The ROI of Sustainability

Making the Business Case

May 2009

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Aberdeen Group
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Executive Summary

Far from being a philanthropic "nice to have," top performing organizations view sustainability as a "must have" strategy for long term business viability and success. Sustainability brings together strategies to ensure optimal performance related to the business, the environment, and society. This report serves as a roadmap for those attempting to match environmental and social stewardship to clear, actionable, and measurable improvements to their bottom lines – thus ensuring the sustainability of their business ecosystem.

Best-in-Class Performance

Aberdeen used six key performance criteria to distinguish Best-in-Class companies, with top performers achieving 6% to 10% reduction in a variety of costs while also making strides in retaining customers:

- 9% reduction in carbon footprint

- 6% reduction in energy costs

- 7% reduction in facilities costs

- 10% reduction in paper costs

- 7% reduction in transportation / logistics costs

- 16% increase in customer retention

Competitive Maturity Assessment

Survey results show that the firms enjoying Best-in-Class performance shared several common characteristics:

- The Best-in-Class are 52% more likely to incorporate sustainability metrics into value chain performance management

- 74% of the Best-in-Class have an organization-wide sustainability policy compared to 58% of all others

Required Actions

In addition to the specific recommendations in Chapter Three of this report, to achieve Best-in-Class performance, companies must:

- Implement role-based dashboards to enable the streamlined and user-friendly delivery of action items and consolidated views

- Incorporate sustainability metrics into corporate objectives and measure to prove that the initiatives produce real business results

Research Benchmark

Aberdeen's Research Benchmarks provide an in-depth and comprehensive look into process, procedure, methodologies, and technologies with best practice identification and actionable recommendations.

"Sustainability initiatives reduce our costs and strengthen our company and brand image. Sustainability initiatives enable us to develop new products that better meet customer and societal needs and desires. Younger employees hold strong environmental values and are attracted to companies that share these values. Our sustainability strategy focuses on the Triple Bottom Line – so we have integrated our business sustainability goals with social and environmental stewardship goals. This has resonated tremendously with customers and our employees, as well."

~ Chief Sustainability Officer, Large European Food and Beverage Company

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Benchmarking the Best-in-Class

Business Context

Far from being a philanthropic "nice to have," top performing organizations view sustainability as a "must have" strategy for long-term business viability and success. For 59% of the 200+ respondents to Aberdeen's survey for *Sustainability Matters: The Corporate Executives Strategic Agenda*, sustainability does or will soon guide major parts or the entirety of their corporate strategy. Top performers excel at matching potentially hard to grasp concepts like environmental and social stewardship to clear, actionable, and measurable improvements to their bottom lines.

The desire for social and environmental stewardship is the top pressure driving sustainability efforts (Figure 1). The connection between Corporate Responsibility (CR) and sustainability is better understood when it is realized that CR and stewardship represent a subset of activities that aligns with sustainable business success. The combination of a struggling economy, a fast-changing and hyper-competitive market, and a myriad of environmental challenges creates the need for companies to be highly efficient, collaboratively integrated, and able to demonstrate superior levels of CR. Sustainability entails a form of corporate self-regulation and transparency in adherence with laws, ethical standards, international norms, and also awareness of the business value for positively impacting the environment and society.

Figure 1: Top 3 Pressures Driving Sustainability Initiatives
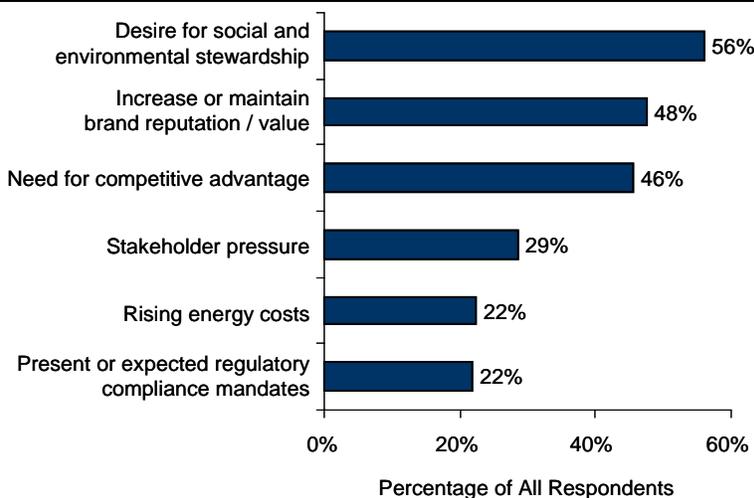
Source: Aberdeen Group, May 2009

Almost half of survey respondents see a correlation between sustainability and their competitive positioning, either through enhancing reputation and brand value or by being proactive regarding stakeholder and regulatory

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Fast Facts

√ Best-in-Class are 52% more likely to use sustainability to guide major portions of their corporate strategy

√ Best-in-Class are 52% more likely to incorporate sustainability metrics into value chain performance management

√ Best-in-Class managed to reduce energy costs by 6% while Industry Average experienced a 4% increase and Laggards increased by 18%

√ Top performers managed a 16% increase in customer retention rates while driving sustainability-related costs down by an average of almost 8% across the board

"Our sustainability initiative has taken over our corporate business plan and informs our annual strategic planning process / goal setting."

~ Partner, North American General Manufacturer

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expectations and mandates. The emergence and evolution of regulatory mandates in a growing number of geographies related to the trade, reporting, and / or disclosure of green house gases (GHGs) for example, increase the need to treat sustainability and CR as a central component of businesses' long-term viability and license to operate.

Reaction to volatile energy costs also adds to the pressures driving the sustainability agenda. Both in business and at the consumer level, such things as ensuring that the firm utilizes resources in a highly efficient manner and engages ethically with communities near and far become all the more critical when corporate wallets feel the impact of such factors as wasteful practices or public censure. The improved ability to connect with clients in a manner that increases customer loyalty decisively transitions sustainability strategy from a "feel good" public relations effort into a market necessity.

The Maturity Class Framework

While the overall goal of successful sustainability efforts will be to reduce energy related expenses, to do so at the expense of the customer does not signal responsible action. Customers vote with their wallets. Therefore these cost reductions are tempered with a company's ability to retain customers.

Table 1: Top Performers Earn Best-in-Class Status

Definition of Maturity Class	Mean Class Performance
Best-in-Class: **Top 20%** of aggregate performance scorers	▪ 9% reduction in carbon footprint ▪ 6% reduction in energy costs ▪ 7% reduction in facilities costs ▪ 10% reduction in paper costs ▪ 7% reduction in transportation / logistics costs ▪ 16% increase in customer retention
Industry Average: **Middle 50%** of aggregate performance scorers	▪ 6% reduction in carbon footprint ▪ Increase in energy costs contained to 4% ▪ 1% reduction in facilities costs ▪ 5% reduction in paper costs ▪ 1% reduction in transportation / logistics costs ▪ 5% increase in customer retention
Laggard: **Bottom 30%** of aggregate performance scorers	▪ 5% increase in carbon footprint ▪ 18% increase in energy costs ▪ 18% increase in facilities costs ▪ 12% increase in paper costs ▪ 19% increase in transportation / logistics costs ▪ 4% increase in customer retention

Source: Aberdeen Group, May 2009

Glossary of Key Terms

Sustainability brings together social, environmental, and economic goals with the intention of ensuring that the needs of the present are met without compromising the ability to meet the needs of the future. The long-term viability and prosperity of the business ecosystem depend on the long-term viability and prosperity of the social and environmental ecosystems.

Corporate Responsibility (CR) posits that firms have a responsibility to be social and environmental stewards and that having a positive impact on society and the planet is as important as profit.

Triple Bottom Line (TBL) determines that a business has positive impacts on the three P's (people, profit, and planet) and is a standard framework for CR agendas.

Millennium Development Goals (MDGs) are eight goals agreed upon by every country in the world and leading development institutions that form a blueprint to combat global poverty. Many companies have aligned their TBL strategies to address one or more of the MDGs.

Green refers to practices, processes, and products that have a minimal impact on the health of the environmental ecosystem. The emphasis is on non-hazardous, recyclable, reusable, and energy efficient products and processes.

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For many companies, the overall goal of a successful sustainability strategy is to improve operational efficiencies and brand value, as well as social and environmental performance. As illustrated in Figure 2, while sustainability guides the entire strategy of just below 20% of respondents, the Best-in-Class are 52% more likely than all others to use sustainability to guide major portions of their corporate strategy. Figure 2 also provides insight into the way in which organizations embrace sustainability initiatives, whether they are integrated with or separate from overall corporate strategies.

Figure 2: Sustainability's Role in Corporate Strategy

Source: Aberdeen Group, May 2009

The Best-in-Class PACE Model

To achieve sustainability goals, companies must use a combination of strategic actions, organizational capabilities, and enabling technologies that can be summarized as follows:

- Incorporate sustainability criteria into business improvement programs

- Establish an executive-level champion responsible for enterprise-wide sustainability initiatives

- Incorporate sustainability metrics into corporate objectives and measure to prove these initiatives produce real business results

"We have extensive plans and some of them are laid out in our first sustainability report. In general, we have been reporting emissions from our main US factory for years and are always trying to reduce our greenhouse gas emissions as well as to ensure the safety of the environment through the use of our products. Our products are used in animal agriculture and, when used properly, they reduce environmental load generated by the animal livestock industry. We are a global company and make an effort to minimize transportation miles by combining loads and optimizing delivery routes. Board-level support for the ROI is required for major capital initiatives."

~ Director, Mid-sized North American Agricultural Input Provider

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Table 2: The Best-in-Class PACE Framework

Pressures	Actions	Capabilities	Enablers
▪ Desire for social and environmental stewardship	▪ Incorporate sustainability metrics for value chain performance management ▪ Adopt or expand sustainable / responsible / ethical procurement and sourcing strategy	▪ Sustainability criteria has been integrated into business process improvement programs (i.e. Lean, Six Sigma) ▪ Executive-level leader is responsible for company-wide sustainability initiatives ▪ Real-time visibility into sustainability conformance across value chain ▪ Third-party verification of sustainability or Corporate Responsibility performance	▪ Traceability solutions ▪ Performance Management Applications ▪ Business Intelligence platform and tools ▪ Quality / Process Management applications ▪ On-line, real-time dashboards

Source: Aberdeen Group, May 2009

Yet, despite the compelling array of drivers and benefits of well-conceived and managed sustainability strategy, for 46% of companies surveyed, budget challenges remain an impediment to sustainability initiatives and 42% still find it difficult to demonstrate quantified business value and Return on Investment (ROI) in order to effectively make the business case for sustainability. So, though the rate of adoption of sustainability strategy increases, the need for companies to monitor, measure, and communicate how sustainability impacts their performance on various levels is even more urgent.

Best-in-Class Strategies

While the dominant business driver behind sustainability initiatives is the overall desire to preserve the environment and demonstrate responsible social stewardship (i.e. demonstrating Corporate Responsibility), companies must make a strong business case in order justify corporate commitment. Gone are the days when pretty pictures in the annual report were enough. A growing number of companies must provide verifiable evidence of mitigated social and environmental impacts. Yet, in order to justify the continued application of resources, companies must also demonstrate real business results. The Best-in-Class are 52% more likely to incorporate sustainability metrics into the measurement of performance of the entire value chain (Figure 3). This is often combined with sustainable sourcing strategies, focusing not only within their own four walls but encouraging, or even demanding suppliers demonstrate sustainable / responsible / ethical practices.

"At our company, we interact with several thousand farmers directly world-wide and have implemented sustainable farming practices to guarantee food safety, quality assurance and competitively ensured supply to our food factories over many decades. The sourcing of agricultural materials is key to our business. Therefore a number of activities have been initiated with suppliers to adhere to changing practices and processes. This has resulted in not only a better operational performance, but also a more relevant and beneficial communication with our consumers / customers."

~ Chief Environmental Officer, Large European Food and Beverage Manufacturer

Figure 3: Top 3 Strategic Actions of Best-in-Class
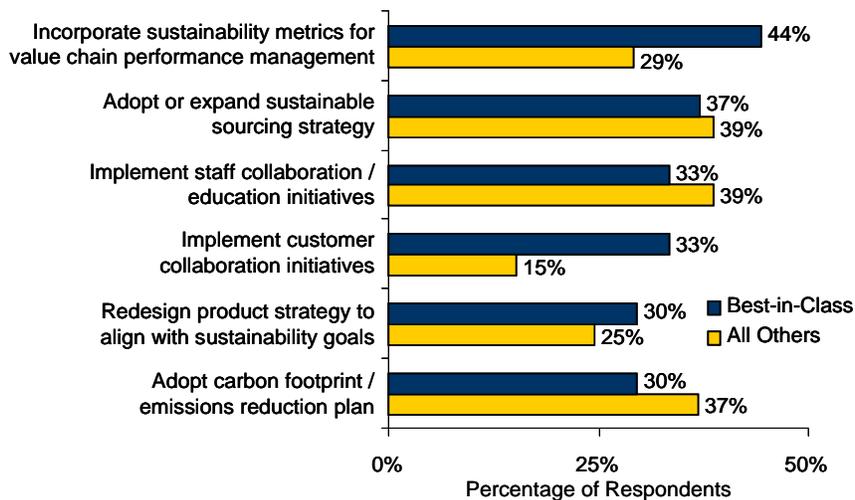
Source: Aberdeen Group, May 2009

Few would argue the value of a brand being associated with not only quality products or services, but also with quality behavior and relationships. However, too many companies focus sustainability efforts on benefits that are not measured at all, are measured inconsistently, or not communicated. As a result, the positive impact of sustainability initiatives on the efficiency, quality, and resilience of a company is often only anecdotally understood while the work of making the business case in quantitative *as well as* qualitative terms is unevenly attended to.

Successful sustainability efforts often require a change in corporate culture and values. This type of re-direction of thinking doesn't happen automatically, nor does it happen overnight. Education of staff is critical and collaboration is encouraged as efforts to reduce energy consumption and cost in one area of the company must not cause increased cost or consumption elsewhere in the enterprise or in the value chain. Top performers take a more holistic view of their value chain. It is therefore not surprising to see that the Best-in-Class are more than twice as likely to collaborate not only with suppliers, but with customers as well.

This would indeed have an impact on the product development cycle. Those not Best-in-Class would be well advised to follow the lead of our top performers. All others are 48% more likely to manage their carbon footprint and emissions after the fact than they are to redesign product strategy with these goals in mind. The Best-in-Class place equal importance on both.

The business case for sustainability is amply made as exhibited by the results of top performing companies who are increasingly focused on a holistic, lifecycle approach with thoroughly quantified business, environmental, and social returns. Implementing an effective sustainability strategy involves multiple steps, processes, and an intensive attention on measurement and communication. This shift in focus results in a more agile, efficient, and

"Integrating and modernizing our supply chains offers us opportunities to reduce wastage (...in some cases, 30% plus) from farm to fork, and allows us to offer farmers and fishermen more remunerative prices while charging consumers less. My company's CR programs include livelihood support for fishermen affected by the tsunami in Southern India (by donating fishing boats and equipment, and setting up modern fish auction centers on the East and West coasts of India, training sheep farmers to produce better quality sheep and realize better prices, training farmers to grade and package their products in ways that reduce spoilage during transportation, etc.) We have trained fishermen to clean their fish holding tanks, thereby reducing the percentage of the catch that is spoilt at the time of landing (due to bacterial contamination from previous catches). Also, setting up modern fish auction centers with the provision of ice-flaking machines and a modern cold chain has improved fish yields. Similar successes have been achieved with farm products through grading, better handling and the use of cold chains. Other examples include upgrading government infrastructure, training sheep and goat farmers, vaccinating sheep etc."

~ Director, Large Indian Food Wholesaler

resilient organization that increases quality and performance and attracts the support and loyalty of stakeholders and customers alike. Sustainability represents, in and of itself, a profound shift in global business paradigms, systems of value, and models (and opportunities) of success.

Challenges to Achieving Sustainability Business Benefit

Most companies do face challenges in sustaining sustainability efforts (Figure 4). The top two challenges go hand-in-hand. Without a clear understanding of ROI, justifying expenditures in the promotion of sustainability is that much more difficult. However, Aberdeen data show that the difficulty in demonstrating the ROI of sustainability is often more a matter of inefficiency and inactivity around tracking, measuring, and communicating sustainability progress, successes, challenges, and areas of opportunity. When asked how company investments in technology (in support of sustainability initiatives) have paid off, on average 52% of Laggard firms claimed that they did not know, a clear indication of a lack of performance management and communication practices that encompass both qualitative and quantitative analysis and engagement.

Figure 4: Top Four Challenges Faced
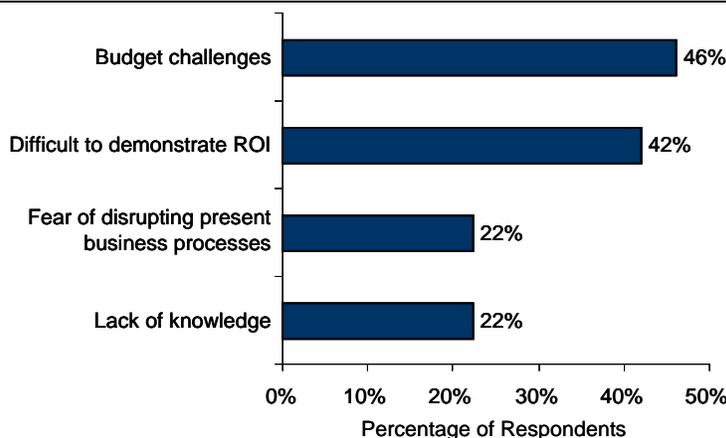
Source: Aberdeen Group, May 2009

These top four challenges get right at the heart of the issue that persists for organizations with implemented sustainability agendas. Because sustainability is often conflated with Corporate Responsibility, many organizations persist in viewing sustainability as a largely philanthropic and costly initiative that delivers "soft" benefits and "intangible" outcomes. This misperception is aided and abetted by the fact that terms like green, sustainability, and CR are used to connote a wide variety of meanings and intentions without a clear sense of how business efficiency and success fits into the responsibility-framed picture. In short, organizations need the concrete benefits of sustainability initiatives spelled out in clear terms that connect back to business needs. No less importantly, they also need actionable steps to measure and communicate their performance, internally and externally. Not understanding…

- if a quantifiable business case even exists for sustainability

"We have customers impose 'green' programs on us and this is becoming a standard in our industry. The generation of ideas about how to affect the 3Rs (reduce, reuse and recycle) is important to us and creates innovative approaches to tackling these issues. We have to meet or exceed industry standards in order to stay competitive."

~ Engineer, Mid-size Computer Company

Conflation

Conflation occurs when the identities of two or more concepts sharing some characteristics of one another (in this case sustainability and Corporate Responsibility) become confused until there seems to be only a single identity — the differences appear to become lost. By conflating sustainability and CR, the importance of the business impact is often lost or forgotten.

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- how sustainability answers key business pressures
- what the vendor landscape looks like for solutions and services
- how to get started

…remains a major impediment to successful action. In fact, it is important to note that the Best-in-Class have a better grasp of the business case and are advantaged by being more advanced in their understanding of sustainability's ROI. They are 30% less likely than all others to say that they are facing budget issues in support of their initiatives.

This study included a group of companies without sustainability initiatives that nonetheless expressed an interest in the topic. While they did not complete the main survey, they were asked a series of questions, including one which asked them why they did not yet have sustainability initiatives. At the top of the list was the inability to make the business case or to demonstrate ROI (44%). And yet, 56% of these companies also indicated a demonstrated ability to lower costs or increase profits would provide sufficient incentives to adopt sustainability initiatives, second only to contribution to creating a competitive advantage (68%).

This again underscores the conceptual gap between trendy rhetoric and the reality of the volatile, global market where the sustainability of the business ecosystem is inextricably linked to the sustainability of the social and environmental ecosystems on which it depends for not only prosperity, but also survival. Sustainability lends a competitive edge that delivers impressive, quantified business results.

Aberdeen Insights — Strategy

The ROI of sustainability can come from many different sources, some more easily quantified than others. Certainly, the specific cost reductions included in our Best-in-Class criteria are metrics that every socially responsible company can measure – and the rate of customer retention is a metric that every company *should* measure. Yet more than half of even our top performing companies has yet to subject sustainability initiatives to the same level of scrutiny they might to other investments (Figure 5).

Figure 5: ROI Analysis Complete or Underway
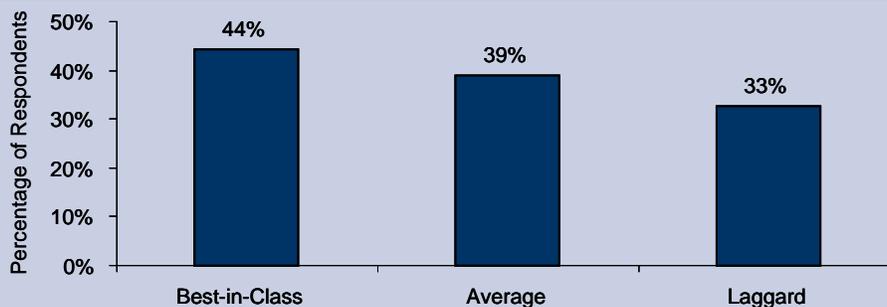
Source: Aberdeen Group, May 2009

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Aberdeen Insights — Strategy

Is this because they expect the benefits without any investment? If planned investment in software solutions to support sustainability efforts is any indication (and surely it is), the data indicate that this is not the case. In fact the majority of all survey respondents (87%) do indeed plan to invest and the Best-in-Class plan to invest 33% more than all others in software solutions and / or services to support their efforts. The planned investments are not insignificant, ranging from the average Laggard that plans to spend approximately $650,000 to the average Best-in-Class company that plans to invest more than $1.4 million. If viewed only from a cost perspective, these figures alone might serve as a deterrent to investing in sustainability, therefore making the estimation of ROI to cost justify initiatives that much more important.

Past Aberdeen research has found that two elements of ROI calculation are required to produce optimal results. Using ROI estimates in order to cost justify a project sets the stage but it is also important to follow up and measure the actual ROI at various milestones – and once a specific project is completed. In fact, in managing the ROI of enterprise applications in general, those who combine these two steps in the process produce as much as double the business gain in targeted metrics. Sustainability should be approached with a similar level of commitment that tracks, quantifies, and communicates changes in organization-wide performance and achieved business benefit.

In the next chapter, we will see what the top performers are doing to achieve these gains.

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Chapter Two:
Benchmarking Requirements for Success

Based on the findings in the Competitive Framework and interviews with end-users, Aberdeen's analysis reveals that the Best-in-Class goal of achieving environmental and social stewardship is realized via company-wide policy regarding relations with partners and customers, product and service development strategy, and day-to-day operational performance management and optimization.

Case Study: The Dow Chemical Company

The Dow Chemical Company is a global leader in agricultural products, chemicals, and plastics. Operating in over 175 countries, Dow has 46,000 employees and annual revenue of over $48 billion. Dow's acclaimed corporate responsibility and sustainability platform holistically connects the needs of society and the environment with the needs of the business and demonstrate Dow's commitment to the principles of Responsible Care, a voluntary, global framework that promotes safe, sustainable, and profitable goals and actions within the chemical industry.

Dow's sustainability platform is as broad as it is robust and involves commitments to building relationships in the communities within which it operates, reducing overall environmental impacts, innovating for improved product stewardship, and working aggressively to meet global challenges related to climate change, energy and water, and the Millennium Development Goals. Dow has articulated an array of sustainability goals to be achieved by 2015. They revolve around the three themes of:

- Collaborate. Dow has established a series of aggressive goals to ensure environmental and community health, safety, and success that include such things as community development projects and a 75% improvement in key EHS performance indicators. By working closely with local stakeholders, Dow has set out a clearly defined and tracked roadmap to achieve enhanced relations, performance, and partnerships that improve overall community quality of life.

- Innovate. Dow takes a holistic, life-cycle, and cradle-to-cradle approach to product stewardship that will, by 2015, put into place public disclosure and transparency processes on comprehensive safety assessments and product risk characterizations of all of its products, globally. Further, Dow's goals and actions focus on creating solutions and breakthroughs to meet global challenges with sustainable chemistry.

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Fast Facts

√ 74% of the Best-in-Class have organization-wide sustainability policy, compared to 58% of all others

√ 67% of Best-in-Class have formalized staff education and training on sustainability, compared to 54% of all others

- Elevate. Dow has contributed solutions geared to meet global energy and climate change challenges since 1990 and has taken on a series of goals that include a 25% reduction in energy intensity from 2005 to 2015, initiatives to slow, stop, and reverse global warming, advocacy for policy, and thought leadership around the adoption of sustainable practices. Dow's strategic goals for superior business sustainability and corporate responsibility were challenged by a lack of a unified, integrated platform to easily track, analyze, and report on its enterprise-wide, EHS performance across its 200 facilities in the United States. The company had multiple and redundant legacy reporting systems hindered by inefficient interoperability and a lack of standardized best practices across its many facilities.

In 2004, the Dow Environmental Reporting Project was charted to find and deliver a powerful, multi-media tracking and reporting solution for 200 facilities across the United States. Dow implemented an integrated software solution that incorporates tracking, analysis, and reporting on air, waste, water, and chemical inventory performance, and that further allowed them to:

- Enable the interoperability of existing enterprise systems across the corporation

- Develop and standardized best practices with a powerful, unified reporting system across its large U.S. facilities

- Replace the numerous legacy reporting systems

With the full engagement of stakeholders and leadership, a team of experts were assembled to direct the due diligence review, design, and implementation of the solution. The software solution allowed them to automate data capture, have interoperability, and streamline processes with templates, ad hoc query tools, uploaders, and interfaces.

The system allowed them to have a centralized support structure that users could engage by role and responsibility across all US sites, which eliminated the need for redundant systems, support roles, and structural costs. To support the process changes, the team developed an impressive training and education initiative that included videos and training documentation for Dow's intranet.

In addition to enabling consistent performance tracking, analysis, and communication of its sustainability goals related to its EHS performance, Dow also achieved the following results:

- Elimination of over **$2 Million** in redundant legacy reporting systems

continued

- Preservation of Dow license to operate in 200 facilities at 35 manufacturing sites
- Enhanced sustainability of its business through a common work process and interoperability with existing corporate systems
- Improved data quality and availability for business decision making, analysis, and reporting

Competitive Assessment

Aberdeen Group analyzed the aggregated metrics of surveyed companies to determine whether their performance ranked as Best-in-Class, Industry Average, or Laggard. In addition to having common performance levels, each class also shared characteristics in five key categories:

1. **Process.** The approaches they take to formulating and executing policies that apply to their daily operations

2. **Organization.** Corporate focus and collaboration among stakeholders

3. **Knowledge Management.** Contextualizing data and exposing it to key stakeholders

4. **Technology.** The selection of appropriate tools and effective deployment of those tools

5. **Performance Management.** The ability of the organization to measure its results to improve its business

Table 3: The Competitive Framework

	Best-in-Class	Average	Laggards
Process	Sustainability criteria are integrated into supply chain strategy		
	63%	42%	37%
	Formal energy reduction policy has been developed and implemented		
	56%	50%	42%
	Efforts to reduce paper consumption have been formalized and implemented		
	63%	53%	35%
Organization	Executive-level leader (or team) is responsible for company-wide sustainability initiative		
	78%	72%	44%
	Corporate Responsibility has been integrated into human resources strategy		
	56%	44%	33%

	Best-in-Class	Average	Laggards
Knowledge	Real-time visibility into sustainability conformance across value chain		
	30%	17%	5%
	Successes, challenges, and progress of sustainability initiatives are communicated to internal stakeholders monthly or more frequently		
	52%	47%	37%
Technology	Technology currently in use:		
	▪ 26% Role-based sustainability / green dashboards ▪ 37% automated sustainability reporting ▪ 41% Carbon footprint modeling ▪ 67% Traceability Solutions ▪ 72% On-line dashboards ▪ 80% Quality or Process Management Solutions ▪ 76% Sustainability / CR management solutions	▪ 17% Role-based sustainability / green dashboards ▪ 19% automated sustainability reporting ▪ 32% Carbon footprint modeling ▪ 52% Traceability Solutions ▪ 56% On-line dashboards ▪ 70% Quality or Process Management Solutions ▪ 60% Sustainability / CR management solutions	▪ 12% Role-based sustainability / green dashboards ▪ 12% automated sustainability reporting ▪ 19% Carbon footprint modeling ▪ 32% Traceability Solutions ▪ 42% On-line dashboards ▪ 63% Quality or Process Management Solutions ▪ 54% Sustainability / CR management solutions
Performance	Third-party verification of sustainability or Corporate Responsibility performance		
	41%	32%	14%
	Carbon Footprint is tracked		
	41%	39%	30%

Source: Aberdeen Group, May 2009

Capabilities and Enablers

Based on the findings of the Competitive Framework and interviews with end-users, Aberdeen reveals that the Best-in-Class have visibility into, and proactive management of, key policy-driven process and performance areas that tie together internal and external activities and goals. Top performers are decidedly more focused on data analytics and carbon and have robust levels of leadership and educational initiatives to support their goals.

"Our goal is to improve the company's overall use of resources, resulting in lower cost of product and distribution to improve competitiveness. A side benefit is environmental stewardship which will be used in the sales and marketing process. Standard practices will be challenged and revised through input from a large group of employees. The ideas foster innovative solutions to improvements to the corporation as a whole. This all clearly ties to acceptance within the local community, the government, and attracts new customers."

~ Vice President, Large North American Chemical Company

Process

As the top strategic action of Best-in-Class companies involves the integration of sustainability metrics into value-chain performance management (44%), it is not surprising to see Best-in-Class with better defined policies, which are in turn integrated into their supply chain strategy. In addition, efficiency and process optimization-driven programs such as Lean and Six Sigma also come in line with sustainability standards and goals. Fifty-two percent (52%) of the Best-in-Class versus 38% of all others have already implemented this approach to business excellence. Likewise, 41% of the Best-in-Class have integrated sustainability criteria into formal risk analyses – a further indication of the increasing centrality of sustainability to overarching corporate strategy.

Sustainability impacts process improvements related to the management of resources, particularly of energy and paper – two key areas for driving down costs and negative environmental impacts. Not only are the Best-in-Class significantly more likely to focus on their supply chain strategy (63% versus 40%) but they are also more likely to have an organization-wide sustainability policy (74% versus 58%) supported by stakeholder education (67% versus 54%). The combination of holistic policy and formalized stakeholder education creates clear standards, goals, and metrics against which to track, analyze, and communicate performance and understand corporate successes and challenges. The Best-in-Class understand that the way in which the company sets goals and measures sustainability success should be clear, consistent, and formally conveyed. This approach also allows organizations to assess and maintain the preparedness of its people.

Organization

Top organizations are differentiated by their greater commitment to appointing executive leadership to champion sustainability. Seventy-two percent (72%) of the Best-in-Class are able to boast a C-level executive in charge of the success of their agenda. This is a robust area of advantage for top performing firms as only 58% of all other companies have this level of leadership guiding their sustainability strategy. The Best-in-Class are also significantly more likely to have integrated their core values and actions related to sustainability into their Human Resources strategy (76% versus 40%). The relevance of stakeholder management is a key aspect of Best-in-Class outcomes. Compared to all others, the Best-in-Class have an impressive set of capabilities related to organizational structure.

Though there are many thought leading organizations that were founded with efficiency and standards of social and environmental stewardship already integrated into their identity and strategy, the vast majority of companies struggle to enact not only meaningful process changes but also meaningful organizational culture and behavior changes. Interviews conducted with respondents have revealed that thought leading companies have incorporated such things as company paid / supported employee volunteer time, sustainable offsite work space, CR-focused incentives, and local and global development programs that attract and satisfy their people. C-level champions work throughout the organization to ensure that the

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standards and goals of the company are effectively tailored and integrated into the business units and relationship networks of the firm.

Knowledge Management

An enterprise-wide commitment to sustainability initiatives comes from a broad-based knowledge of the program and its impact on the person, the company, society, and the planet. Though nowhere near as well-developed as it should be, the Best-in-Class are farther along the path of implementing effective knowledge management capabilities, with 37% utilizing scorecards to convey performance standards and outcomes to both internal and external stakeholders, versus 22% of all others. For 30% of top performers (versus just 11% of all others) access to real-time information on sustainability-related conformance catalyzes a superior level of visibility and proactive management capabilities that enable the organization to easily convey not only successes but also challenges / areas of opportunity.

Abbreviations Defined:

√ RoHS: Restriction of Hazardous Substances Directive

√ WEEE: Waste Electrical and Electronic Equipment

√ JGPSSI: Japan Green Procurement Survey Standardization Initiative

Case Study — Tomkins plc

Tomkins plc is a global engineering and manufacturing group, listed on the London Stock Exchange and the New York Stock Exchange, manufacturing and distributing a variety of industrial, automotive and building products. With annual sales over $5 billion and more than 32,000 employees, it is a multi-national company serving these markets across North America, Europe, Asia and the Rest of the World. According to the company's third annual Corporate Social Responsibility Report at Tomkins, social responsibility is an integral part of its every day business practices and one of the drivers of its success.

As part of this initiative, Tomkins has implemented an HSE [Health, Safety and Environment] excellence award program. Participation in this process is not voluntary for its manufacturing locations, but is optional for distribution sites, warehouses and sales offices. However many of these non-manufacturing locations choose to participate. "In order to participate, locations must submit Key Performance Indicators (KPIs). We designed the program so it provided reporting back to the participating locations in order for them to derive benefits and improve their performance. We included the usual sustainability metrics plus we encourage Continuous Improvement programs. Each location must submit sustainable goals," said Amy Wright, Director, Environmental Management, Health and Safety.

To support these initiatives Tomkins implemented a Business Performance Management solution focused on environmental, health and safety. "Prior to implementing this solution we had a number of other data bases and three to four applications in use. Trying to collect and manage data from 150 locations around the world was very difficult. We wanted a system pliable enough to give us a centralized data base from which we could aggregate the data from all our sites. Today all users can submit data and access information in the same form and format. This makes it far easier to analyze and report back."

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Case Study — Tomkins plc
Some of the sustainability metrics reported in Tomkins annual CSR Report included total waste, landfill waste, total energy consumed, water consumption and total greenhouse gas emissions. Most of the 150 locations (127 to 132) are reporting on these various KPIs and more. "The system helped us break out all energy related usage to help us determine who our highest energy consumers were. It helped us make business decisions on where we get the biggest bang for our buck in energy efficiency improvements. Plant managers can now look at the results and say, 'I didn't know I used that much natural gas. I didn't realize how much I could save by turning off the gas pilots in the summer.' All this data now shows up on a dashboard and managers can see all the components of their energy profile."
Tomkins is pleased with the progress achieved through its CSR program and feels it is a means to engage employees around the world in support of the environment, health, safety and sustainability. In light of the challenging economic and financial pressures, Tomkins believes that excellence in CSR is consistent with and enhances financial performance.

Technology

A wide variety of technology solutions may come into play in the context of sustainability, but they tend fall into a manageable number of general categories. A selected few of these categories were previously listed in Table 3 with higher adoption rates observed in Best-in-Class companies.

Compliance and traceability go hand-in-hand and require detail data collection to preserve lot genealogy and produce compliance reporting. Given today's current economic conditions, the changing regulatory climate, and the impact of product recalls, sustainability objectives only add to the reasons compliance and traceability efforts have been elevated in importance. A whole host of technologies support these efforts from the plant or shop floor to the highest level of the enterprise. These solutions range from Manufacturing Execution Systems (MES) to Enterprise Asset Management to Quality Management to Nonconformance / Corrective and Preventive Action (NC / CAPA) to Statistical Process Control and others.

While many of these solutions hold a very traditional place in manufacturing, sustainable production is a new focus for many companies in an attempt to make operations cleaner, safer, more energy efficient, and more competitive, and therefore require a new twist and a new focus to these more traditional solutions. In addition, specialty solutions have emerged to manage carbon emissions and carbon models for green house gas emissions. These are not yet pervasively used. While Best-in-Class are more than twice as likely to be able to model carbon footprints and track emissions, more than half (59%) have yet to take this step in their sustainability agendas.

"We are trying to incorporate sustainable business strategies into our core business and product planning. We believe that, in addition to it being the right thing to do, it is also just good, smart business – and is the way successful business will compete and survive with energy and raw material costs rising. Sustainable business reduces costs, improves efficiency, reduces waste, and improves profitability. The challenges continue to be to make this a core component of our business culture and not an initiative that is on the periphery. We are taking a broad view of these initiatives and have focused on four key areas: environmentally preferable product development, waste reduction and recycling, energy, and climate and environmental education."

~ Mark Buckley, VP, Environmental Affairs, Staples

But in considering the ROI of sustainability, performance management is at the very heart of building the business case. Many of the technology tools used by the Best-in-Class serve to increase visibility and performance improvement. From dashboards (72%) to sustainability CR management solutions (76%), the Best-in-Class go to great lengths to achieve a holistic view of company-wide, sustainability performance and outcomes. Yet the majority still relies on manual efforts for sustainability reporting, with only 37% of top performers indicating the reporting is automated.

True Best-in-Class sustainability is a matter of business being responsive to both internal and external dynamically changing needs and expectations. The ability of multiple levels of stakeholders to track, analyze, and communicate both financial and non-financial information related to environmental, social, and operational performance through the prism of responsibility and efficiency results in greater visibility, agility, and proactive performance improvement for the business.

Performance Management

Results of this study indicate that top performing organizations are more holistic and quantitative in focus and demonstrate a more strategic approach to their initiatives. Further, the Best-in-Class focus on measurement in order to better manage company-wide performance. Sound management practices include collaboration, communication, and constant adjustment and reinvestment in improvements as needs and solutions develop. Without this type of visibility and proactive management, sustainability could, for the majority of companies, remain narrowly understood and not well implemented, resulting in companies leaving a good deal of money, opportunity, and innovation on the table. This improved management and tracking of performance allows companies to effectively communicate and connect with partners and customers in ways that deliver competitive advantages in the market.

The Best-in-Class are significantly more likely to measure their performance and to utilize third-party validation of their sustainability performance (41% versus 23% of all others). This extra step provides not only credibility but also practical support as the organization engages with an experienced partner who can help assess progress and prioritize next steps. The result is their ability to not only effectively track, manage, and report on sustainability performance, but to provide verification of their sustainable and corporate social responsibility programs for stakeholders, customers and trading partners.

Aberdeen Insights — Technology

Respondents in this study were asked about the types of technology they either currently use or plan to implement. In addition to indicating short-term areas of focus, companies were also able to indicate that they had no planned implementations for a variety of technology categories. The significance of the areas of no planned implementations lies in the fact that Laggard organizations are least likely to invest in precisely the areas that most catalyze Best-in-Class success.

continued

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Aberdeen Insights — Technology

Solutions that increase visibility, performance management, and the ability to communicate verifiable progress are typically of substantially lower interest for Laggard organizations than for the Best-in-Class and, in some instances, Average organizations. Table 4 is, as a result, instructive for organizations needing to decide where to start their investigation of technology categories to aid them with their sustainability goals.

Table 4: "No Plans to Invest" Vary by Maturity Class

No Plans to Use	Best-in-Class	Industry Average	Laggard
Business Intelligence / Performance Management solutions	11%	19%	35%
Scorecards	15%	29%	33%
Role-based dashboards	15%	18%	30%
Energy Management software	19%	26%	47%
Supply Chain Visibility platforms	19%	24%	40%
Asset Management software	22%	38%	47%
Energy / Fuel calculators	22%	28%	33%
Assessment solution or service	22%	26%	42%
Sustainability / CR management solutions	26%	31%	42%
Carbon tracking	26%	33%	56%
Carbon Modeling	26%	28%	37%
Visibility solutions	26%	29%	42%
Carbon / emissions calculators	30%	31%	54%

Source: Aberdeen Group, May 2009

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Chapter Three:
Required Actions

Whether a company is trying to move its performance from Laggard to Industry Average, or Industry Average to Best-in-Class, the following recommendations will help spur the necessary performance improvements:

Steps to Success for All Companies

- **Measure so you can manage**. From the Best-in-Class to the Average and Laggard organizations, the need to expand performance measurement and communication cannot be over-emphasized. As is often said, it clearly stands repeating: you cannot manage what you don't measure and <u>all</u> maturity classes should focus on improving in that respect. Areas of key focus should include those related to carbon and energy as the impacts of reduction provide a bevy of opportunities to most effectively improve operational efficiencies as well as build a path toward social and environmental stewardship.

- **Adopt role-based dashboards**. All classes also stand to gain crucial visibility and analytic capabilities into their impacts and areas of opportunity by expanding the adoption of role-based dashboards, tailored to the complex needs of sustainability and CR goals and challenges.

Laggard Steps to Success

- **Get some leadership**. In order for sustainability efforts to achieve both immediate and sustained results, leadership and commitment from the top of the organization is a must. It is extremely difficult to implement changes in strategy, processes, and communication without the buy-in and support of true budget and authority holders. The Laggard organizations included in this study have sustainability programs in place and are investing in their initiatives. The likelihood of wasting those investments is great without a clear understanding from the top of the objectives, the impacts, and the benefits of its initiatives.

- **Adopt organization-wide policy and standards**. The lack of leadership in Laggard organizations unsurprisingly correlates to the lack of organization-wide vision articulated as policy. Without a cohesive and consistent standard and protocol, various business units and facilities can more easily enact a disjointed, and even contrary, approach to sustainability. Less than half of Laggards have formalized energy reduction policies or integrated sustainability criteria into their supply chain strategies. Laggard organizations need to be able to convey to its stakeholders, not only the larger mission but also the way in which sustainability-driven adjustments to day-to-day practices support corporate goals.

Fast Facts

√ Best-in-Class are 40% more likely to focus on carbon footprint reduction as a measure of success

√ 72% of Best-in-Class use web-based dashboards compared to 56% of Industry Average and 42% of Laggard firms

"It's a new area of engagement that requires new infusion of knowledge and technology. The change process should open door to new way of thinking and innovation. We have taken on server virtualization, replacement of lighting and air conditioning equipment and education of staff in energy management. Social and environmental stewardship is a part of corporate governance strategy that is incorporate in partner and customer relationship management."

~ Director, Small South East Asian Computer Company

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- **Educate your stakeholders.** In line with the previous two Laggard recommendations, companies that invest in formal training and education of stakeholders demonstrate better performance overall. With formal awareness and training on the larger mission, new processes, and organizational protocols, employees can not only comply but also boost productivity and innovate.

Industry Average Steps to Success

- **Establish real-time visibility**. Industry Average organizations should focus their efforts on increasing real-time visibility into core operational areas. Currently only 17% of Average companies have role-based access to sustainability information through dashboards. Real-time access to consolidated performance data will help Industry Average organizations move from reactive to proactive regarding their internal stakeholders and trading partners. Immediate access to performance data is an important component to initiative areas such as collaboration, energy usage, and risk analysis.

- **Adopt auto-reporting capabilities**. Streamlined reporting capabilities will aid Industry Average organizations in achieving top performance by consolidating and presenting an array of complex and dispersed information in a user friendly format. Organizations with such capabilities are able to participate in one, or several, standardized reporting protocols in a highly efficient manner. Further, the ability to make sustainability performance data quickly and easily available for internal as well as external stakeholders and interested parties is a major step toward achieving the transparency and good governance required for stewardship and thought leadership.

Best-in-Class Steps to Success

- **Enhance stakeholder communication**. The top performing organizations in this study still have significant room for improvement. The Best-in-Class stand to gain by further engaging their stakeholders with a greater rate of communication. The ability to keep employees informed and sharing ideas around company-wide successes, challenges, priorities, and areas of opportunity greatly enhance the productive exchange of ideas, innovation, and momentum. The operational efficiencies that have led to dramatically reduced costs, lowered environmental impact, and greater rates of customer retention are just some of the benefits available to top performing organizations. A company's people are its greatest resource, making its competitive advantage possible. The Best-in-Class should focus on increasing the cohesion and effectiveness of its organization, and that begins with regular communication with its people.

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- **Expand the use of scorecards**. While the Best-in-Class are 43% more likely than all others to utilize scorecards, more than half (56%) still do not. The recurring theme of these findings is that the Best-in-Class are holistically organized around clear policies aligned with short- and long-term goals and objectives. Performance management applied to the topic of sustainability creates a quantifiable and verifiable manner with which to optimize the performance of the entire value chain. Scorecards are a significant aid for stakeholders, both internal and external, and trading partners as well as employees are increasingly required to meet sustainability criteria. Scorecards effectively inform stakeholders of their progress and serve as a basis for improvement.

Aberdeen Insights — Summary

The results of Aberdeen research show that a rapidly growing number of organizations view sustainability as an essential component of the long-term viability and success of their business and are seeking to integrate responsibility-driven strategy into their organizational DNA. Regardless of industry, geography, or company size, sustainability requires organizations to change and innovate in fundamental ways that support a genuine and holistic engagement on issues encompassing the business, the environment, and society.

While quantified cost and client outcomes tell one story about the impact of sustainability on the business, there persists an idea that sustainability outcomes are "soft," "intangible," or somehow at odds with being profitable. This may seem true at first glance, as popularly held rationales for sustainability are often linked to the idea that companies should focus on sustainability in order to generously "do good." Yet, Aberdeen research has repeatedly shown that well-implemented and managed sustainability strategy strengthens a business ecosystem on multiple and concretely demonstrable levels.

Findings also show that the difficulty in demonstrating the ROI of sustainability is often a matter of inefficiency and inactivity around tracking, measuring, and communicating sustainability progress, successes, challenges, and areas of opportunity. The practices that encompass both qualitative and quantitative analysis and engagement create a competitive advantage for the Best-in-Class. Based on results from the Best-in-Class in this study – and from the goals and strategies of over 6,000 other companies worldwide – it is clear that initiatives need to be:

- **Comprehensive**. A deep understanding of the company definition of, strategy for, and progress towards, its vision of sustainable success is essential. Philosophical and practical clarity supported by education and training will aid the success of the larger goals.

- **Collaborative**. Working collaboratively, internally and externally, allows a superior level of visibility, innovation, and agility in addressing issues that may compromise the goals of an initiative and the larger challenges to which they connect.

- **Controlled**. Executive-level support and oversight of enterprise-wide sustainability objectives combined with clear performance metrics and tracking will allow the company to understand its challenges and successes in ways that are quantifiable and verifiable.

- **Communicated**. Communication is essential to stimulate internal and external stakeholder interest and support. Aligning the brand publicly with genuine commitment and action can also boost brand value and create thought leadership.

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Appendix A:
Research Methodology

Between January and February 2009, Aberdeen examined the use, the experiences, and the intentions of more than 200 enterprises focused on implementing or expanding sustainability strategy and initiatives. Aberdeen supplemented this online survey effort with telephone interviews with select survey respondents, gathering additional information on strategies, experiences, and results.

Responding enterprises included the following:

- *Job title / function:* The research sample included respondents with the following job functions: C-level / VP / Partner (33%); Director / General Manager (17%); Manager (19%); Consultant / Analyst (14%); Academic (4%); Staff (4%), all others (9%).

- *Industry:* The research sample included respondents from the following industries: IT (consulting services, software / hardware) (16%), transportation / logistics (6%), consumer packaged goods (5%), food / beverage (5%), metals and metal products (5%), automotive (4%), construction / architecture (4%), general sustainability (4%), all others (51%).

- *Geography:* The majority of respondents (63%) were from North America. Remaining respondents were from Europe (20%), the Asia-Pacific region (10%), South / Central America and Caribbean (3%), and Middle East, Africa (4%).

- *Company size:* Thirty-two percent (32%) of respondents were from large enterprises (annual revenues above US $1 billion); 30% were from midsize enterprises (annual revenues between $50 million and $1 billion); and 38% of respondents were from small businesses (annual revenues of $50 million or less).

- *Headcount:* Half (50%) of the respondents were from large enterprises (headcount greater than 1,000 employees); 27% were from midsize enterprises (headcount between 100 and 999 employees); and 23% of respondents were from small businesses (headcount between 1 and 99 employees).

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Table 5: The PACE Framework Key

Overview
Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows: **Pressures —** external forces that impact an organization's market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive) **Actions —** the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product / service strategy, target markets, financial strategy, go-to-market, and sales strategy) **Capabilities —** the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing) **Enablers —** the key functionality of technology solutions required to support the organization's enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)

Source: Aberdeen Group, May 2009

Table 6: The Competitive Framework Key

Overview	
The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance: **Best-in-Class (20%) —** Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance. **Industry Average (50%) —** Practices that represent the average or norm, and result in average industry performance. **Laggards (30%) —** Practices that are significantly behind the average of the industry, and result in below average performance.	In the following categories: **Process —** What is the scope of process standardization? What is the efficiency and effectiveness of this process? **Organization —** How is your company currently organized to manage and optimize this particular process? **Knowledge —** What visibility do you have into key data and intelligence required to manage this process? **Technology —** What level of automation have you used to support this process? How is this automation integrated and aligned? **Performance —** What do you measure? How frequently? What's your actual performance?

Source: Aberdeen Group, May 2009

Table 7: The Relationship Between PACE and the Competitive Framework

PACE and the Competitive Framework – How They Interact
Aberdeen research indicates that companies that identify the most influential pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.

Source: Aberdeen Group, May 2009

Appendix B:
Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

- *Going. Going. Green: Planning for the Green IT Ecosystem*; January 2009

- *Meeting Regulatory Compliance with Green Product Development for Aerospace and Defense Manufacturers*; January 2009

- *From Rhetoric to Reality: The 2009 Sustainability Agenda*; January 2009

- *Green Product Development for Industrial Equipment Manufacturers*; December 2008

- *Greening Today's Products: Sustainable Design meets Engineering Innovation*; August 2008

- *Getting from Green to Gold: Retail Success Factors and Outcomes*; July 2008

- *Supply Chain Network Design: Architecting a Green Future*; April 2008

- *Building a Green Supply Chain: Social Responsibility for Fun and Profit*; March 2008

- *Green Marketing: Leveraging Customer Data to Reduce Direct Mail Waste*; February 2008

- *From Green Hype to Sustainable Action: The 2008 Green Agenda*; February 2008

- *Green Initiatives: Lowering Costs and Increasing Efficiency in the Data Center*; January 2008

Information on these and any other Aberdeen publications can be found at www.aberdeen.com.

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