

## Selling the Business Value of Sustainability

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# *The Sustainability “3-Legged Stool”*

Sustainable Development (SD) = Sustainability  
= Corporate Social Responsibility (CSR)  
= Triple Bottom Line (TBL) = Corporate Responsibility (CR)  
= Environmental, Social, Governance (ESG)

## Economy / Profits

### Sustainable business

- Profits
- Taxes, R&D
- Jobs
- Expenditures
- Training
- Fair trade
- Core values

## Environment / Planet

### Eco-Efficiency

- Manufacturing efficiencies
- Operations efficiencies
- Product efficiencies
- Smart design
- Cradle-to-cradle, take-back
- Beyond compliance
- Restorative to nature

## Equity / People

### Ethical business

- Internal Employees
  - Human Rights
  - Health & Safety
  - Respect, Caring
- Local Community & **Culture**
- Rest of the World

# *The Smart Business “3-Legged Stool”*

## Asset Management

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**Financial  
Capital**

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**Natural  
Capital**

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**Human  
Capital**

**Manufactured  
Capital**

**Social  
Capital**

# 5 Stages and Emerging Drivers

## 5. Purpose / Passion

- Passionate Founder / CEO

## 4. Integrated Strategy

- Business Opportunities – “Carrots”
- Risk Management – “Sticks”

## 3. Beyond Compliance

- Eco-efficiencies
- Regulatory Threat
- PR Crisis

## 2. Compliance

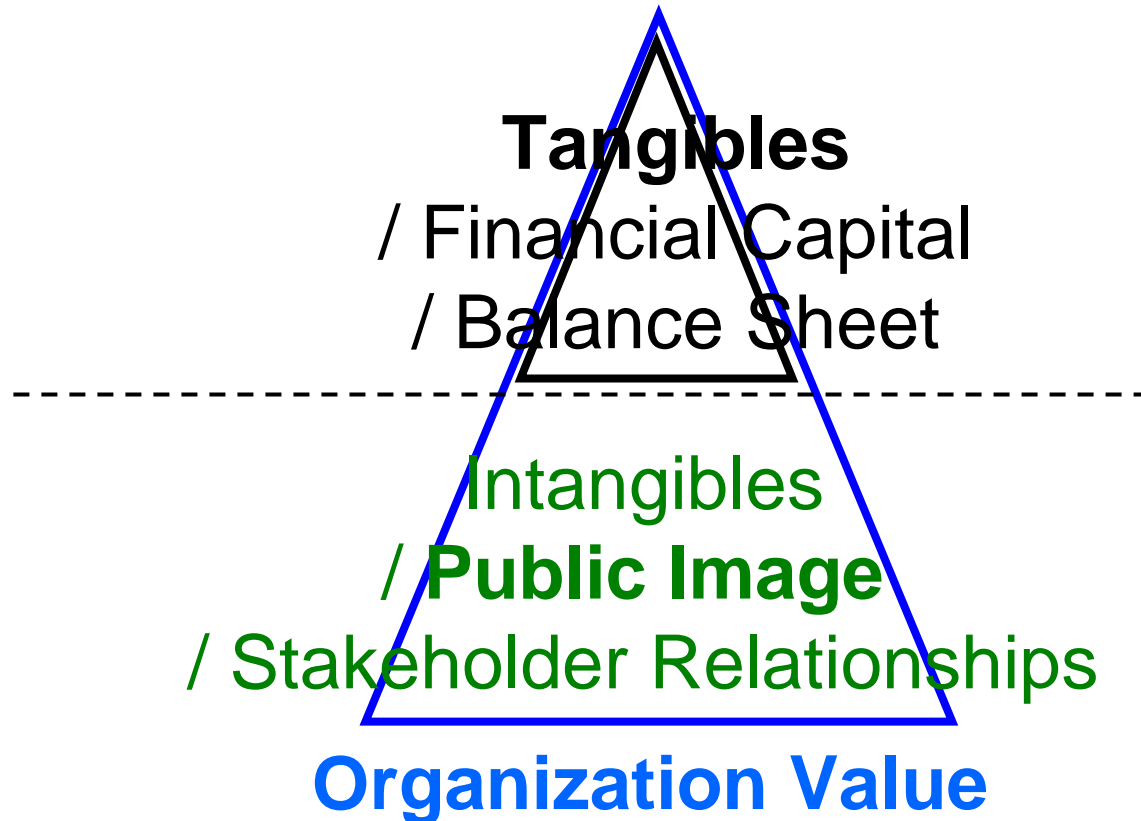
- Regulatory Pressure / Enforcement

## 1. Pre-Compliance

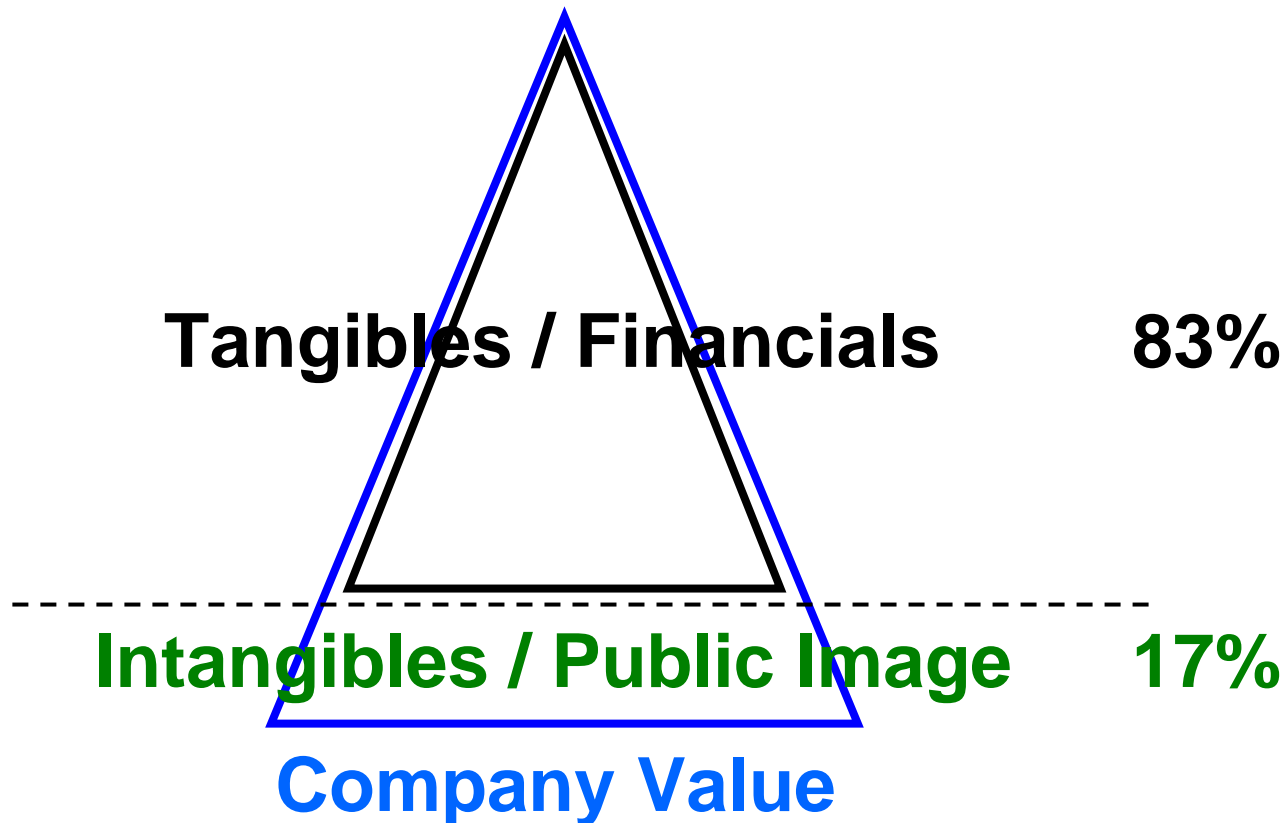
Proactive

Reactive

# *The Value Iceberg*

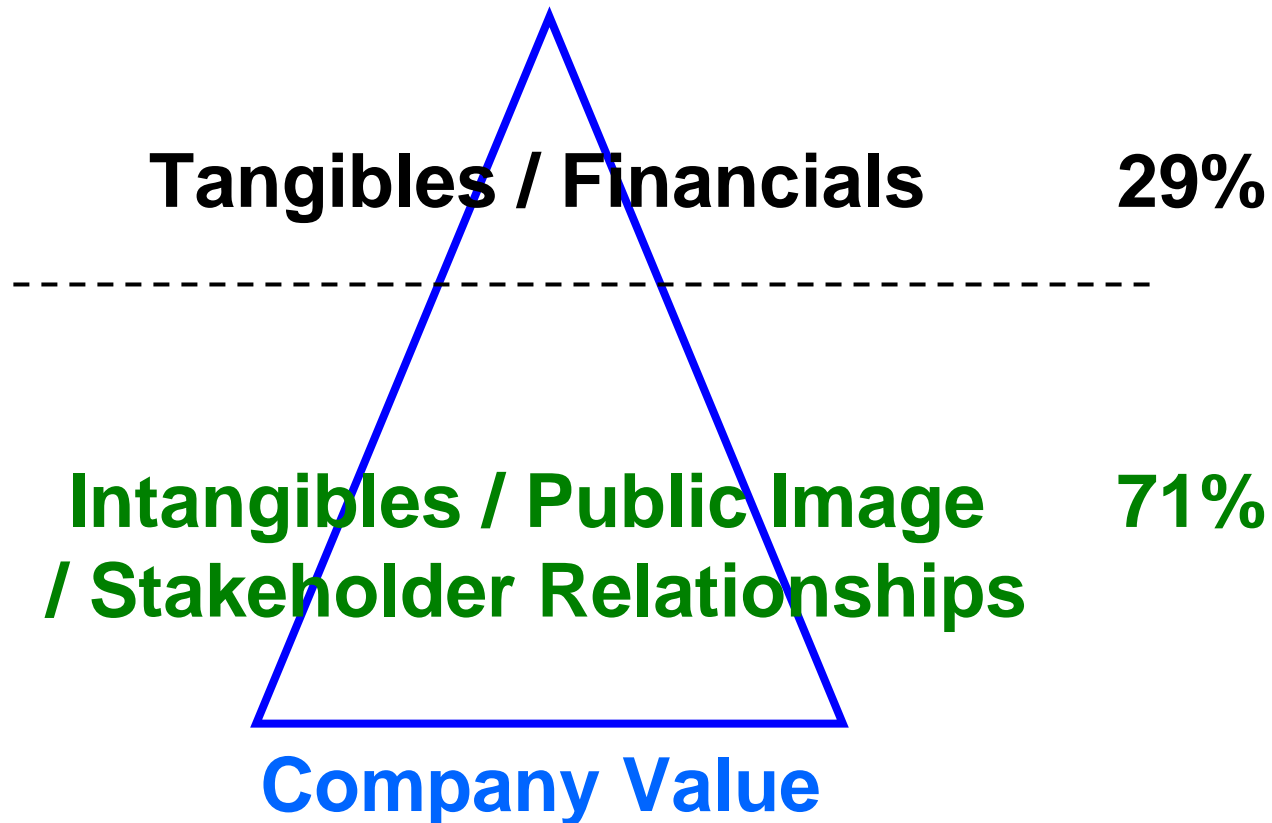


# *The Company Value Iceberg: 1981*



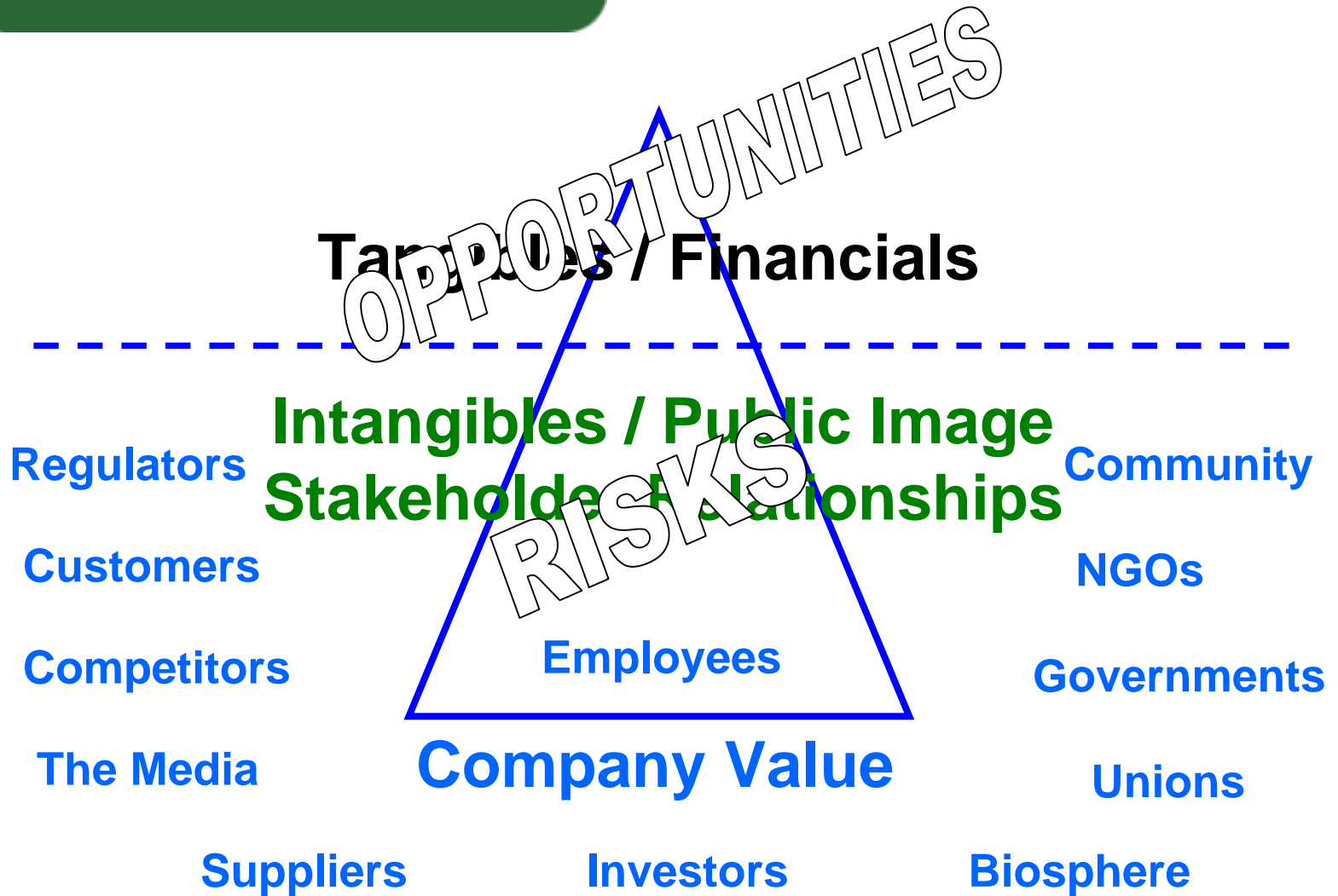
Arthur D. Little, *The Business Case for Corporate Citizenship*, 2002)

# *The Company Value Iceberg: 1998*



Arthur D. Little, *The Business Case for Corporate Citizenship*, 2002)

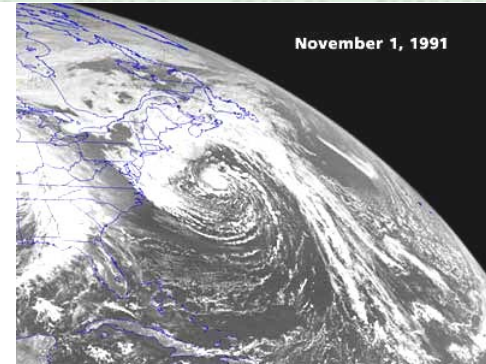
# The Business Case



# *The Perfect Storm*

**Oct. 27 – Nov. 1, 1991**

1. Hurricane Grace ... near Bermuda
  2. Cold front over the Great Lakes
  3. Old warm front near Sable Island
- All were dying out
  - Energy from the 3 systems combined
  - Worst storm in history ... 100' waves
  - **Sudden, unexpected, devastating**



# *“Perfect Storm” of Risks*

Market Forces		Risks
Mega-Issues	Demanding Stakeholders	
Climate Crisis / Change	Awakened Public	Public Image Risks
Pollution & Health	Business Community	Balance Sheet Risks
Water Crisis	Civil Society / NGOs	Operating Risks
Energy Crunch	Government Regulators	Capital Cost Risks
Erosion of Trust	Financial Sectors	Sustainability Risks

# Carbon Disclosure Project

Mega-Issue	Demanding Stakeholders	Business Risks
Climate Crisis	Financial Investors	Regulations ... Physical ... Litigation ... Competitiveness ... Reputation

	2003	2004	2005	2006
<b>Institutional Investors</b>	35	95	155	225
<b>Value of Assets Held</b>	\$4.5T	\$10T	\$21T	\$31T
<b>Companies Surveyed</b>	Financial Times 500			1,800
<b>Response Rate</b>	47%	59%	71%	72%

**Plus ... 27 US institutional investors with \$1T in assets have asked the SEC to require listed companies to disclose the risks that global warming poses to their financial performance (June 2006)**

## *EU Market: The tail that wags the dog?*

Mega-Issue	Demanding Stakeholders	Business Risks
Pollution & Health	EU Market	Regulations ... Competitiveness ... Reputation ... Market access

- **Restriction on the use of Certain Hazardous Substances (RoHS):** In force July 2006; lead, cadmium, mercury, hexavalent chromium, and two flame retardants
- **Waste from Electrical and Electronic Equipment (WEEE):** In force January 2007; take-back & disassembly of products & components
- **Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH):** In force April 2007; burden of proof on manufacturers to prove chemicals are safe
- **Energy-using Products (EuP):** In force mid-2007; environmentally friendly design and energy consumption

# US Position on Climate Change ...?

Mega-Issue	Demanding Stakeholders	Business Risks
Climate Crisis	US Cities & States	Regulations ... Competitiveness ... Reputation ... Capital Costs

- **US Cities:** *Climate Protection Agreement* by 313 city mayors to reduce GHGs 7% below 1990 levels by 2012
- **US States:** *Regional Greenhouse Gas Initiative (RGGI)*: emissions trading scheme for power plants in 7 NE and Mid-Atlantic states; *Global Warming Solutions Act*: (August 2006) California goal of cutting GHGs from power plants, refineries and industrial facilities to 2000 levels by 2010 and to 1990 levels by 2020; Governors of California, Oregon and Washington commit to regional action on global warming (2003)
- **US Corporations:** 100 *Climate Leaders* producing 8% of US GHGs commit to reduce their GHGs e.g. GM, IBM, Baxter, SC Johnson, DuPont, Intel, HSBC, Raytheon, Commins

# Supply Chain Pressures

Mega-Issue	Demanding Stakeholders	Business Risks
Climate Crisis & Energy Crunch	Big Buyers	Regulations ... Competitiveness ... Reputation ... Capital Costs

- Wal-Mart:** (#2 in Fortune 500; Oct. 2005 ann't by CEO Lee Scott)  
 Reduce **GHGs** from stores by 20% by 2012;  
 Invest \$500M annually in stores' **efficient energy**;  
 Increase truck fleet **fuel efficiency** by 25% over 3yrs; 100% in 10 yrs;  
 Ask 60,000 suppliers to reduce **packaging**
- GE:** (#7 in Fortune 500; May 2005 ann't CEO Jeffery Immelt)  
 30% **GHG** intensity reduction by 2008;  
 30% better **energy efficiency** by 2012 over 2004;  
 2x **research investment in cleaner technologies**, from \$700M in 2004 to \$1.5B in 2010;  
 Sell \$20B of 17 "**ecomagination**"-tagged products per year by 2010, up from \$10 billion in sales in 2004

# Other Interesting Sustainability Motivators

Mega-Issue	→	→	
<b>National Security</b>	Stop addiction to foreign oil	Investment in <b>Alternative energy</b>	Explosion of wind, solar, battery, clean-technologies; \$46B by 2008; \$167B by 2015
<b>Demand for Corporate Growth</b>	Search for new revenue streams	<b>Carbon Trading</b> opportunity	\$22.3B in EU in 2005
<b>War for Talent</b>	Need employees who understand complex global issues	<b>MBA Schools</b> integrating sustainability	<i>Beyond Grey Pinstripes</i> ; BGI; Presidio
<b>Erosion of Trust</b>	Demand for transparency in governance	Sarbanes-Oxley & <b>Sustainability Reporting</b>	64% of Global 250 do sustainability reporting; GRI
<b>Threats to Image / Brand</b>	Show leadership on global issues	<b>DJSI, Jantzi</b> , etc indices	37 corps in US EPA <i>Climate Leaders</i>

# Market Forces

Market Forces	
Mega-Issues	Demanding Stakeholders
Climate Change	Awakened Public
Pollution & Health	Business Community
Water Crisis	Civil Society / NGOs
Energy Crunch	Government Regulators
Erosion of Trust	Financial Sectors

**Reputation / Public Image**

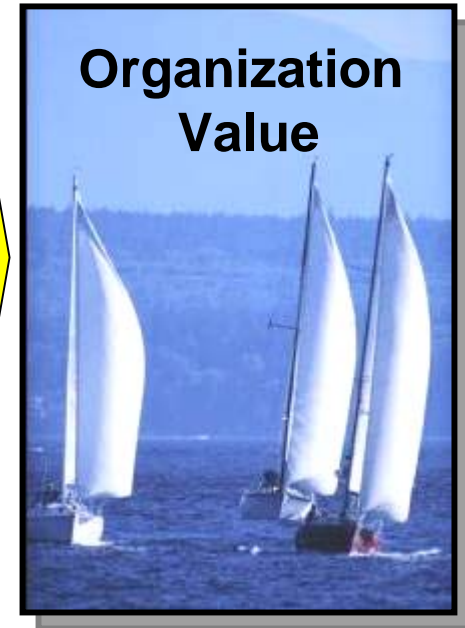
**Sea Change Of Rising Expectations of Accountability**



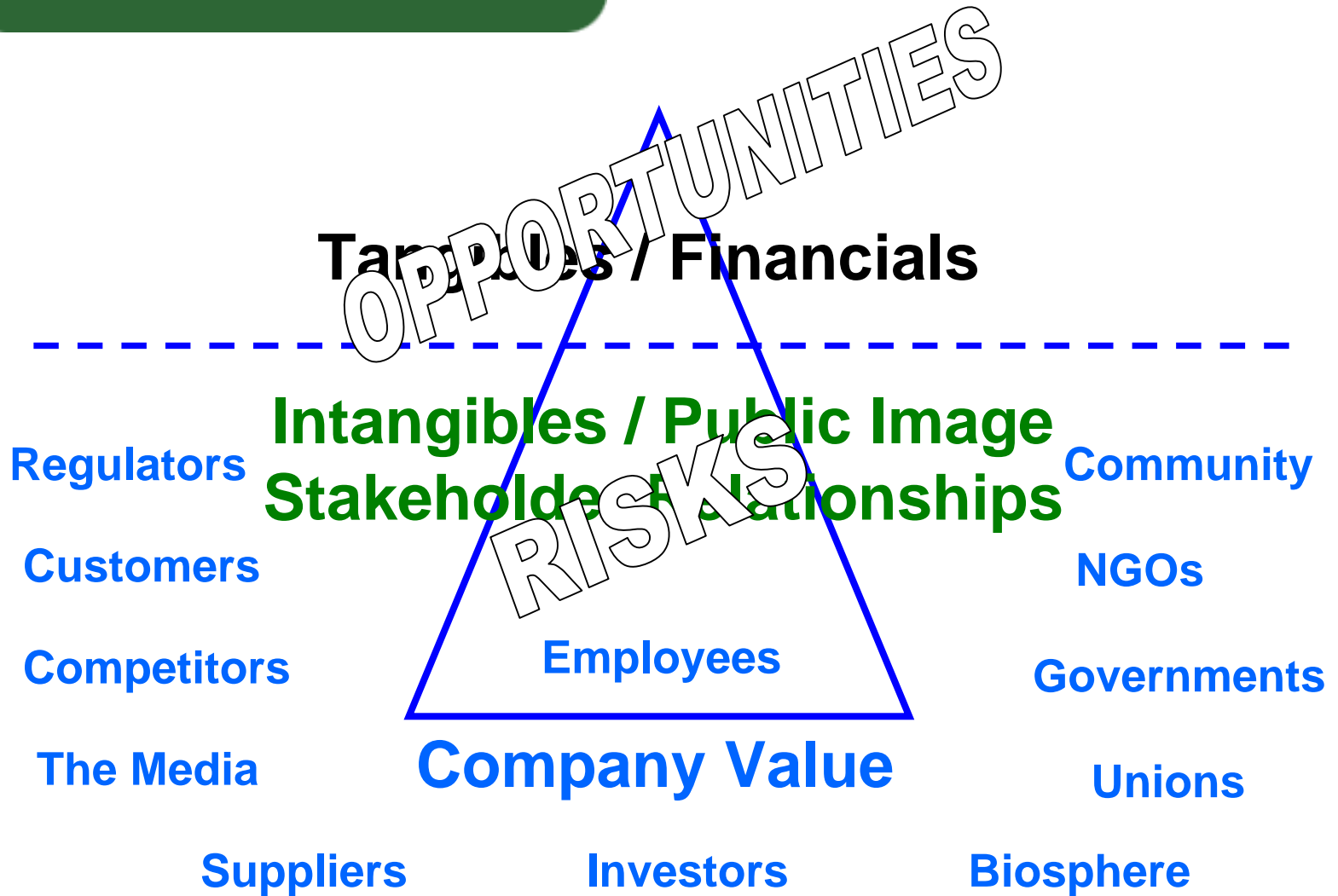
# A Perfect Storm ... of Opportunities

Market Forces	
Mega-Issues	Demanding Stakeholders
Climate Change	Awakened Public
Pollution & Health	Business Community
Water Crisis	Civil Society / NGOs
Energy Crunch	Government Regulators
Erosion of Trust	Financial Sectors

**Innovation**  
**Growth**  
**Productivity**  
**Public Image**  
**Revenue**  
**Savings**  
**Competitive Advantage**



# The Business Case



# *Business Priorities*

**Productivity**

**Profit**

**Share Price**

**Growth**

**Leadership**

**Managing Risks**

**Speed to Market**

**Expense Savings**

**Brand Image**

**Complying with  
New Regulations**

**Attracting &  
Retaining  
Customers**

**Competitive  
Advantage**

**Responding to Emerging  
Market Forces**

**Revenue**

**Governance**

**New Markets**

**Attracting &  
Retaining  
Top Talent**

**Motivation**

**Innovation**

**Market Share**

## *Benefits to “SD Inc.”*

Revenue	\$44,000,000,000	
Profit	\$3,000,000,000	(7% of Revenue)
Workforce	120,000	
Avg. Employee Salary	\$60,000	
Avg. Manager Salary	\$70,000	

**Potential profit increase: 38%**

- + Energized employees**
- + Improved corporate image**
- + Competitive advantage**
- + Positioned for the future**



# The Catch

## 1. Show senior leadership

- Include SD in vision / mission / strategies
- Reinforce it is a **business** strategy vs. a compliance or philanthropy issue
- Avoid “green-washing” hype
- Visible support: speeches, questions, actions

## 2. Educate the whole company

- Solicit employee ideas

## 3. Align with measurement systems

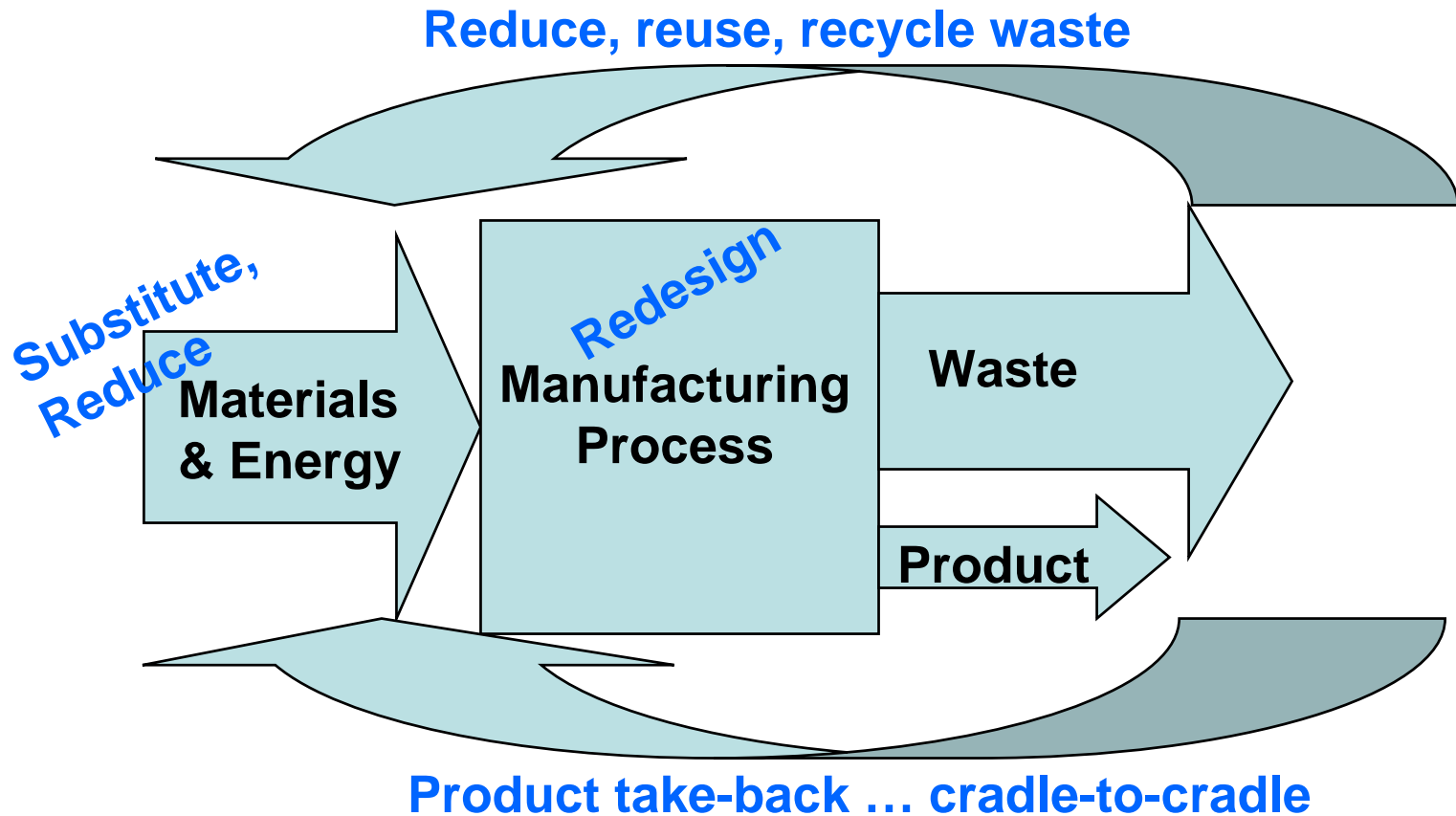
- Align with measurement / management systems
- Integrate into recognition / reward systems

## *7 Benefit Areas*

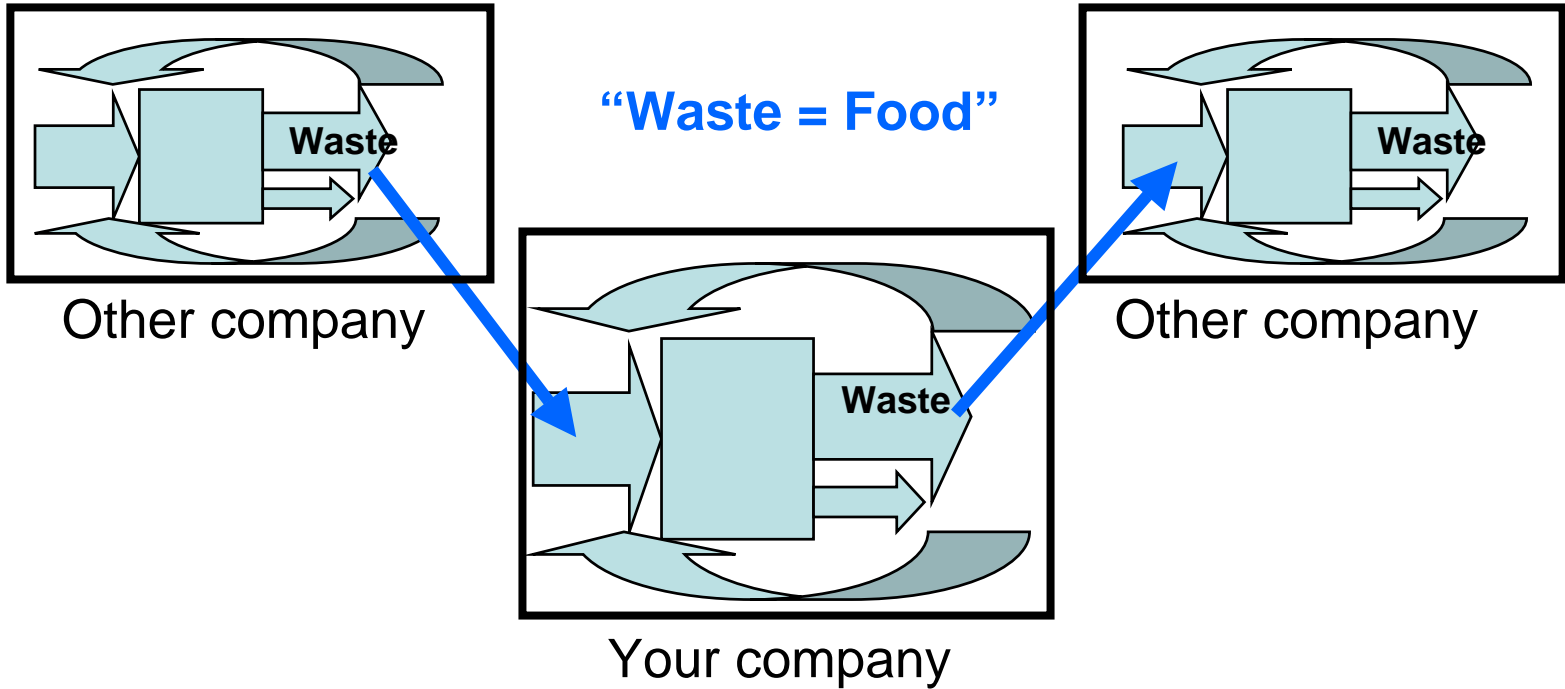
1. Reduced recruiting costs
2. Reduced attrition costs
3. Increased employee productivity
4. Reduced expenses in manufacturing
5. Reduced expenses at commercial sites  
(energy, water, consumables)
6. Increased revenue / market share
7. Reduced risk, easier financing

**Usual  
focus**

# *Eco-efficiency Strategies*



# Industrial Ecology



Based on concepts outlined in *In Earth's Company* (Carl Frankel, Gabriola Island, B.C., New Society Publishers, 1998, and in *An Introduction to Eco-Industrial Networking and the Canadian Eco-Industrial Network* (Canadian Eco-Industrial Network, self-published, 2001)



## *Examples of Eco-Efficiency Savings*

- **3M**  
\$1B in first year savings ... 30 years (1975-2005)  
...eliminated pollution at source ...employee suggestions in the Pollution Prevention Pays (3P) program
- **BP**  
\$650M savings ... reached its 2010 emissions reduction target in 2001
- **Xerox**  
Saved or avoided \$2B ... redesign of products and manufacturing processes over 10 years
- **Procter & Gamble**  
Saved \$380K/year ... targets \$1B / year at US plants ... retrofits of lighting, compressors, heat recovery from waste water, etc.



## *Examples of Eco-Efficiency Savings*

- **DuPont**  
Uses 7% less energy than it did in 1990, despite producing 30% more goods; reduced energy bill by \$3B since early 1990s and cut GHGs by 77%
- **DOW**  
Reduced energy intensity by 22% over 10 years, saving \$4B; new goal to reduce energy intensity a further 25%
- **STM Electronics**  
In 2004, \$40M in energy efficiency improvements cut energy use by 5% and saved \$173M; saved \$8M in water costs; predict savings of \$900M over a decade
- **Alcoa**  
Slashed PFC smelter emissions by 80%, saving \$100M/ yr
- **BASF**  
Reduced GHG emissions by 38% between 1990 and 2002; saved \$600M per year at Ludwigshafen site alone



## *Examples of Eco-Efficiency Savings*

- **IBM**  
\$115M in energy savings, 1998-2005 ... 1.28 M tons of CO2 ... energy conservation and alternative energy
- **HP**  
In California, reduced its waste by 95% and saved \$870,564 in 1998
- **United Technologies Corporation**  
Eliminated almost 40,000 gallons per year of waste water and saved over US\$50,000 per year with a fundamental change in the way it manages its test cells, underground storage tanks and waste streams
- **SC Johnson**  
In five years, increased production by 50% while waste emissions were cut by half, resulting in annual cost savings of more than \$125M

## *7 Benefit Areas ... % Improvement*

- 1. Reduced recruiting costs** **-1%**
- 2. Reduced attrition costs** **-2%**
- 3. Increased employee productivity** **+10.5%**
- 4. Reduced expenses in manufacturing** **-5%**
- 5. Reduced expenses at commercial sites  
(energy, water, consumables)** **-20%**
- 6. Increased revenue / market share** **+5%**
- 7. Reduced risk, easier financing** **-5%**

**... yielding a Profit increase of +38%**

## What if ...

1. Reduced recruiting costs **-1%**
2. Reduced attrition costs **-2%**
3. Increased employee productivity **+10.5%**
4. Reduced expenses in manufacturing **-5%**
5. Reduced expenses at commercial sites (energy, water, consumables) **-20%**
6. Increased revenue / market share ~~**+5%**~~ **-2%**
7. Reduced risk, easier financing **-5%**

... yielding a Profit increase of ~~**+38%**~~ **+35%**

## What if ...

1. Reduced recruiting costs **-1%**
2. Reduced attrition costs **-2%**
3. Increased employee productivity **~~+10.5%~~ +4%**
4. Reduced expenses in manufacturing **-5%**
5. Reduced expenses at commercial sites (energy, water, consumables) **-20%**
6. Increased revenue / market share **+5%**
7. Reduced risk, easier financing **-5%**

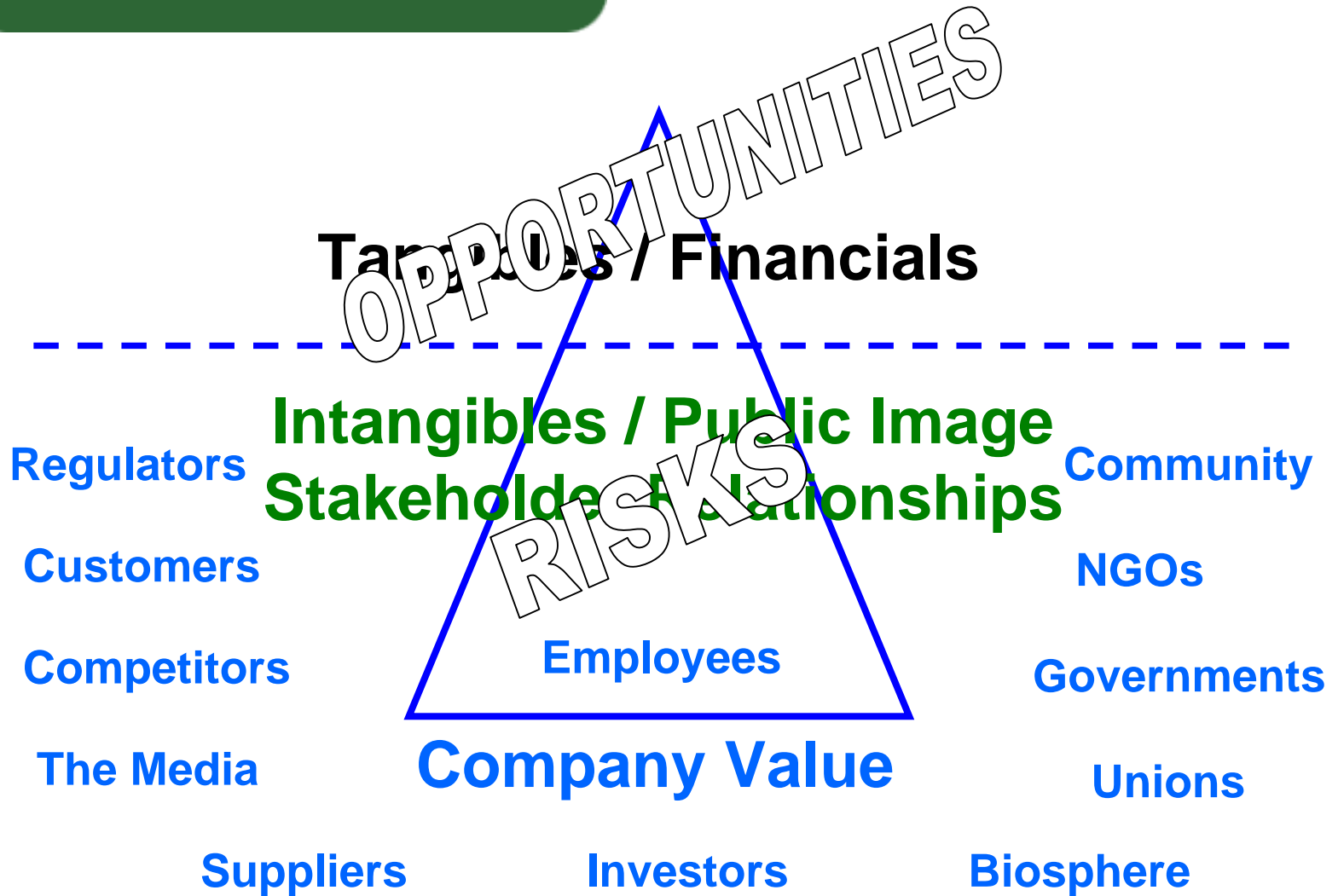
... yielding a Profit increase of **~~+38%~~ +23%**

## What if ...

1. Reduced recruiting costs **-1%**
2. Reduced attrition costs **-2%**
3. Increased employee productivity ~~**+10.5%**~~ **+4%**
4. Reduced expenses in manufacturing **-5%**
5. Reduced expenses at commercial sites (energy, water, consumables) **-20%**
6. Increased revenue / market share ~~**+5%**~~ **-2%**
7. Reduced risk, easier financing **-5%**

... yielding a Profit increase of ~~**+38%**~~ **+20%**

# The Business Case



# Tipping Point?

20% at Stage 4 or 5

## 5. Purpose / Passion

- Passionate Founder / CEO

## 4. Integrated Strategy

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## 3. Beyond Compliance

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## 2. Compliance

- Regulatory Pressure / Enforcement

## 1. Pre-Compliance

Proactive

Reactive



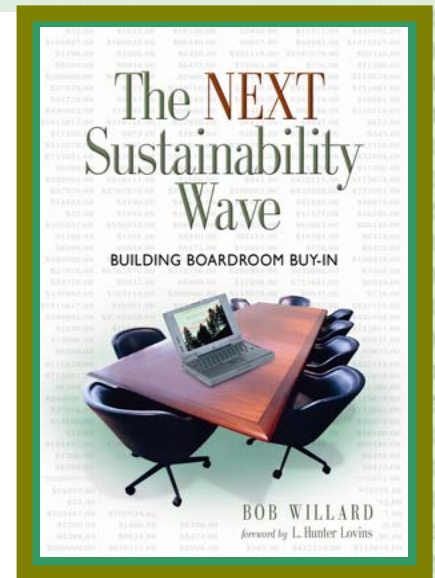
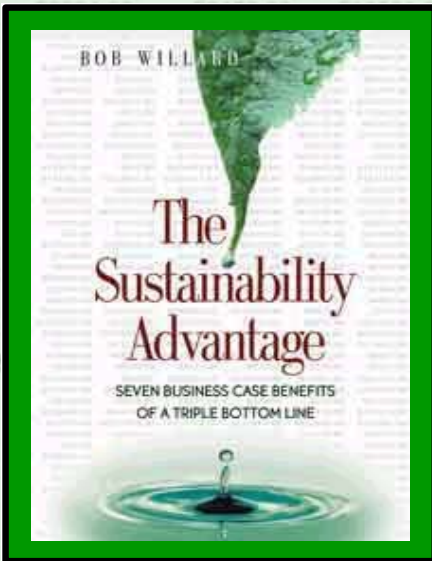
## *Policy Thoughts: Clearer Market Signals*

- **Ecological tax shifting**
  - \* Discourage pollution & waste
  - \* Encourage employment and investment
- Correct market-distorting “**perverse subsidies**” to fossil fuel and nuclear industries
- Cap-and-trade **carbon emissions market**
- **Enforceable targets** for emissions reduction
  - \* Transportation sector
  - \* Oil sands
  - \* Carbon-based energy sources
- **Government procurement / buildings** ... walk the talk
- GNP → **GPI / Genuine Wealth Indicators**



## *Closing Thoughts*

- Sustainability is **smart business**
- New **market forces** are in play
- Public **expectations** are rising
- Need clearer **market signals from governments**
- Opportunity for **leadership**



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