its hotel rooms. The company recognized this to be an excellent opportunity to further reduce its environmental impact. Scandic is the first hotel chain in the world to introduce the innovation of a 97 percent **recyclable hotel room**. This means that the rooms are designed and built for their eventual disassembly, and that they utilize ecologically benign components to the highest extent possible under current technology. The rooms have proven to be very popular with Scandic's customers due to both their aesthetic quality and their contribution to a healthier environment.

Scandic has learned through experience that what gets measured gets done. For environmental thinking and action to be integrated into daily business operations, it is essential to figure out what to measure and how to measure it; and it is fundamental that the measurement take place accurately and fairly, and be communicated clearly to employees. Scandic has developed the following mechanisms for measurement:

1. **Environmental Barometer.** This is a measurement system to track initial progress. It was initially very broad, simply measuring the number of activities each hotel said it was going to do and the number that actually got done. Ivarsson felt in the beginning that this measurement system might have no value at all. Eventually, however, he learned that it did have value "because even such a broad or inconsistent measurement challenged people and we published those figures hotel against hotel, country against country." This feedback helped to maintain and even raise interest in environmental aspects. It gave the company environmental policy credibility in the employees' eyes and it reinforced that environmental concern was not just lip service, but was actually a priority of the management group.
2. **Environmental Index.** In 1995 Scandic developed the environmental index which is used quarterly. The index is a form of management-by-objective tool. Scandic has identified about 60 activities in nine areas in which hotels are to perform in relation to an ideal. Typical areas for the index include hotels having 25 percent of their light sockets filled with low energy bulbs; having bicycles available for guests; and performing a thorough energy analysis of the building. This index, which is displayed for guests as well as employees, measures and communicates that Scandic is making constant environmental improvements.

3. **Resource Hunt.** The environmental barometer was very basic. The environmental index was a bit more sophisticated. The third level of sophistication with respect to integration of environmental aspects into Scandic's business operations is the program which they have named the "Resource Hunt". The focus of the program is on resource efficiency (energy, water, and waste), sustainability, and dematerialization.

Scandic's rationale behind developing the Resource Hunt makes perfect business sense. If one looks at the prices for the use of different resources, one can see that the costs of fresh water, fossil fuel, and electricity in most of the countries where Scandic operates have increased over time at a rate higher than general inflation. If the company wants to gain higher cost efficiency, it needs to address these areas. For example, electricity prices in Germany are about 40 percent higher than in Sweden or Norway. In Denmark, water is about 50 or 60 percent more expensive than in Sweden. As Sweden is now part of the European Union, Scandic calculates that in the long term, prices will move upward. In many countries taxes on resources are expected to increase as well.

The Resource Hunt was initiated using the same methodology as the Environmental Dialogue. A new booklet was prepared for all employees, local seminars were organized in which every employee participated, and objectives were set in a local activity plan. The Resource Hunt is actually taking the environment more deeply into the heart of Scandic's business operations. It focuses on steps — large and small — that everyone in the hotel can take to reduce consumption of energy and water and the amount of unsorted waste. In relation to the base year, 1996, the annual cost for energy and water has been reduced by almost 12 million SEK (US \$1.4 million), which goes straight to the bottom line. Annual CO₂ emissions have also been reduced by more than 10 percent.

E. TNS IMPACTS AND LESSONS

Scandic has made one of the biggest perceptual breakthroughs possible in business today by entering a new paradigm: true ecological sustainability is not a cost to the company — it is a source of profits and real competitive advantage. The Natural Step has become the compass to help Scandic on its journey to become an ecologically sustainable corporation.

As the chief architect of Scandic's TNS-based program of environmental sustainability, Ivarsson believes that the only way to launch a successful environmental program in an organization is the following:

1. Provide a knowledge base for the whole organization;
2. Build a common framework from which everyone can make their own decisions about local activity programs;
3. Document these activities and fine-tune them; and
4. Set some minimum standards for operations.

Some of the benefits to Scandic of implementing The Natural Step include the following:

1. In a turnaround situation, the CEO needed to create a positive new vision and new values for the company. A focus on environmental sustainability created a key new distinction and TNS provided a rational, science-based platform upon which to proceed.
2. In a highly competitive marketplace, by understanding the values of its customers, satisfying those values, and influencing them provided the basis of a profitable and enduring business relationship.
3. By combining the Scandic purchasing and environmental portfolios in the hands of one person, Ola Ivarsson, who has developed a very strong understanding of The Natural Step framework, most of the material and energy flows into the corporation must pass a TNS-based sustainability review. The Environment and Purchasing Director is now the primary *resource gatekeeper* for the business. Many eco-efficiency and cost-saving initiatives have resulted in higher profits for the company.

An example of this is The Resource Hunt, the first year of which has been highly successful. The initial three-year goal of this program for Scandic as a whole was to reduce energy and water consumption by 20 percent and unsorted waste by 30 percent. Scandic's 1998 Annual Report provides the results of the first 24 months of the Resource Hunt. Average energy consumption at Scandic's Nordic hotels was reduced by 12 percent to 46kWh per guest per night and water consumption was reduced by 12 percent to 230 litres per guest per night. To put these figures in perspective, the average consumption per hotel according to a German survey carried out nationwide in 1996 was 55 kWh and 275 litres per guest per night. Scandic's amount of unsorted waste at its Nordic hotels was reduced by 28 percent.

4. For the first time in its marketplace, a hotel company has successfully made environmental sustainability a real competitiveness issue. By integrating the TNS framework into the heart of its corporate strategy and practices, Scandic has seized the initiative in its markets and continues to win customers and market share from its competitors.
5. The Natural Step has become the single best team building program that Scandic has discovered. It has improved the morale of co-workers substantially, and a new sense of purpose and mission has come alive within the company. In the words of Scandic's CEO, Roland Nilsson, "It was the first cooperative activity where they were really unified irrespective of where they worked in the company. I mean it was fantastic. Everybody loves taking care of the world."

F. ADDITIONAL INFORMATION

Scandic's annual report is available in English from the company. Useful information in English is also provided on the company's web site (see below). Scandic is also one of the main case studies with a chapter of its own in *The Natural Step for Business: Wealth, Ecology and the Evolutionary Corporation* by Brian Nattrass and Mary

Altomare, New Society Publishers, Gabriola Island, BC, 1999. See
www.newsociety.com.

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