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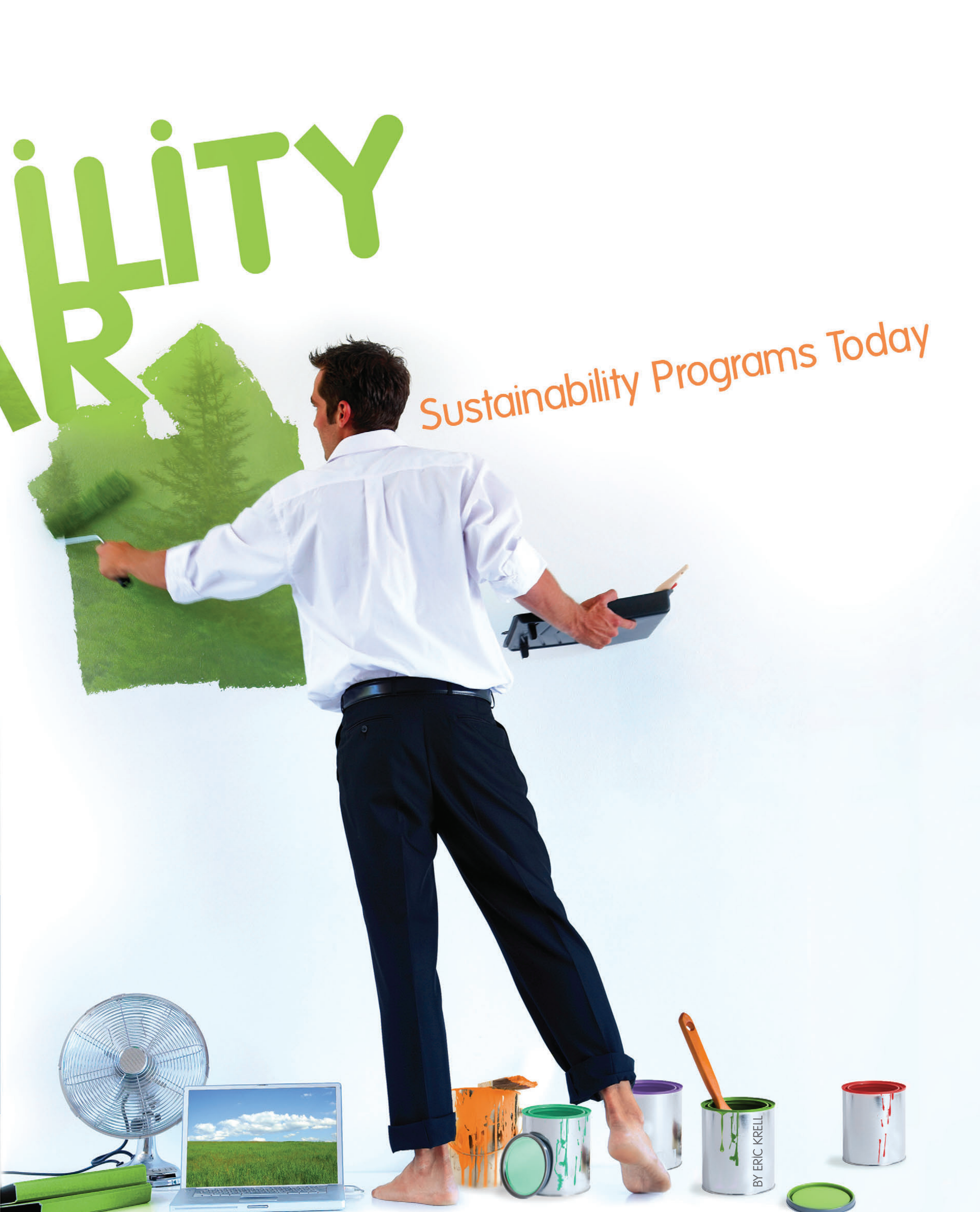
Why and How Companies Launch

Ask a dozen executives what corporate sustainability means, and chances are they will deliver 12 different definitions.

Some will talk about regulatory compliance and risk management. Some will describe cost reductions. Others will mention somewhat hazy measures, such as carbon neutrality, or more tangible metrics, such as energy efficiency improvement and revenue per sustainable product. A few will give skeptical shrugs. A handful of executives, including GE Chairman and CEO Jeff Immelt, will light up as they discuss profits, recruiting and retention benefits and other net gains.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Sustainability Programs Today
BY ERIC KRELL

Sustainable Development

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

"There is a green lining among the current economic storm clouds and GE customers and investors are benefiting," Immelt asserts when discussing the "ecomagination" program his company introduced in 2005. "Cleaner innovation and technology resonate in the marketplace, while we slash our own energy and water costs and emissions, further strengthening GE's competitive position and the advantage GE offers to its customers."

The company's ecomagination products and services – offerings that range from combustion systems to nuclear reactors to compact fluorescent light bulbs – generated $17 billion for the company in 2008, a 21 percent increase over 2007 ecomagination revenue.

Nicholas Eisenberger is managing principal with GreenOrder (an LRN Company), a sustainability consulting firm that has worked with a number of Fortune 500 companies including GE on its ecomagination business. "Sustainability has been a somewhat elusive topic," Eisenberger notes. "It means different things to different people in different contexts." That said, he believes that the recent focus on the environmental dimensions of sustainability among U.S. companies is starting to give way to a broader understanding – and application – of the concept. In this broader context, corporate sustainability is integrated with corporate strategy at the highest level.

"It's a matter of asking questions such as, 'How can we use sustainability as a source of value creation and innovation to thrive over the long term?'" Eisenberger notes. "That approach is very real and is where some of the most exciting action is today."

Executive teams at Wal-Mart, BP, Dupont, Dow Chemical, Owens Corning, Home Depot, Deloitte & Touche, 3M and a host of other Fortune 500 companies that have made significant commitments to corporate sustainability strategies would agree.

Understanding the nature of those strategies and the advantages they are designed to deliver requires an understanding of corporate sustainability development in the U.S. as well as why and how companies launch and design their sustainability programs.

FROM SILENT SPRING TO CFLs AND BEYOND

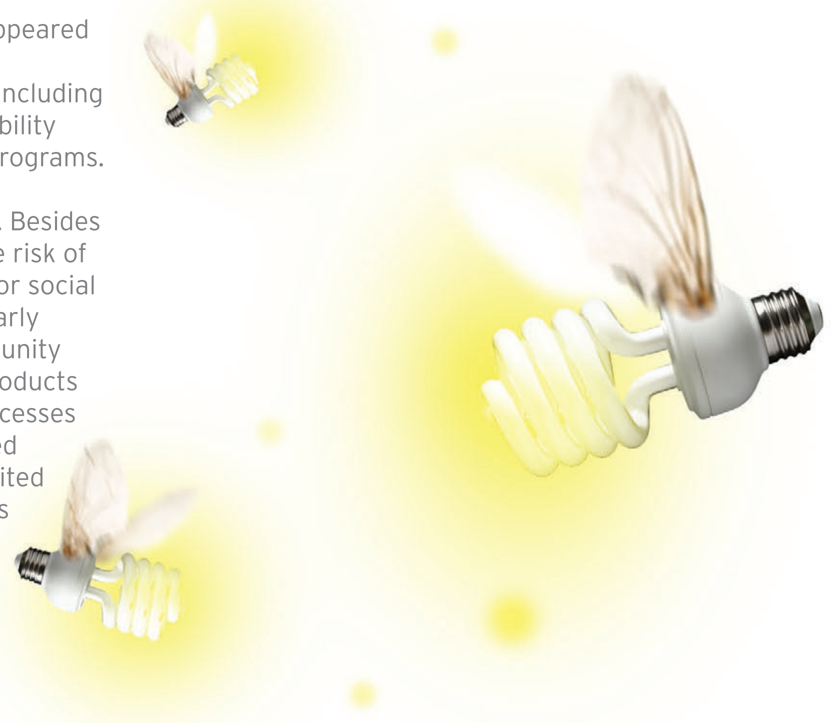
The need to comply with environmental regulations that first appeared in the U.S. in the 1970s initially launched many early corporate sustainability programs, which often went by a different name, including environmental health and safety (EHS). In some cases, sustainability programs grew out of philanthropy (later called "citizenship") programs.

Over time, the scope of some "pure-compliance" programs broadened to take a more active approach to risk management. Besides adhering to regulations, these programs also sought to limit the risk of lawsuits and other costs that could arise due to environmental or social missteps. In the 1980s leading sustainability programs, particularly those within manufacturing companies, spotted another opportunity to limit costs: by reducing the amount of materials that their products required and the amount of waste that their manufacturing processes produced. During the same decade, the United Nations convened the Brundtland Commission, which produced this (still) widely cited definition: "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

A few years later, in the 1990s, the corporate citizenship movement and "corporate social responsibility" (CSR) gained momentum. The idea of a "triple bottom line," which includes people (social issues), process (economic progress) and planet (environmental issues) also emerged.

Many Fortune 500 companies, including IBM and GE, began changing their practices while vying to top the "100 Best Corporate Citizens" list published annually by *Business Ethics* magazine. High placement on the list conferred marketing opportunities, reputation/brand clout and recruiting and retention benefits to companies – as Green Mountain Coffee Roasters (#1, in 2007), Advanced Micro Devices (#2), Nike (#3), Motorola (#4) and Intel (#5) can attest to. More companies also began to publish annual sustainability reports as a means to communicating their sustainability activities to stakeholders.

People
Process
Planet



About eight years ago, another phase in corporate sustainability's progression emerged. "A signature event was BP [British Petroleum] saying, 'We're no longer BP, we're '*Beyond Petroleum*,'" Eisenberger points out. Shortly thereafter, GE launched ecomagination, which signaled that the global conglomerate believed there was a major business opportunity in producing the least-polluting and most efficient products in its markets.

GE is far from the only large company deriving tangible benefits from sustainability initiatives. Wal-Mart's internal energy efficiency programs, which include green building and design approaches, are complemented by supply chain efforts through which the retailer's shipping container reductions have resulted in annual savings of 1,000 barrels of oil (and more than $2 million in cost savings).

Companies like Nestle Waters and Dial Corporation have reduced some of their products' packaging materials by 15 percent to 40 percent, delivering significant cost reductions. As part of its ongoing effort to become "the greenest technology company on the planet," Dell recently pronounced itself "carbon neutral."

Deloitte & Touche LLP has reported that it gains recruiting and retention benefits, particularly among younger talent, from its sustainability program, which both fosters greater energy efficiency within the services firm and helps client companies develop and advance their own sustainability practices and innovations.

STRATEGIC DNA

Although many different drivers – including regulatory requirements (and/or regulatory violations), cost-reduction objectives, brand-enhancement objectives, the need for continued access to scarce natural resources or even the introduction of a new CEO – motivate companies to launch full-fledged sustainability programs, and "customer demand marks the most common sustainability trigger point among companies with formal initiatives," noted Lisa Walker, a senior client partner for Korn/Ferry International who leads the talent management firm's sustainability initiative.

Walker notes that customer demand often originates in a single business unit, which responds independently to the demand for sustainability products (e.g., compact fluorescent light bulbs), services (e.g., green home/business audits designed to lower energy bills) or even internal processes (e.g., manufacturing water bottles using less plastic). Customer demand for sustainability occurs in other business units as well, and these business units also respond independently.

Soon thereafter, Walker explains, "The company's CEO or another senior-level executive recognizes that the grassroots demand for sustainability is occurring faster and broader. Continuing to respond in a disparate manner to this growing demand creates operational inefficiencies. The CEO then creates an umbrella organization to formalize and centralize the company's sustainability message and effort." (see "Four Steps to Sustainability")

Once companies pull the trigger, they turn their focus to strategy.

The primary strategic challenge is "figuring out how you get sustainability into the DNA of your corporate structure," notes Andrea Moffat, director of corporate programs for Ceres, a national network of investors, environmental organizations and other public interest groups working with companies and investors to address sustainability challenges. Anita Roper, the sustainability director of Alcoa, agrees: sustainability "has to be part of the DNA of the company," Roper told *Corporate Board Member* magazine last year.

"This is not just about marketing or creating a green silo," Eisenberger also asserts. "It has to be embedded in the organizational DNA, and it's ultimately about customer and product and what you do in the marketplace. Sustainability that does not have an anchor in a business case or a strategic imperative – well, we say that 'sustainability for its own sake is not sustainable.'"

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SEEKING CSOs AND BUSINESS SKILLS

Structures and staffing considerations follow. Increasingly, this process includes appointing a chief sustainability officer (CSO). More than one-quarter of Fortune 500 companies now have a CSO or similar title.

What qualities do companies want their CSOs to possess? Credibility appears most important – even more so than specific sustainability expertise.

"We tend to recommend that it is more important for a CSO to have real business experience, P&L experience, ideally in that company or industry than environmental experience," says Eisenberger. "They need to have that credibility … we strongly recommend that [the CSO] should be a senior person with real relationships inside the company who has the credibility of having delivered value to the company – or in the company's industry – in the past."

Moffat agrees. "They have to understand sustainability issues, but it's really critical that they understand how their company works in terms of actual business," she notes. "They need to make sure they're lighting all the fires, really engaging people and getting them to be innovative around sustainability so that it becomes integrated. That's their main job."

A glimpse at CSO appointments in recent years reflects a wide range of background expertise. Roper worked for the International Council on Mining and Metals before joining Alcoa. DuPont CSO Linda Fisher previously worked for the Environmental Protection Agency. Last year, Mitsubishi International Corporation gave the CEO of its North America operations, Ryoichi Ueda, the dual role of CEO and CSO, which a company spokesperson says "signals the rise in the importance of environmental and social considerations to management." Other companies, including 3M and Home Depot, hire veteran executives from within the company to head their sustainability functions.

Since most sustainability functions tend to be lean and highly virtual (i.e., staff are scattered throughout many locations), Walker says the position requires a results orientation, functional depth and interpersonal agility.

As CSOs shape and define policy and practices, they must develop and communicate a specific point of view regarding where and how the sustainability program can improve operational efficiencies and increase profits," reports Walker, the co-author of a report titled "Why, And How, Companies Create Sustainability Programs and Appoint Chief Sustainability Officers." "An ability to clearly define and promote the goals and benefits of the sustainability program is mandatory."

Walker also notes that CSOs should possess "leadership fortitude" and "exceptional verbal communication skills to transfer the message and the results" of the company's sustainability strategy and initiatives.

AN ILLUSTRATIVE DEBATE

Reporting the results represents one of the current challenges corporate sustainability programs can encounter. For example, Dell's claim of carbon neutrality drew an investigative response by *The Wall Street Journal*, which published a nearly 2,500-word article on the topic under the headline, "Green Goal of Carbon Neutrality Hits Limit."

The article took Dell to task for the way it measured its carbon footprint, noting that the company did not take into account the emissions produced by suppliers and consumers involved in making, purchasing and using Dell products. However, Dell never claimed its measure was designed to cover supplier and customer emissions. Dell's director of environmental health and safety acknowledged to the *Journal* that there are skeptics of carbon neutrality and added, "Instead of using that as an excuse for inaction, we've said, 'There's a lot you can do.'"

The debate, and the column inches the newspaper dedicated to it, reflects the emerging nature and importance of corporate sustainability. Standards and measurements already exist (the Global Reporting Institute (GRI) offers comprehensive guidelines); more are needed.

Despite these growing pains, it is difficult to argue that the notion of corporate sustainability has passed a tipping point, one that promises to take sustainability beyond its traditional connotations. Just as BP redefined itself as being "beyond petroleum," the corporate sustainability movement seems poised to move beyond its recent near-exclusive focus on the environment.

Figuring out how you get sustainability into the DNA of your corporate structure

Outgreening, Seidman asserts, is really a form of "outbehaving" the competition.

"Sustainability can be about much more than our response to a crisis: It is an opportunity; it is a set of behaviors integrated into an organization's culture," notes Dov Seidman, founder, chairman and chief executive of LRN, a company that helps businesses develop ethical corporate cultures and inspire principled performance.

Seidman, who also authored *HOW: Why HOW We Do Anything Means Everything...in Business (and in Life)* (Wiley, 2007), believes that behavior is emerging as the most valuable and renewable opportunity for companies to differentiate themselves from competitors "because unlike previous sources of power, behavior is both infinite and unique."

Companies that incorporate broadly defined sustainability objectives into their strategies seek to compete on the basis of their sustainability capabilities – what Pulitzer Prize winner Thomas Friedman describes as "outgreening" in his book *Hot, Flat and Crowded: Why We Need a Green Revolution and How it Can Renew America* (Farrar, Straus and Giroux, 2008).

Outgreening, Seidman asserts, is really a form of "outbehaving" the competition.

"By shifting an organization's mindset to outgreening, business leaders think in a long-term view that simultaneously stimulates innovation (and value) in the short-term while preserving long-term legacy (and value) over the long term," Seidman explains. "Individuals, business leaders, companies and countries that adopt that definition today will outgreen the competition tomorrow by embracing a strategy of outbehaving that interprets sustainability in its broadest sense: to create a world in which we can thrive while pursuing human endeavor for generations to come. Sustainability is about much more than our relationship with the environment; it's about our relationship with ourselves, our communities and our institutions."

Companies that embrace the more holistic understanding of sustainability that Seidman describes may discover that their sustainability functions unearth more long-term growth opportunities than competing companies with less sophisticated programs.

If that sounds familiar, it should. Walker compares the current progress of corporate sustainability initiatives with the onset of the total quality management (TQM) movement.

"These early [sustainability] adopters," she adds, "are poised to profit from corporate sustainability on more than one front – in a similar way that their forward-thinking predecessors succeeded during the quality revolution two decades ago."

GREEN CRED

Of all the qualities sustainability practitioners describe as crucial to the success of corporate sustainability programs, none is mentioned more frequently than credibility. A company's sustainability strategy and the executive responsible for executing it should be credible to the rest of the company above all else.

GreenOrder has developed a framework to help companies develop a sustainability strategy that aligns with (and can be integrated into) their unique corporate strategy:

CREDIBILITY:	*Why should anyone believe us?*
RELEVANCE:	*How can we leverage green to create value?*
EFFECTIVE MESSAGING:	*How to translate complex data into compelling messages?*
DIFFERENTIATION:	*Do we have unique goals and achievements?*

Source: GreenOrder,
www.greenorder.com

FOUR STEPS TO SUSTAINABILITY

Customer demand frequently triggers corporate sustainability programs, notes Lisa Walker, a senior client partner for Korn/Ferry International who leads the talent management firm's sustainability initiative. The table below describes the four steps that typically occur as customer demand transforms into a formal program among mid-sized to large companies:

1. CUSTOMER DEMAND Customer demand for sustainability products, services and/or processes typically enters company through individual business units.
2. BUSINESS UNIT RESPONSE Individual business units respond to customer demand independently and soon roll up sustainability initiatives into their individual strategies.
3. EXECUTIVE "AHA!" The CEO or another member of the executive team recognizes the push for sustainability in different parts of the business.
4. SUSTAINABILITY PROGRAM In response, the CEO/executive team creates an umbrella organization and appoints a chief sustainability officer to more effectively manage and leverage disparate sustainability messages and efforts across the enterprise.

Source: "Why, And How, Companies Create Sustainability Programs and appoint Chief Sustainability Officers," Korn/Ferry International, 2008.