Norsk Hydro ASA: Sustainable PVC at Hydro Polymers?

TEACHING NOTE

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This teaching note was written by Professor N. Craig Smith, INSEAD Chaired Professor of Ethics and Social Responsibility. It is intended to be used as an aid to instructors in the classroom use of the case Norsk Hydro ASA: Sustainable PVC at Hydro Polymers?

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This pre-release version may be used for teaching purposes but it has not yet received an official case number by the European Case Clearing House.
Synopsis

Hydro Polymers Limited, a division of Norsk Hydro ASA, the largest single-site polyvinyl chloride (PVC) manufacturer in Europe and one of only two in the UK, was organising a meeting of key customers to showcase its strategy for sustainable PVC. Since 2001, Hydro Polymers had been working with The Natural Step (TNS)—an international non-profit organisation promoting a scientific, whole-systems approach to sustainability—to address the industry-wide threat of end users boycotting PVC products because of environmental concerns. By 2006, the time had come to engage the PVC supply chain and gain customer support for the long-term development of sustainable PVC.

Sustainability had been a priority for Hydro Polymers since Greenpeace, a non-governmental organisation (NGO), had launched a campaign targeting retailers to “Buy PVC-free” products and lobbying for European legislation to ban PVC, Hydro Polymers’ sole product. The launch of Hydro Polymers’ sustainability strategy brought the real business dilemma to the fore. As customers weighed the implications of the sustainability challenges for the industry, would they consider a transition to fully sustainable PVC a realistic future scenario, or would they dispute its viability on commercial grounds, not least given the availability of alternative materials? Even if customers believed an industry-wide transition to sustainable PVC was possible, would they be willing to support Hydro Polymers, given that other European PVC producers were taking a less radical approach?

Objectives

1. To examine an in-depth application of The Natural Step framework and the business value of adopting a scientific, structured, whole-systems approach to sustainability.

2. To demonstrate a strategic approach to sustainable development that connects corporate responsibility (CR) to core business strategy and planning to enable sustainable value creation for shareholders and for society at large.

3. To highlight an innovative, integrated and strategic organisational response to a CR/sustainability challenge.

4. To consider the implications of CR/sustainability for corporate strategy and marketing (i.e., “mainstreaming” CR).

Teaching Suggestions

This case was developed as part of a project to mainstream corporate responsibility in the business school curriculum. As such it is intended for use in MBA courses in marketing and strategy, as well as in courses in business and society/corporate social responsibility and environmental management; it could also be used in final-year undergraduate courses in these areas. In a marketing course the emphasis would be on the upcoming meeting with customers and the risks and opportunities posed by the sustainability strategy for customer retention as well the implications for marketing communications (e.g., sustainability as an element of ingredient branding). In a strategy course, the focus would be on Hydro Polymers’ strategy of
differentiation through sustainability, both the initial decision to follow this approach and the implications of extending the strategy through the supply chain. An environmental management course would likely emphasise how The Natural Step principles and framework were adopted and implemented at Hydro Polymers. An interesting way of introducing the case from this perspective is to offer this scenario for initial discussion:

Jonathon Porritt poses the question to the PVC Co-ordination Group: “Why is cast iron more sustainable than PVC?”

Mark Strutt, Toxics Campaigner for Greenpeace, responds that cast iron does not contain heavy metals.

Porritt then asks the group: “Could PVC be sustainable if it didn’t contain any heavy metals?”

The case has been taught in a single 90-minute session as part of an MBA elective on leadership, ethics and corporate responsibility, with a focus on group presentations to Hydro Polymers’ senior management in response to the following assignment:

‘You are consultants to Hydro’s Jan Sverre Røsstad. Prepare a report identifying recommendations with supporting analysis for a presentation to Hydro Polymers’ customers that would outline Hydro’s sustainability strategy and its implications for customers.’

As part of the presentation or ensuing discussion, attention can be given to the key issue of Hydro Polymers’ need to convince its customers of the long-term viability of PVC. The following questions can be asked:

• Is Hydro Polymers doing too much? Does its sustainability strategy make good business sense in this industry and in this market climate?

• How should Hydro convince its customers to support the process?

• Will customers come to their own conclusions and switch to alternative materials (e.g., wood frame windows, aluminium, etc.)? Is Hydro Polymers’ option viable?

Exhibit TN-A provides two slides with some suggested case takeaways to wrap up the class.

Case Preparation and Discussion Questions

1. What is sustainability? What does this mean for the PVC industry?

2. What progress has Hydro Polymers made on its journey to sustainability?

3. How important is the planned meeting with customers?

4. Develop a presentation for Hydro Polymers’ customers outlining Hydro’s sustainability strategy and its implications for customers.
Postscript

The Sustainability Conference and Workshop for Hydro Polymers’ customers took place at the Royal Geographical Society in London in March 2006.

It included presentations from Jan Sverre Røsstad (a PVC market review), Karl-Henrik Robèrt (an introduction to TNS methodology) and Jason Leadbitter (Hydro Polymers’ sustainability progress). The event was attended by around 50 delegates, with 20 customer organisations represented. The customer response, broadly stated, was ‘Can you really do this?’ A workshop component split delegates into small groups that then reported back in plenary; the groups examined delegate responses (prepared in advance) to the following questions: 1) Do you have a definition of sustainability in your company? 2) What are, with reference to that definition of sustainability, the main challenges your company faces? 3) What is your company currently doing at the strategic level to address these challenges?

Conferences for raw material suppliers were also held in June 2006 and June 2007.

Norsk Hydro sold Hydro Polymers to Ineos, the UK chemicals group, in May 2007. The CEO of Ineos was reported as saying: ‘We are the biggest, but we’ve bought the best!’
Sources of Reference


Also see The Natural Step’s websites:

- www.naturalstep.org/com/nyStart
- www.naturalstep.ca/articles/TNSFrameworkGuidebook.pdf
- www.naturalstep.ca/framework.html

and its informal case studies:

- IKEA: www.ortns.org/documents/IKEA.pdf
Norsk Hydro: Takeaways

♦ Industry “license to operate” under threat
♦ Sustainability moves from corporate affairs to core business strategy
♦ Hydro’s response goes from deselection threat to innovation and competitive advantage
♦ Challenge now is how to create market demand for sustainability initiatives and how to position sustainable PVC with customers

Norsk Hydro: Takeaways

♦ Question of sustainability can only be answered at the whole system (vs. issues) level for strategic business decision-making
♦ Mainstreaming sustainability/CSR
♦ Building the business case for sustainability/CSR
  • Customer scenario I: Sustainable PVC not viable—cut your losses & switch to alternatives
  • Customer scenario II: Sustainable PVC is possible—wait and see or get involved?