From the makers of 3 DJSI Super-sector Leaders

# WHAT GETS MEASURED GETS DONE

## Integrating Dynamic Corporate Sustainability

## A ROUGH GUIDE

**What Gets Measured Gets Done**

Implementing Sustainability

September 2015



**About SolAbility**

SolAbility is an independent sustainability think-tank and advisory, with presence in Korea and Switzerland.

SolAbility is the maker of 3 DJSI Super-Sector Leaders and the publisher of the Global Sustainable Competitiveness Index. We designed and implemented sustainable management for GS Engineering & Construction (DJSI super-sector leader 2012), Korea Telecom (DJSI super-sector leader 2011-2013, 2015), and Lotte Shopping (DJSI super-sector leader 2010-2015).


SolAbility Sustainable Intelligence

Zurich, Seoul
www.solability.com
contact@solability.com

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Foreword

# What gets measured gets done

We are proud to have had the opportunity to design and support implementation of sustainable management for a number of companies in different industry field. We are even prouder that three of those companies have been recognised as global sustainability leaders – so-called Super-Sector Leaders - their respective business sectors by the DJSI: Lotte Shopping (DJSI super-sector leader 2010-2015), Korea Telecom (DJI super-sector leaser 2011-2013, 2015) and GS E &C (DJI super-sector leader 2012).

Starting a sustainability consulting business (as we did in 2005) with little to no previous management consulting experience has a big – and obvious - disadvantage: the lack of previous hands-on consulting experience. You don't really know how the business works, what clients want, how to approach them, how to convince them, and how to deliver your results. That can be learnt.

It also has a wonderful advantage: the lack of previous consulting experience.

Without previous management consulting experience, you don't have pre-defined and tried solutions or approaches ready to copy-paste to your next project – you are forced to think through everything. And ask more questions. Questions that one might not necessarily ask, because there's already a "that's how this is done" in your mind. Which facilitates development of new solutions. As outsiders, we were also often struck by the lack and limitations in the approach to structured analysis and solution development, both within corporations and the consulting industry.

Our business started at a time where there was little to no corporate sustainability "know-ledge" in Korea, which helped kick-start our business. We are grateful to our first clients who gave us a chance to prove our worth despite the lack of a previous track record. Over the following years, we had the opportunity to accompany the development and integration of sustainability management strategies, frameworks and management tools of a number of companies. This guide describes our combined experiences and what we have found to be the key success factors of forming, developing, and integrating sustainability throughout a company. It is an approach that has made three of our clients DJSI "Super-Sector Leaders" (i.e. globally most sustainable company in their respective industry sector, attained by only 18 of the 2'500 largest companies in the World in the Dow Jones Sustainability Index universe).

Every company – and the people within each company – have their own way of approaching new themes and challenges, and their own structure of recognising, analysis and implement the necessary changes. A company can work with internal resources – there are experts in all areas within each company, internal consultants, or external consultants and advisers. The approach towards sustainability management and structure described in this guide has made GS Engineering & Construction, Korea Telecom and Lotte Shopping globally recognised sustainability leaders.

We hope that this information is useful for you too in your road towards implementing sustainable management.

Seagulls are amazingly graceful acrobats in the air.
They go from full speed to full stop,
turn 90 degrees in full flight
avoiding collision or catching a treat

Unfortunately, corporations are neither that flexible,
let alone as elegant

Luckily, –
With a structured integration of sustainable management,
collisions can be avoided
and opportunities anticipated

# Which Corporate Sustainability, Please?

What is corporate sustainability? Is it the same as CSR, corporate social responsibility? And what is it not? What it is not is, for start, maybe simpler to answer: it is not throwing a bit more money after charitable purposes, it is also not being a bit nicer to employees, society and the environment. An early definition said corporate sustainability is the ability to manage risks – including environmental and social risks – while developing and producing goods and services that customers need and want. For a long time, there were nearly as many definitions of corporate sustainability as people involved in the subject in one form or another. However, it seems that the notion that corporate sustainability is a value-adding management way has been streamlined over the last 5 to 10 years. However, it is quite amazing how many companies started out implementing some sort of sustainability management aspects of peer pressure, or because it seemed "the right thing to do", before realising that integrating sustainability actually leads to cost savings - and more.

Sustainable management - or managing sustainable – is not a revolution. It is an evolution: the further development of existing management theories, philosophies, and tools. Management before sustainable management lived in an artificial bubble: it did not consider the financial and intangible implications of the so-called non-financial issues, neither risks nor opportunities, related to external factors, regulations, the environment, and technology development that affect the cost structure and the environment in which the economy works. Sustainable management is using classical management tools – cost-benefit analysis, SWOT analysis, hierarchical analysis, etc. – but integrating aspects that simple have been neglected before. In other words; sustainable management widens the horizon. All issues that affect the company in its operations and markets are considered. In addition, sustainable management thinking also widens the time horizon in front, anticipating how long-term developments not only affect the next quarterly numbers, but in 3, 5, 10, or 20 years from now.

Sustainable management is about widening the horizon, both in width and depth. Issues and time.

At the same time, sustainable management needs to be approached and implemented in a structured way, based on thorough and coherent analytical evaluation, regularly reviewed. There is also no one-size-fits-all. Sustainable management needs to be implemented specifically to the characteristics - business line(s), geographical focus of operations and markets, as well as organisation and culture - of each company.

Corporate sustainability is about competitiveness – gaining competitive edge through cost reduction and anticipating and exploring new business opportunities. It is sustainable competitiveness. When wholly integrated, it is sustained competitiveness.

# A. Integrating Sustainability

## A.1 Success Factors: Vision, Structure, Integration, Focus

**Structured, Integrated, and bottom-line focussed**

Structured process, integrated into every-day tools, and bottom-line focus are the key words for successful and efficient implementation of management frameworks. What is true for management in general equally applies to bottom-line integration of sustainability.

- **Vision**: first and above all, there needs to be a vision in the house. Preferably a vison based on where you come from. It helps if that vision is clear to start with, but that is not the ultimate requirement for successful implementing sustainability.
- **Structure**: using a structured approach leads to comprehensible and logically built road maps - the basis for smooth implementation and success
- **Integration**: "Sustainability" is not an additional or separate issue; it's the core of every successful strategy.
- **Focus**: analytical bottom-line focus to achieve tangible and intangible results

Success is based on logic. Integrated, analytical logic. And, last but not least: "common sense" is the mother of it all.

### A.1.1 Vision

Before you can start, it is advisable to have an idea of where you want to go. In other words – to have a vison of how the company should operate and where it wants to go. The clearer the vision, the better. However, a vague mission is not necessarily an obstacle to achieve sustainable competitiveness – the vision can develop, and details can be spelt out along the way.

**Top-down**

If the vison is top-down, i.e. top-management induced, the vision is most likely somewhat vague – "from now on, we are going to be sustainable". Which leaves room for interpretation, but also room for creativity and influencing the path forward. If you're a consultant or a member of the sustainability team, that is a dream come true. As long as you are a consultant because you believe in the competitiveness of sustainability. If you have become sustainable because you want to be a consultant, than that's probably your nightmare.

**Bottom-up**

If the vison is developed amongst the sustainability team (or any other internal team), the vision needs to be clearly spelt out, which clear goals, targets, and a structured planned process, focussing on the benefits. Without a clear plan, it will be difficult to convince management, and the vision dies before it came to live.

### A.1.2 Following a structured approach

The first step is planning what you want to do, how you do it, and who does it. Regardless of the issue in question. A structured process is needed to ensure the efficiency of the process itself as well as the results. The exact nature of the process scheme depends on the issue and the management culture of your organisation. Maybe your company already uses specific process templates, all the better. If not, you can use numerous templates and ways to

structure your process, both off-the -shelve or tailored to your needs. The most important issue is that there is a structured process guiding you through the planning and implementation.

Key common elements include:

- Formulating goals & targets
- Defining stages: define the stages of the process
- Talk to the people: communicate with the responsible, affected, and other internal/external stakeholders: they know best.
- Calculate resources required, both human and financial
- Formulate activities: define the elements and activities required for each of the stages within the process
- Assign responsibilities
- Use simple tools: visualising tools and simple matrixes to evaluate and internally communicate the importance (materiality) of individual issues, and how they influence tangible and intangible bottom-lines

Following a structured approach allows for easier understanding of the logic and priorities, facilitates dissemination of knowledge internally, supporting the understanding – und therefore identification and motivation – of the people actually implementing sustainability in an organisation, the people working with the given set of tools and guidelines.

## A.1.3 Integrating management systems

Sustainability is not an additional or separate issue; it's the core of every successful strategy. Managing sustainability means anticipating future developments through continuous observation of trends, and how these developments affect the organisation. It means extending the management horizon both horizontally (integration of a wider set of topics) - and vertically (in time).

In the ideal case, Sustainability management is completely integrated into the corporate management approach, rather than being a separate aspect of management (i.e. an additional tool or set of policies/directives on top of the standard management approach). For example - many company have dual systems for supply chain management. They have a standard supplier evaluation scheme, and then a supplier sustainability scheme on environmental and/or social issues on top of the standard scheme. This leads to dual work, unclear responsibility assignment, and unclear evaluation results. Integrating sustainability in the supplier evaluation increases efficiency, lowers overhead costs, and ensures a better overview of risks and cost savings opportunity along the value chain.

The same applies on the strategic level. Sustainability considerations – challenges and opportunities arising from major changes in the business and wider environment, be they of environmental, market development or social nature, are still hardly integrated n strategic decision making at top management levels.

Key aspects of integrating sustainability are

- Integrating sustainability considerations in existing management tools and policies, rather than managing as separate issues
- Integration of non-financial mega-trends in decision making tools and frameworks
- Integration of the (very financial) non-financial performance in internal performance tracking

## A.1.4 Bottom-line focus

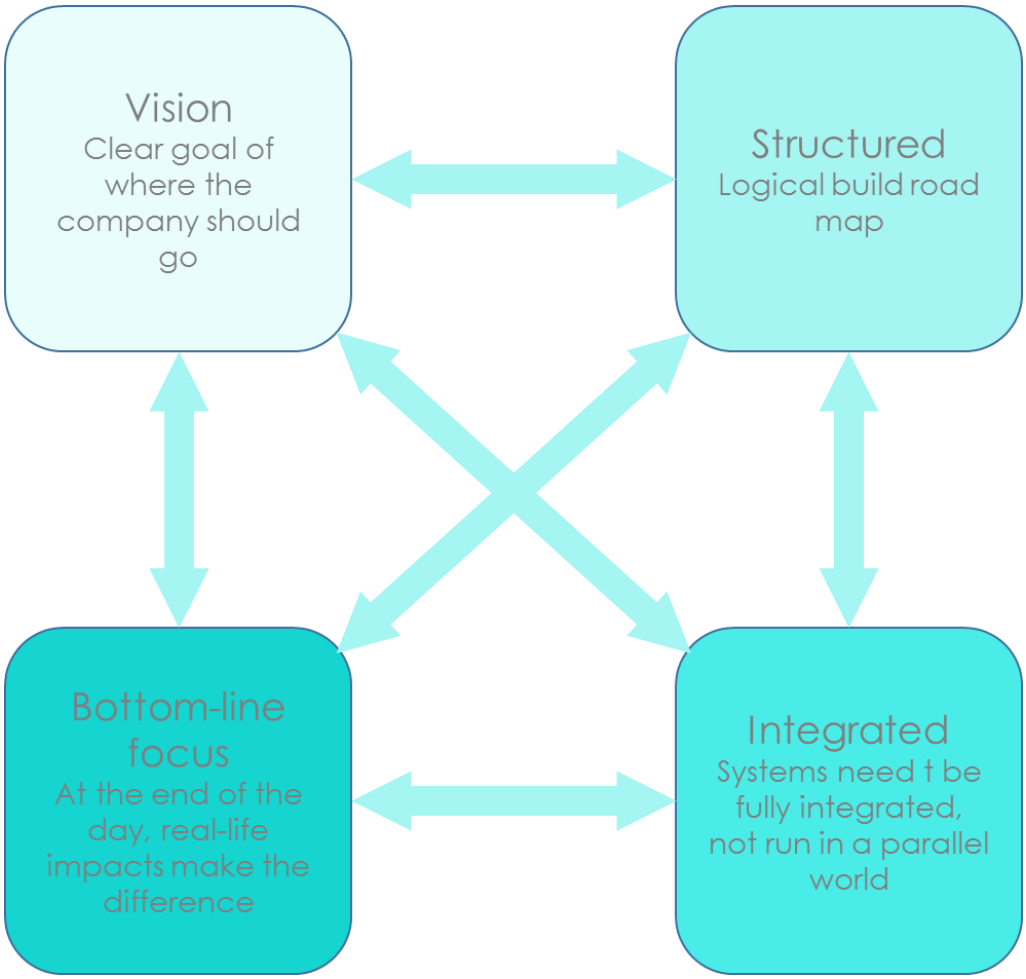
If you want to successfully integrate sustainability – i.e. develop management systems that facilitate cost savings, increase employee motivation (productivity!) and allow for anticipating new business opportunities – you need to know exactly where you are coming from, and where you want to go. And why. You need to know what is good about your current systems and performance, and where you have room for improvement. And whether that improvement can be achieved cost-effective, over what period of time. You need to

be able to recognise the importance of individual aspects of each issue, and prioritise your planning accordingly.

Successful sustainability requires a highly analytical approach, including

- Listing aspects that influence day-to-day and financial implications
- Analyse tangible and intangible aspects
- Use of tools to visualise the relevance and interaction of individual aspects
- Determine the factors that can be influenced, and which factors are difficult to influence
- Use of analytical matrixes to evaluate the importance (materiality) of all aspects
- Ensure the day-to-day management suitability of the result
- Setting parameters and performance tacking indicators to measure progress

Programs based on analytical logic, tested in real-life environment, are the best fundament to ensure smooth implication and achievement of tangible results.

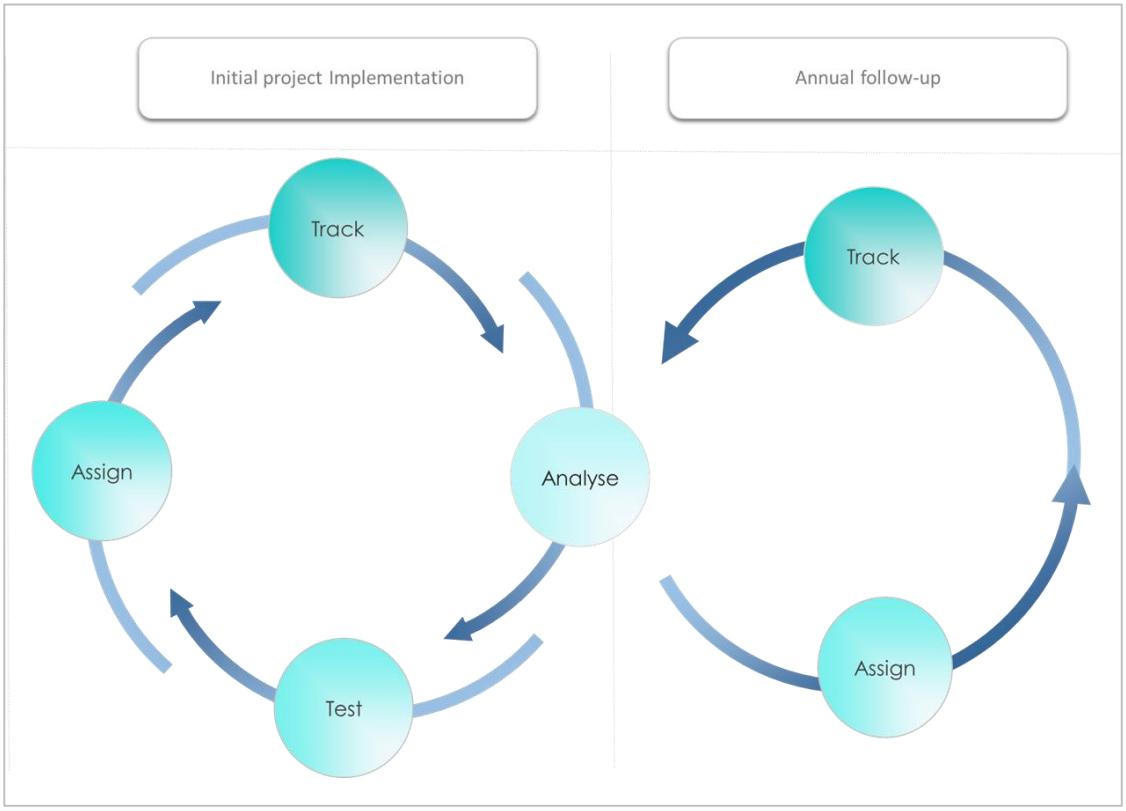


# A.2 Implementation Cycle: Defining & Reaching Goals

## A.2.1 The 4 stages of the implementation cycle

The first step to achieve the desired result is to define the process structure and the stages of the process. There are many different frameworks and project management tools that facilitate the development and implementation of management tools; the plan-act-check circle is a commonly used example. With our experience in implementing sustainability management on the corporate level as well as developing specific solution for particular issues (supply chain, risk management, environmental management, anything) we have developed an implementation cycle based on four major process stages. We have found this model to be an efficient implementation guide for a variety of implementation projects.

**The Goal-Target-Cycle**:




The main aim of this management cycle is to define and implement working solutions with an impact on the bottom line of the organisation. It is based on analytical fundament of the as-is situation to formulate project goals. Goals lead to solutions and activities, and targets to ensure the desired goals are eventually reached: The Goal-Target-Cycle.

This cycle can be used to evaluate and plan improvement potential on the corporate level as well as for individual projects. The individual stages of the Goal-Target-Cycle are described in detail.

The Goal-Target-Cycle defines 4 major stages of the implementation process. Each stage consists of a number of activities, which of course depend on the nature of the project. However, approach (the basic stages) of all projects are similar, regardless of their nature. The 4 main stages of the project cycle are:

1 **Analysis**: as-is analysis as a base for scenario development, formulation of key goals (what), and prioritising activities

2 **Development & Testing**: formulating improvements and development of solutions based on the previous analysis

3 **Assigning & Implementation**: define implement time plan, assigning responsibilities on all issues, and define realistic, measurable and material targets

4 **Track & Review**: continuously monitor progress and performance

## A.3 Step 1: Understanding What & Why - Analysing the Issue

Details of the individual four stages of the implementation cycle

The first stage is the analytical task. Based on the results of this analysis, all further steps are planned and implemented. It is therefore highly important to conduct a comprehensible analysis. If the initial analysis is insufficient or wrong, the desired results are difficult to achieve.

### A.3.1 Conducting a proper analysis

Analytical evaluation of the current situation ("as-is") vs. the respective challenges and requirements ("desired"), depending on the issue/theme) is the basis for extracting the most efficient improvement measurements. The analysis is best divided into three basic steps, similar to solving a puzzle:

- layout the pieces
- order the pieces
- analyse materiality, feasibility & set priorities

**1. Layout: list all issues**

- Brainstorm: list all the factors influencing the topic in question, and factors influenced
- Who is involved, who is in charge? Who uses the tools/policies in day-to-day activities?
- Ask the experts: the people dealing with the issues are the most knowledgeable persons. Talk to them. Preferably also without their boss in presence.
- What other stakeholder (internal and external, e.g. suppliers) are affected by the issue? Consult them.
- Benchmark: it is always good to know what others are doing, and why they are doing what they are doing. Compare your approach/systems/tools to others, competitors or else.
- Are global mega-trends, including environmental and social developments, affecting the issue in question, or likely to do so in the future?

**2. Order: structure the issues and challenges**

- Structure and group the issues/challenges/requirements identified in the previous stage to relevant themes. Ensure that duplications under different names are avoided.
- Look at the bigger picture: are there issues not covered under current systems?
- Are global mega-trends, including environmental and social developments, affecting the issue in question, or likely to do so in the future?

**3. Analyse & priorities**

- As-is analysis: what is good about the current system? What is not so good? What is bad? (a good old but simple SWOT analysis, for example)
- Which elements of the current situation are insufficient? How can they be improved?
- Benchmark: it is always good to know what others are doing, and why they are doing what they are doing. Compare your approach/systems/tools to others, competitors or else.
- Evaluate the materiality of issues to define a range of measurements with the highest impact and/or improvement potential
- Assess and estimate change requirements – resources and costs required to implement changes to existing and/or development of new policies, systems and tools
- Set priorities based on materiality, impact and change requirements (cost-benefit analysis, also referred to as hierarchical analysis)

Important – whether you are an external or internal consultant or a task force team assigned to implement sustainability: never forget to ask for and implement the feedback of the stakeholders (staff, business partners, …) ultimately affected by your project.

Going along those steps will set you ready for the next stage – developing workable solutions that have an every-day, bottom-line impacts and benefits.

## A.4 Step 2: Development & Testing

A thorough analysis and layout of issues and challenges as described in the previous paragraphs is the basement to define goals that you want to achieve. It is also the basis for developing policies/systems/tools to achieve the goals.

The development stage is composed of two steps:

1 development of the actual policies, systems and tools

2 testing the draft systems on real-life cases

### A.4.1 Development of goals, policies, structure, and tools

Before you start developing policies, it is necessary to stop quickly and think about what you want to achieve, and how that can be achieved. It is recommended to follow a structured process. This is best started by defining goals and outcomes, desired achievements or improvements. Goals will be mostly qualitative in nature; in some cases the might be quantitative. Where goals are formulated qualitative, it is important that, in a later stage, measurable targets are defined to ensure progress against the goals.

The development process itself consists of 4 stages:

1 Goals

2 Policies

3 Structure

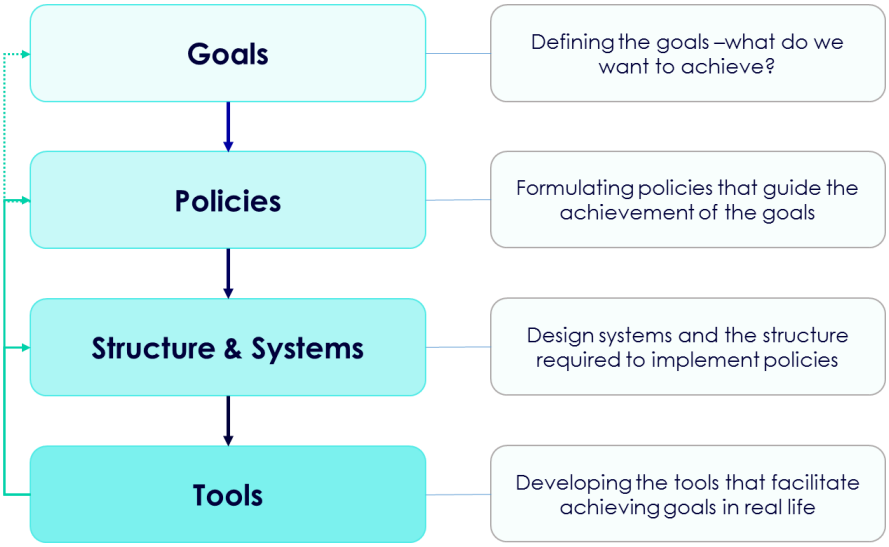
4 Tools

The analysis conducted previously is based on internal as-is analysis, external benchmarking, materiality evaluation, and cost-benefit analysis of different potential measurements. This process is aimed at allowing the identification of the most efficient way to achieve the goals defined.

Based on the goals and the analysis, draft policies are formulated. Policies serve as a guide for developing further systems, structures and tools, as well as internal guidance for relevant employees and affected external stakeholders (business partners, …).

The third step is the design of structures and systems required to implement the policies and achieve goals. Maybe a team needs to be assigned or re-assigned to issues if required – human resources need to be allocated. Roles and responsibilities need to be defined. The changes might need to management systems, IT or other infrastructure.

The 4th step is the development, if required, of new management tools, or design changes to existing management tools that are used in day-to-day activities and operations. Depending on the issue or theme in question, tools might consist of IT-based tools for analysing, monitoring or evaluating, policies, infrastructure, or else, and might be complex in nature, at least on first sight. However, nothing remains complex with the right preparation, i.e. a structured analysis of is and what should be. Due to the diversity of tools depending on the tools, this is not the place to elaborate on tools in detail.




The 4 stages of the development process. Note that policies and structures might have to be refined once the underlying structure and tools are designed and developed.

## A.4.2 Test-run the systems !!!

Daily life – in businesses as elsewhere – is characterised by constant appearance of small exceptions to the rules. However good your process is, it is unlikely that all possibilities and issues that might arise in day-to-day working conditions are covered by a project designed on the desk. It is therefore of high importance to have proposed changes checked by real people and tested on real-life examples and cases. To conduct a test-run as if it were real, on an existing project or business case. A test-run will show potential short-falls of the designed systems and allow to redefine solutions tailor-made to your needs before you actually start implementing.

# A.5 Step 3: Implement: Assign, Explain, Train

Each stage of the implementation cycle is equally important – if on them fails, or one of the four stages is weaker, the others are also weakened, or resources are being wasted for something that will not be as successful as it should if.

This is also true for the actual implementation in the operational conditions on the ground. Maybe even more so than for the other 3 stages of the cycle. Successful implementation needs, of course, clear (not vague) policies, and appropriate structures and tools too. It requires people to know what they have to do. And it needs motivated people, skilled in the job they are expected to do, to achieve to higher goals.

For people to be prepared to accept changes and operating under different guidelines – not only fulfilling a required task, but being motivated for the job - understanding is required. Relevant internal and external stakeholders of the project need to understand what is being done, how they are don, and most importantly, why things should be according to the respective project.

For people to be skilled in their jobs, the need to be trained. Theoretically, and hands-on, and need clear guidance for the tasks they are assigned to do.

The 3 key success factors for successful implementation are therefore;

- Assignment of roles and responsibilities
- Education (training)
- Motivation (understanding reasons, necessity & benefits)

## A.5.1 Assigning roles & responsibilities

In order to get a job done. People need to know what to do. Roles need to be assigned. They also need to know whom to ask and report to… responsibilities need to be assigned, too. The A and O of getting things done, Basics, actually, but surprisingly often overlooked.

## A.5.2 Education

The simplest issues is that the relevant staff, and/or external stakeholders and business partners, need to know what they have to do, how they have to do it, and when they have to do it. The actual implementation on the ground, in day-to-day operations and business processes, should be defined as clear as possible. However, given that day-to-day tasks are often characterised by constant little exceptions to the rules, the guidance should also leave room for discretionary power of the staff tasked with the specific job. Enabling the employees concerned to achieve the desired results for the organisation therefore requires 2 main provisions:

- Clear guidelines
- Training on the systems

The challenge of formulating good guidelines is to be both precise (defining the rules for decision making as clear as possible) and free (allowing room for exceptions to the rules) at the same time. The second challenge is that people tend not to read guidelines (other than remembering guidelines when one gets stuck on a task). Training and explanation of the guidelines in some interactive form and on real-life examples is therefore as important as the guideline itself.

**Guidelines**

Guidelines need to cover all aspects of the work. However, they should be concentrated to the essence, because no one reads 100+ pages of manuals. Not even 30 pages, most likely. At the same time, precisions is paramount. And there is nothing as clear-cut as real-life

examples to explain the system and tasks. In the ideal case, guidelines are combined with a user-friendly, IT-based knowledge platform where detailed information and guides – if required by the issue on hand – are available.

**Training**

The staff that need to implement the actual system on the ground need to know what when they have to do what, and how. The systems, tools, tasks have therefor to be explained. Inter. Today's inter-active and multi-media technology allows for many ways of communicating and disseminating the information. However, nothing goes (and stays) in people's brain as fast as person-to-person interaction. Classroom-style teaching with a teacher and a listening audience are also not very efficient. By experience, group-workshops with real-life examples to work on and go through are the most efficient way of sustainably embedding sustainability across an organisation.

### A.5.3 Motivation

In an ideal case, your systems are so well designed that the results are unaffected by the people fulfilling the tasks and the motivation of those people. However, your systems are most likely not that perfect, and need human input to achieve the desired results. Motivation comes with understanding not only the task, but also the reasons for why a job has to be done a certain specific way. Surveys show that "sustainability" is a key motivation factor. It is therefore necessary to not only train the relevant staff, but to ensure they fully understand the reasons, importance and necessity behind the policies and systems. High employee identification with their job leads to better results.

Relevant staff needs to understand

- The reasons for possible changes
- The benefits of the changes, to the company, and other stakeholders

If you have gone through a proper analysis, you should have the material ready to explain the rational. Maybe you used visualising tools in the analysis stage, which makes explaining the rational even simpler. Person-to-person training and workshops are the most efficient way of communication the idea behind tasks that need to be fulfilled to achieve the higher goals.

## A.6 Step 4: What Gets Measured Gets Done: Track & Re-evaluate

So you have gone through all the previous steps. And then sit back? Well, sometimes sitting back is good. However, the World around us keeps changing at an amazing speed. Sitting back for the rest of the days is unfortunately not an option. We need to ensure that the project stays on track, is refined according to experiences made, and adjusted to ensure that goals are achieved in case of external changes that influence the way we act and work. Successful implementation requires

1. Tracking & monitoring progress (performance indicators)
2. Setting targets
3. Establish incentives
4. Continuous review & adaption ("continuous improvement")

Tracking and monitoring - most likely the most important step here – requires the definition of meaningful *and* measurable indicators. Continuous review is highly important to identify potential weaknesses or short-comings of policies, systems and tools on the ground, and is therefore of particular importance when implementing new systems/tools. Last but not least, external factors change, and might have an impact on internal management.

### A.6.1 Measurable and meaningful performance indicators

Achieving goals that make a difference and impact the bottom-line, financially and "non-financial", requires ensuring efficient implementation on the ground. The rationale behind policies, systems, tools and tasks need to be established in day-to-day tasks, and in the minds of the people who are assigned to fulfil those tasks. Ensuring that goals are reached, even if you think your policies/systems are perfect, requires continued review and monitoring, and ensuring progress is made, especially in the initial phase. Measuring progress requires the so often named "performance indicators". Defining meaningful and measurable indicators is therefore paramount.

- If possible, indicators should be measurable, i.e. quantitative.
- Where direct quantitative indicators are not available, clear qualitative indicators are required.
- Alternatively, determine qualitative indicators in a quantitative measurement
- Measuring & reporting indicators

That sounds logical and easy, but can be complex in reality. Energy usage or $CO_2$ emissions, for example, can be measured comparably easy. But how about, for example, measuring performance and progress, for example, in the supply chain? Or all that money that is allocated to training? Etcetera.

In the absence of easily available quantitative indicators, qualitative indicators can be defined. However, there's a danger that the definition of those indicators can be stretched, both internally and externally, to press or explain a result or performance that might be different from the intended goal.

Alternative to qualitative indicators, the use of evaluation or measuring frameworks can be helpful. A framework that expresses a quantitative measurement of a qualitative indicator. Such frameworks are (or can be designed) less complex than it seems, but need thorough analysis against, and/or extensive testing in, the real World to ensure they reflect the desired performance. For an idea of such frameworks please refer also to the Tools section of this booklet.

Last but not least, the frequency and systems to measure, accumulate, report and analyse performance indicators have to be established (i.e. the IT infrastructure and database).

Establishing meaningful performance indicators not only ensures internal progress, but also facilitates internal communication (the management always wants to see numbers, don't they), and externally to affected and interested stakeholders.

### A.6.2 Targets

Once the performance indicators are defined, internal (or external, if business partners are involved or affected by the particular issue) targets can be set. Targets increase internal performance willingness, serve as basis for incentives, and ensures that the desired timeline is met to achieve the overall goal and bottom-line impacts. Targets should be defined ambitious, but realistic at the same time, and have to be regularly checked against real-life realities.

### A.6.3 Incentives

People who identify with their jobs normally work better and more efficient, i.e. achieve better results. Part of the job motivation is related to rewards – when people feel appreciated, their motivation is higher. When effort and achievements – as team, group, or individuals – is not rewarded, people become disenfranchised, their main motivation becoming the pay check at the end of the month. They'll do all sorts of things – doing their on-line banking in office hours, social media surfing, whatever; but they will put minimal or no effort to fulfil their tasks beyond what is absolutely necessary to stay in the job. Rewarding

effort and achievement – the provision of incentives - is therefore an important factor for successful implementation on the ground.

Provision of incentives in turn requires to have the above two pillars in place: measurable and meaningful performance indicators on the issue on hand, and ambitious but realistic targets related to those indicators. However, incentives have to be balanced in order not to lure employees to tweak the numbers, or one-sided incentives that overemphasis singular aspects while not rewarding the overall performance. Wrongly designed incentives (i.e. indicators and targets) are not helping in achieving overall goals and objectives.

### A.6.4 Continuous review

The last element to complete the circle before it starts again, is, obviously, to track, and evaluate the effectiveness of existing and new policies/management directives, and management tools in the practical world. The review lads into the new circle of analysis to identify potential weaknesses and room for improvement that are helpful in the day-to-day reality to ensure operational efficiency and efficient application of the resources assigned to a particular project.

Tracking performance, improvements and review the operational efficiency and impacts highly depends on the previous steps. If the initial analysis correctly identified the materially, priority and feasibility, policies and tools have been designed with focus on the real-life work/business environment, and realistic target have been set on measurable indicators, the review will most likely be fast and painless. However, real life tends to be slightly different than theory, and is characterised by constant little exceptions to rules - even the best designed system is likely to encounter some hick-ups like insufficiently defined rules (or overly tight defined rules). The review is designed to identify possible weaknesses in your systems, facilitating the realisation of the organisations full potential.

Review of existing and new systems is based on quantitative and qualitative observations:

- Review of the development of performance indicators: have the targets been reached? If not, why not? Are the indicators truly reflecting the key challenges of your project?
- Qualitative review of the experience of involved employees and other project-specific stakeholders (internal or external). Do the involved stakeholders feel that the system help them to fulfil their task und thus help the organisation to achieve its targets?

Managing the review in an organised way – as with every other task – helps the task, and reduces the time constraint and pressure on all involved parties. So be prepared, do your research & clarifications, make little surveys if necessary, and prepare the involved stakeholders in respect to what and how they are expected to participate in the review.

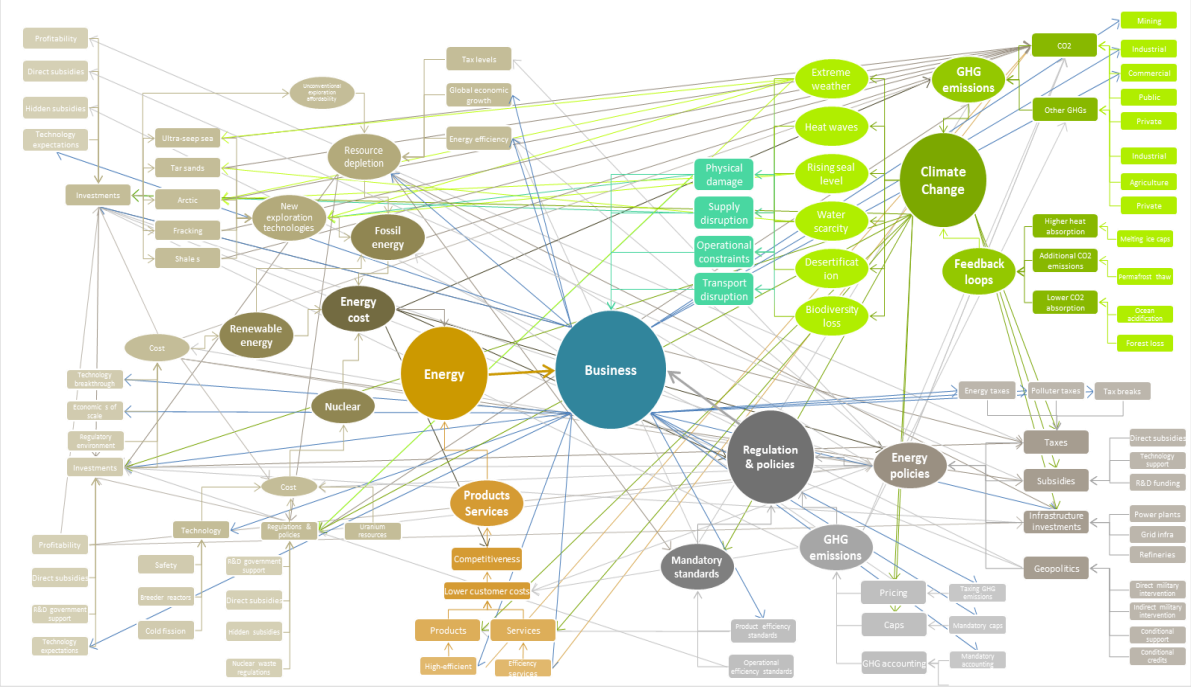
# A.7 Useful Little Tools

Implementing sustainability management (or any other management systems) can be fairly complex at times – a wide range of issues have to be considered and taken into account. Sometimes it helps to visualise all issues and requirements, or logically structure the issues at hands. There are numerous tools that can help, and you need to find what works best for you. In the following section, some tools are presented that we have found to be useful little helpers in the course of analysing the issues and implementing sustainability.

## A.7.1 Analysis support tools

### A.7.1.1 Mind maps

If scribbling is your thing, mind maps are your go. Mind maps are simple, yet help to lay out the structure and grouping of issues, challenges and opportunities, and explore the interconnection between the issues and potentially other management issues. It is a very simple and straightforward process – starting with the key goal or issue in the centre: From there, draw all issues that might (or might not) affect the outcome of your project. From there you can go further down, more into detail as you wish, to arrive at an overview detailed enough for your purposes. Once you have that, you can start the inter-dependence (correlation) between different issues, challenges and opportunities.

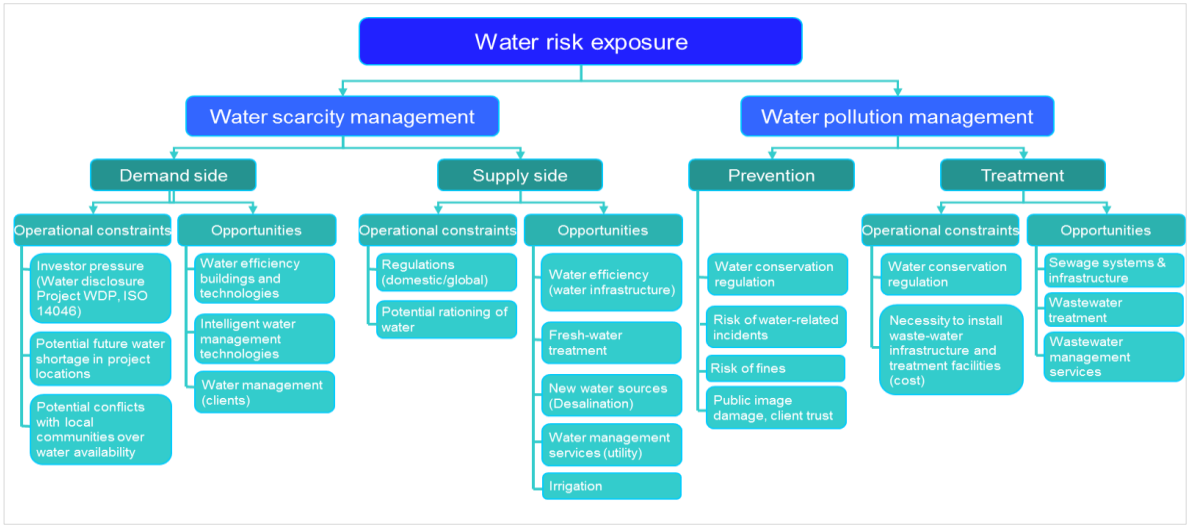



Example: the climate-regulation-energy impact map: including feedback loops of business activities, and interactions between regulations, energy developments and climate change. While this particular map is a computer graphic, it also works the good old way with paper & pen

Such little mind maps can help to gain a quick overview on the main challenges of a particular project. It can be used both to draw an overview of the task as a whole, and to analyse the detail challenges of individual issues.

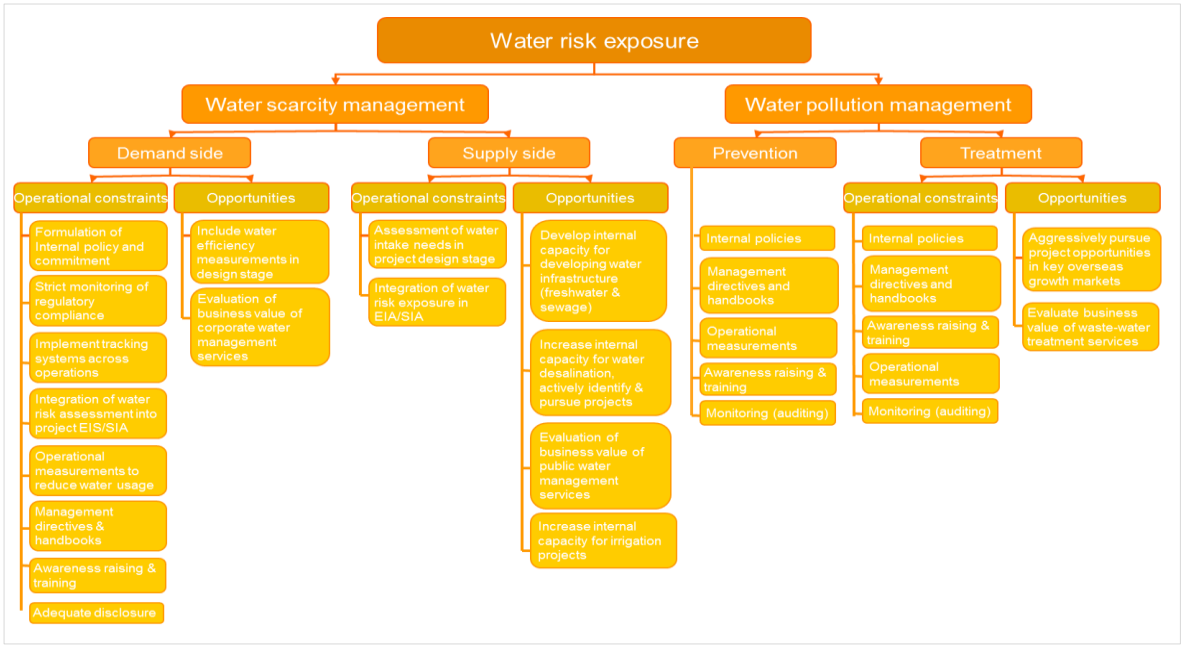
## A.7.1.2 Challenge & solution trees

Problem and solution trees are another useful little tool to visualise the challenges and the potential solutions to those challenges of any given task or project. Staring with the highest level – the goal of the project, on the top of the tree – individual issues and considerations that can influence the goal are strung on the next level, representing the branches. Each of this issues again can consist of several sub-issues that have to be considered and taken into account when improving existing or designing new policies, management directives, and tools. This view allows to gain a fast overview, hierarchically ordered – on the issues at hand.




Example of a challenge/issue tree

Once the problem tree has been drawn up, the solution tree grows as the little brother of the problem tree, whereby each challenge or issue is assigned a potential solution and/or measurements that have to be induced to reduce risks, solve problems, and resolve potential conflicts.




The solution tree corresponding to the challenge tree above.

### A.7.1.3 Log -frames

Logical frameworks (log-frames) are a tool used in project planning. However, they can serve in the corporate world as well, facilitating an overview of a task on hand, and how goals of a project can be achieved through steps and tasks. The basics of a log frame is the linear hierarchy from goals downwards via purpose, outputs, and activities, i.e. allows for the definition of the necessary activities required to achieve a desired and formulated goal.

| **Project** | **Indicators of achievement** | **Means of verification** | **Risks and assumptions** |
|---|---|---|---|
| **Goal**<br>What are the wider objectives which the activity will help achieve (longer-term programme impact)? | Quantitative and/or qualitative criteria that provide a simple and reliable means to measure achievement or reflect changes connected to the goal. | What sources of information exist or can be provided to allow the goal to be measured? | What external factors are necessary to sustain the objectives in the long run? |
| **Outcomes**<br>What are the intended immediate and long-term effects of the programme or project? What are the benefits, to whom? What improvements or changes will the program or project bring about? (I.e. the essential motivation for undertaking the program or project) | What are the quantitative measures or qualitative judgements by which achievements of the outcomes can be judged? | What sources of information exists or can be provided to allow the achievement of the outcomes to be measured? | What external factors are necessary if the outcome is to contribute to the achievement of the goal? |
| **Outputs**<br>What outputs (deliverables) are to be produced in order to achieve the purpose? | What kind and quality of outputs and by when will they be produced? | What are the sources of information to verify the achievement of the outputs? | What are the factors not in the control of the project which are liable to restrict the outputs achieving the purpose? |
| **Inputs & Activities**<br>What activities must be undertaken to achieve the desired outputs? What resources (human, financial, equipment, etc.) is required to undertake the activities? | What kind and quality of activities and by when will they be produced? | What are the sources of information to verify the achievement of the activities? | What factors will restrict the activities from creating the desired outputs? |

Logical frameworks come in all sorts of shapes and of course can be adjusted to the culture of a company or the specific characteristics and requirements of an individual project or task.

### A.7.1.4 Decision-Making Support Tools: Materiality, Feasibility, & Priorities

The tool that we have used most often, for a variety of uses and across all aspects of corporate sustainable competitiveness is the simple old matrix. Matrixes allow you to recognise the connections and correlation between different issues, and therefore analyse individual aspects or consideration in the context of the wider aspects. In addition, Matrixes can be extended and tailored at will to the specific characteristics of the issue that you want to analyse.

You can use simple matrixes as a starting point to gain an overview of the main considerations and how they correlate/connect/overlap, and you can use more complex matrixes to analyse materiality, feasibility, priorities, or whatever the issue is at hand. Matrixes give you a two-dimensional point of view.

| **Evaluation Matrix** | | | | | | |
|---|---|---|---|---|---|---|
| Issue/project/task | | | Qualitative rational | | | |
| **Category** | **Issue** | **Description** | **Rational** | **Impact** | **Potential stumbling blocks** | **Resources required** |
| Theme 1 | Issue 1.1 | Qualitative description of the issue at hand | Why is the issue important? To what is it relevant? What is the logic? What are the objectives? | What is the impact of the issue on the business, or in case of a project, what is the expected outcome? What are the expected benefits and/or problems? | What could go wrong? What factors cannot be foreseen, how are external factors potentially influencing a desired or expected outcome? | In case of a project, what human and capital requirements are required to achieve a desired outcome? |
| | Issue 1.2 | | | | | |
| | Issue 1.3 | | | | | |
| | Issue 1.4 | | | | | |
| | Issue 1.5 | | | | | |
| Theme 2 | Issue 2.1 | | | | | |
| | Issue 2.2 | | | | | |
| | Issue 2.3 | | | | | |

Example of a simple qualitative evaluation matrix. Qualitative indicators can be changed according to the project/task and the culture of the organisation

A matrix can be extended to allow not only for qualitative, but also quantitative evaluation. A quantitative evaluation provides a mean to define a hierarchical structure of issues (in the case of a strategic evaluation of different options), or priorities (in the case of planning a project). Again, how and how detailed a quantitative evaluation is conducted can be tailored to the needs and requirements of the task. Sometimes a simple evaluation framework will do (in order to define a "shortlist" of issues/task), whereas other tasks might require a more detailed analysis splitting the issues in more aspects to gain a better and more detailed picture.

The value of such evaluations depend on how they are used. The wider the audience (stakeholders) consulted, the more accurate the results tend to be. The beauty of a quantitative evaluation is the result – expressed as values, i.e. numbers. Management loves to see numbers, and quantitative evaluations allow for presenting potential impacts or consequences of certain actions (or non-actions) in numbers, i.e. allowing for a materiality hierarchy which in turn allows to set priorities and resource allocation. However, there is a danger that numbers are taken as a fixed and true values. Quantitative evaluation is by no means an exact since, and numerical results should always be considered in their context and with common sense.

| **Quantitative Evaluation Matrix** | | | | | | |
|---|---|---|---|---|---|---|
| **Issue/project/ task** | **Material impact evaluation** | | | | | |
| **Category** | **Issue** | Impact on sales - qualitative | Impact on cost - quantitative | Impact on cost - qualitative | Impact on cost - quantitative | Cost/benefit - quantitative |
| Theme 1 | Issue 1.1 | What are the potential or expected impacts on the company's sales? (e.g. regulations, market influence, reputational improvements, customer satisfaction, improved products/services) | **Value** - Can be expressed in percentage, or on a scale, e.g. -10 to +10 | What are the potential or expected impacts on the operational cost (human cost, operational cost, maintenance cost, capital cost etc.)? | **Value** - Can be expressed in percentage, or on a scale, e.g. -10 to +10 | Weighted or unweighted impact on cost and sales, E.g. average, sum or product of quantitative impacts on costs and sales |
| | Issue 1.2 | | | | | |
| | Issue 1.3 | | | | | |
| | Issue 1.4 | | | | | |
| | Issue 1.5 | | | | | |
| Theme 2 | Issue 2.1 | | | | | |

Example of a simple quantitative evaluation matrix.

Quantitative evaluation matrixes can be adjusted to the specific characteristics of the issues that need to be evaluated. The matrix can be kept simple with only the basic outcomes valuated. Alternatively, the outcomes can be broken down into their elements, which should lead to a more precise (i.e. valuable) results. The cleared he outcomes are defined (i.e. broken down to their core elements), the better the results. However, the more complex the matrix is, the more time consuming the use.

A quantitative matrix analysis leads to a hierarchical structure of the issues or tasks at hand, and therefore allow for setting the priorities by focussing on the issue with the best cost/benefit ration, be that within a project, or on the strategic planning level. Depending on how the matrix is set up, results can also be displayed graphically in priority maps to support decision making, or any other graphical form as desired.

The more stakeholders participate in the evaluation (e.g. through surveys), the more accurate the results will be. However, for a simple project, a quantitative evaluation can be conducted by a single person to facilitate project planning and implementation.

Management loves numbers. In times where time is precious, values are less time-consuming than qualitative evaluations. Quantitative evaluation tools allow for attaching values or hierarchies to otherwise intangible elements (i.e. issues that do not have a direct, but an indirect financial (cost) implication. However, even the best approach to a quantitative evaluation is only an approach that reflects elements of reality, and it is therefore paramount to apply common sense in the use of such results.

## A.7.2 Project management

There are numerous project management tools and software tools out there, that can help you plan and track the implementation of your project. If you're part of a large organisation, there is most likely already some tools available somewhere on your IT system. Project management tools help organise the workflow and ensure that deadlines are met, with automatized elements such as sending out reminders. However, that requires that the system is set up, the right people connected, and the relevant information connected. If you do not have a system in place, it is questionable whether the set-up requirements of new tools offsets

the later benefits. However, depending on the size and associated monitoring requirements, setting up a project management/monitoring system might be a good idea. Once a system is set up, it is set up, i.e. reducing the required set-up for the next project. If your organisation does not have an established project management tool, there are also numerous on-line based project management tools available, including open source tools. The bigger your project, and the more stakeholder are actively involved in the implementation, the bigger the value and time-savings from an automatized, connected, IT-based project management tool.

Alternatively, good old excel also offers some useful functions and add-ins to create Gantt charts and other project visualising maps, and let you plan time requirements, milestones, deadlines etc. However, using semi-automated systems such as excel require that someone keeps track of the work accomplished, responsibilities and ensures communication, manually.

### A.7.3 Benchmarking

Benchmarks are a useful tool to review your own performance and systems, and keep updated on the latest developments internationally. There are two main categories of benchmarks: internal or external benchmarks. An internal benchmark is your company (management systems, policies, products/services) against a chosen group of competitors (or other companies), conducted internally or through consultants. There are also external benchmarks such as indexes and rankings.

Internal benchmarks can be conducted at a level of your choosing, and probably provide a better in-depth analysis. External benchmarks provide a general picture of your standing against competitors (or at least how your company is perceived compared to other companies.

There is an increasing number of different rankings and indexes, including on corporate sustainability. Each follows a different approach and methodology, and therefor the results tend to be different. The best know benchmark in terms of corporate sustainability is the Dow Jones Sustainability Index (DJSI). Independent surveys also indicate that the DJSI is not only the most known, but also the most trusted corporate sustainability index amongst the flood of indexes and rankings, probably because it was one of the first global indexes, attached to the Dow Jones, and because the methodology was or is consider comparable comprehensive. The DJSI works with an extensive survey with information that is not all always available in the public domain, participation and benchmarking through the DJSI is quite time-consuming. Because it is time consuming, results of and rankings in the DJSI, to some extent, depends on the resources allocated to filling the questionnaire, and the results have to be viewed in this light. However, going through the questionnaire on a yearly basis can serve as a regular review, and monitoring of internal progress.

Full speed twist & turn

Sustainable management

# Capitalising on opportunities

# B. Selected Sustainability Issues

This section gives an overview of relevant sustainability management issues, based on the experiences made in 10 years of sustainability consulting. This list is by no means complete, and the materiality of issues for an individual company certainly depends on the nature of the respective business and its operations.

## B.1 Strategic Management

Given the complexity of today's business environment, and the big machinery that is normally behind a corporation, we found it surprising to find very limited evidence of a structured approach towards strategic development and planning, even within companies that are considered leading companies in their field. Scenario analysis and development anticipation are hardly ever applied in a structured way, or if they are used, limited to single factors (often limited to assumptions made related to market developments), or if there are scenarios available and developed (such as the Shell scenarios), how little they are resonated in management decisions. The lack of a structured approach to strategic development beyond market and cost figures is probably the biggest single factor why most companies are followers, and not shapers. Most companies react – they don't act. Some critics see the development of the Transatlantic Trade Agreements TPPI as such – companies not innovative enough trying to secure their income, because they are afraid of failing in the free market.

### B.1.1 Sustaining competitive edge: anticipating future developments

It is true that future developments – particularly related to technology development – cannot be foreseen completely (no one in the 1980s would probably have foreseen to what extend the internet is changing and shaping the business world). There always are unknown unknowns. However, there are known unknowns – climate change, water scarcity, aging populations, migration from poor countries to richer countries, there are technological developments, and political/regulatory developments, to name just a few. All this issues, their likelihood, their potential impact, can be analysed. In short – the changing business environment can be anticipated, and the company – internal operations, product service development – adjusted accordingly.

Strategic management is therefore about

- Recognising and managing the risks in a constantly changing business environment
- Anticipating future opportunities

Everything else is not sustainable.

To facilitate risk strategic development, a company therefor needs a structured approach to risk recognition and analysis, and – the opposite side of the same coin, a structured approach to facilitate the anticipation of future opportunities and cost savings potential. Just as is regularly done for market numbers. There are tools available, some of which are described in section A 7 of this Guide.

Sustainable management is not a revolution. Sustainable management is an evolution of existing management systems that, in addition to conventional management sign-posts of market and financial factors, takes into account the whole picture, integrating the wider environment in which companies operate. Better information leads to better informed decisions, the basis for sustained business success.

### B.1.2 Prioritising & resource allocation

Cost effectiveness (i.e. operational efficiency), and product/service innovation are the key to sustained (sustainable) business success. However, resources in a company – both financial and human – are limited. Tasks and issues therefore need to be prioritised according to cost, cost reduction potential, and sales impact. Prioritising requires, in a first step, defining and exploring different options. Prioritising the available options requires a hierarchical analysis of the available options defined in the first step. A variety of tools is available for both steps – the qualitative exploration of options, and the quantitative evaluation of effectiveness of different options. Some of the tools available for exploring options and quantitative analysis are described in section A 7 of this guide as reference. However, there are many more options available, and they should be chosen according the needs of the company and/or the project.

## B.2 Operational Sustainability - Resource Efficiency

Cost is and always will be a key factor determining the sustainable competitiveness of a company. Success is based on using available resources – human, financial – in the most effective, efficient and sustainable way. Short-term cost savings might have a positive impact on the next quarterly or annual balance sheet, but very often have costs (or loss of competitiveness) associated with the view of the long-term development and business success. Resource efficiency, and the allocation of resources, therefore has to be analysed in the long-term aspect, integrating long-term impacts of decisions made today, e.g. in terms of retaining or loss of knowledge, market access, reputation etc.

### B.2.1 The Human Capital Factor

The classic intangible – human capital, in classical management theory, is but a cost factor. The benefits of a well-educated, skilful and highly motivated work-force are clear to everyone, but is difficult to measure. Do investments in higher salaries, incentives, education, employee health and well-being pay of? What is the return of investment of such investments and resource allocations?

#### B.2.1.1 Skills & education

Highly skilful (which is not necessarily equal to highly educated) employees) trained on the specific requirements of their jobs and tasks, are the back-bone of quality manufacturing and services, as well as future innovation. So much is clear to everyone. But how to achieve that? One thing is the recruitment. Recruiting the right people for the right job is a first step (which, in turns, requires the availability of talented people, but this is more likely an issue of the state education quality). The second step is to train the employees on their tasks, behaviour and organisational culture, - and keep developing necessary skills over the employment period. Most companies have a certain budget allocation for employee education, expressed in percentage of revenues or per employee, but flexible depending on business results. However, more important than allocating financial resources for employee education is that the resources allocated are used to the highest possible effects – which in turn, requires to somehow measuring the effectiveness and usefulness in day-to-day tasks of existing and new training programs to allow for recognising efficient and inefficient programs, and adjust resource allocation accordingly. What gets measured, gets done.

Another issue that tends to be controversial, gaining importance within the aging societies of the developed countries – shall a company try to keep employees over the life-time to keep valuable knowledge, or replace aging employees with younger, cheaper employees?

### B.2.1.2 Motivation

Employees that just do their job to collect a salary at the end of the month are not very motivated – and therefor most likely less productive. Motivated employees that identify themselves with their job, - or even better, with the company – are, in general, more productive (efficient), and more likely to contribute to the wider development of the company.

The key elements of motivated employees are

- Corporate identification, job identification
- Recognition & compensation
- Well-being

**Corporate identification**

Employees who identify themselves with the company – its culture, its vision, products/services – are employees who like to go to work in the morning, and therefore don't just sit around waiting for closing time. They are more productive, and bring their skills, ideas and personality into the company in a win-win situation. Corporate identification requires a clear corporate vision, decent organisational culture, and – recognition.

**Recognition and compensation**

While it is true that in the modern world, when perceiving a company as a machinery, every individual is replaceable (not least top Managers and the Board). However, if that is the message communicated within a company, employees will sit in fear, limiting their commitment, and therefore productivity. If, on the other hand, commitment and performance are recognised and rewarded, employees have additional incentives to improve their performance. Recognition requires some form of performance – related incentives. However, incentives are a tricky issue. Some incentives are required to award and motivate individual or team performance. But if the individual incentives and therefore overall compensation between individuals exceed a certain barrier, the negative effect (de-motivation of less performing employees) is likely to outstrip the positive effect of the rewarded employees. Incentives therefore need to be carefully designed and balanced, with corporate performance and team performance integrated in performance incentives. Needless to say that top-management should not be rewarded on anything other than corporate performance, including non-financial performance such as employee satisfaction.

**Well-being**

Employees that are physically and psychological in good shape are more productive. An acceptable balance between work and life – in particular family life – is therefore very important to avoid over-exploitation of human resources in the form of burn-outs and other health issues that negatively affect productivity. This requires perhaps alternative models of work – part-time, job-sharing, work-from home, sabbatical possibilities, and support or in-house facilities for child care. Apart from the direct measurements, again, measuring is key – on one hand by tracking health performance and absenteeism as an early-warning indicator for employee well-being and productivity. On the other hand, regular employee satisfaction survey serve as tool to recognise potential areas of conflict and dissatisfaction and identify improvement potential. However, such surveys are useless if they do not ask the right questions (you have to be prepared to hear answers the management does not like).

### B.2.1.3 Innovation

Some people are innovative heads, full of ideas, and innovation alone can distinguish a mediocre from a good company. You can rely on the brightness and creativity of you R&D people, or the strategic foresight of management. Both however, do not guarantee success – if your people/management is not that bright, that is a recipe for failure. Innovation

therefore needs to be institutionalised – without, however, and that is very important, forming a too tight corset for the ideas of the employees. Institutionalised innovation culture has three main elements:

- Commitment to R&D, in terms of financial resource allocation
- Strategic analysis and anticipation of future opportunities
- Facilitating internal innovation and participation

**Resource allocation**

R&D resource allocation is vital to sustain competitive edge in the markets – not only in the fast-paced tech-sectors. Products, services need to be updated in line with technology development t remain attractive for existing and to gain new customers. In addition, R&D allocations should not be subject to abrupt changes in order to allow for long-term planning.

**Strategic analysis**

Throwing money at R&D alone is, of course, not a solution. R&D requires strategic management and analysis of future opportunities, and prioritising of specific R&D fields while allowing for a certain degree of flexibility at the same time – under inclusion of the so-called non-financial indicators that shape future markets, customer expectations, and technology. The approach therefore needs to be structured; see also section B 1.1 of this guide on strategic management.

**Facilitating employee participation**

Employees are the experts in the processes and management systems used and applied in a company – and therefore the first address to ask for efficiency improvements. Fostering innovation requires a culture in which employee inputs are not only valued, but welcome – i.e. a system that encourages employees to bring in their ideas, improvement suggestions, in terms of process efficiency, well-being, product/service improvements, etc. This in turn, not only requires a systems where employees can easily make suggestion, but someone who actually evaluates those inputs.

### B.2.1.4 External Stakeholders

A stakeholder is someone who holds any kind of stake in the company, i.e. is interested or affected by the company, its operations or products/services. In short – almost everybody is a stakeholder: suppliers, suppliers of suppliers, employees, customers, particular interest groups, the wider society, and stakeholders otherwise affected by the company. "Stakeholders" therefore need to be defined before they can be "engaged". The AA1000 engagement standard didn't help much in this respect – with the appearance of the AA1000 "stakeholder engagement" has been reduced to an annual generic survey of a limited number of mostly key group stakeholders (suppliers, employees, customers), in most cases with a very limited number of participants. A very good example of good intentions turned bad.

The largest stakeholder groups are all covered by particular management systems and policies: suppliers, employees, customers. The relevant external stakeholder not covered by management systems – and on which "stakeholder engagement" therefore should focus, are

- Site & output stakeholders
- Issue stakeholders

Site stakeholders are individual, groups and communities directly affected by company operations. Issue stakeholders are pressure and lobbying groups (many often NGOs), as well as individuals, groups or communities influenced by side-effects of products/services, and the wider society/environment. The relevance of site stakeholder depends on the footprint of operations and products. In heavy impact industries (exploration (oil gas, coal, mining), chemical industry, heavy industry, construction), stakeholder engagement is more important

than in low-impact industry sectors. In controversial sectors such as tobacco, gambling, and defence, issues engagement is highly relevant. However, even in the service sector, stakeholder engagement is a valuable tool to check external perception, and to learn from your critics. Remember, it is not the job of NGOs to pat company's backs – it is their job to point to areas and issues in need of improvement. Always has been, and always will be.

Stakeholder engagement that is mutually beneficial in heavy-impact industries and/or individual projects therefore requires a structured approach:

- Stakeholder analysis
- Transparent and coherent information
- Opinion exchange and engagement
- Establishing complaint & reporting
- Establishing conflict resolution mechanisms

An initial stakeholder analysis (preferably conducted at the feasibility study stage of a project) serves as basis for defining engagement policies with the different groups in the field. Open and transparent information is key to diffuse the concerns of local residents and communities towards projects that are naturally considered as intruders. From the policy level, management systems have to be defined and implemented: reporting& inquiry contact points need to be provided, visible and understandable for all. However, most important for conflict resolution is direct communication with the stakeholders affected. Depending on the nature of the project, it is advisable to establish an independent mediator in case of conflict. In South America, such an approach has been used in a number of mining projects, whereby controversial issues are discussed in the presence of an independent 3rd party mediator, in most cases a nationally recognised NGO. This setting facilitates discussion instead of conflict, and the approach has been mutually beneficial for both stakeholders and the company.

In less impact-heavy industries (such as financial institutions), sitting down with critical external stakeholders might not solve the underlying issues (the system works as it works), but exchange with critical voices is always a learning opportunity.

### B.2.1.5 Citizenship, philanthropy and sustainable development

Does a company need or not need philanthropic, social activities? The answer to this question is depending on the culture of the organisation. Most companies do, in one form or another. However, it is striking how few companies a) have a clear strategy when they do, and b) how little the effectiveness of the allocated budget and supported programs is monitored. These are the two cornerstone of a successful philanthropic program: strategy & monitoring.

Every company has certain strengths – culture, organisation, its products/services. It does not make any sense if those strengths are not used in philanthropic activities. Aligning the philanthropic programs to the business field increases the effectiveness of the resources allocated and create a win-win situation for the company and the beneficiaries of the philanthropic programs.

Even in the absence of a strategic direction of the money spent on philanthropic programs the efficient use of the resources allocated (i.e. monitoring & evaluating the outcome of philanthropic programs or causes/groups supported to ensure that benefits have actually ben achieved) should be monitored to use the resources more efficient in the future.

In heavy-impact industries, such as exploration, mining, construction, but on factory sites, engagement with site stakeholders can lead directly to philanthropic programs to support the sustainable socio-economic development of the communities of operations,

### B.2.1.6 Ethical behaviour

News of corruption, even if they are small, are not good news for customer trust and loyalty. Every company therefore needs an ethical management system in place. While policies are

important and should employees should be reminded of the ethical standards on a regular basis, the management systems are more important. They include

- Regular update and training on real-life examples for the most exposed employee groups (sales & procurement departments);
- Easily available suspicion reporting system that actually encourages internal or external whistle-blowers (most systems seem to be designed to discourage so);
- An independent investigation office with defined investigation processes, and a pre-defined set of disciplinary measurements.

The challenge is to apply these policies on all levels – the biggest corruption cases often involve top management levels.

#### B.2.1.7 Governance

The classic standards for "Good Governance" are, a bit simplified - having a majority of non-executive, "independent" Directors on the Board that preferably also has female representation; having an "independent", non-executive Chairman; providing transparency regarding executive and Director compensation and incentives; and maybe having some particular committees on the Board (e.g. independent audit committee, an ethical committee, sustainability committee.

In reality, "Good Governance" hardly ever exists. CEOs have become pop-stars, which have a good uncle on their side (the chairman). The "god governance" structure has not been able to prevent crisis and scandals, i.e. the boards to not fulfil their functions. Executive management and bonuses are rising, despite the complete lack of evidence of the slightest correlation between the size of CEO compensation and corporate performance, and despite any CEO being as replaceable as any other employee. Boards that approve this level of compensation are liable to legal prosecuting for approving deception of company funds for personal enrichment. The combination of this factors also leads to increasing frustration level (i.e. de-motivation) within "normal" employees, who start to doubt the value of commitment and actual work in the face of such discrepancies.

Following the general Governance Standards – "independent boards" is easy. However, they do not what they are supposed to do and to not sufficiently reduce risks as scandal after scandal shows. Making governance sustainable i.e. developing a form of governance that deserves that name, i.e. actually reduces corporate risks and provides management oversight, requires a thinking about completely different governance forms. However… that would fill a guide by itself.

### B.2.2 Natural Capital Factors

Natural capital aspects of businesses include two main categories: the usage of natural resources, and the environment (i.e. protection of environmental integrity).

#### B.2.2.1 Resources

The connection between natural capital and business operations is a very straightforward one: it is cost. Raw materials, energy, water, and waste disposal are all goods (services, in case of disposal) that have to be procured – they are direct cost. The less one uses, the lower the cost. The higher the operational efficiency of resource usage, the better for the company (lower cost) and the better for the wider society and environment: resources are being less exhausted.

Management of operational efficiency has changed a large deal over the past 20 years; conducting efficiency analysis is now standard is many industries, facilitated by developing technology. Smart metering allows for cost-efficient analysing what for, where and when resources are used (in particular energy), and thus identifying cost savings potential. As a rule of thumb, the first 30% of energy of every energy bill can be saved with a pay-back

period of less than 2 years; significant more can be saved with reasonable pay-back periods. For water usage, however, development is not yet that advanced, and water will not become more abundant (i.e. cheaper) in the future.

One aspect where resource cost is not yet sufficiently integrated is procurement and capital investments: maintenance cost of machinery (i.e. energy/water cost) are hardly integrated into procurement evaluation. Even more surprising, maintenance cost considerations are still often excluded when building new facilities. Well-insulated buildings, for example, have higher up-front capital costs; but savings achieved through lower energy & water usage do fully justify when calculating over a horizon of more than a few years (lower up-front cost + high annual maintenance cost is more expensive than higher initial cost + low maintenance cost).

#### B.2.2.2 The environment

The second aspect of natural capital in relation to business operations is pollution control. Pollution control, in most countries, is directed by regulations. Similar to investment in buildings, pollution control is considered a cost factor (filtering equipment, waste water treatment facilities, etc.). However, the additional cost is normally marginal compared to overall investments, and initial installation is significantly cheaper than later retrofitting in case of tightening regulations. You can bet on loosening regulations, of course (such as proposed in the TPPI), but most likely that will cost you more.

### B.2.3 The Value Chain

Sustainability in the value chain is a big issues, from the supply chain to end-of-life considerations. Unfortunately, it is also a tricky one. There is little controversy over the need to evaluate and manage risks and liabilities in the supply chain: reputational damage, e.g. through child labour or inhuman labour conditions in the supply chain, unethical raw materials such as conflict minerals, environmental liabilities. However, measuring these risks and controlling all these aspects is not easy, and needs to be adjusted specific to each business. The risk aspects are different depending on what the good/service procured. In addition, the desired information needed to make an informed judgement on these risks is a) difficult to measure and b) not always available. When building a system that integrated sustainable risk evaluation in the supply chain, the following aspects should be considered:

- Integration! A system that runs separate from the "normal" supplier evaluation and management does not make much sense. It therefore should be completely integrated in existing systems
- Materiality: what are the key factors that define sustainability (i.e. the exclusion of sustainability risks) in the operation of your suppliers?
- Measurability: can the aspects be measured, preferably quantitative?
- Information: is the information required to measure material aspects available, and can that information be manipulated?

The two biggest hurdles are measurability and accuracy of information. Most likely you have a large number of suppliers, so the evaluation of different suppliers should be comparable. Comparable information is preferably quantitative. But how to measure whether a specific supplier does not pose any reputational or liability risks for your company? IN addition, you depend on your supplier for information. Your supplier will, naturally, try to convince you that everything is just fine, so information on labour conditions or child labour would have to be derived from a different source, independent from your supplier, yet still reliable. What works best and is most appropriate depends on your business, what you procure, and where form you procure.

However, resource usage at your suppliers can easily be measured (raw materials, energy, GHG emissions, water, waste recycling rate, waste to landfill). There is no reason why a

company should not ask for the footprint of the gods/services procured. It helps the company to better calculate a cradle-to-grave environmental footprint of its own products/services. It also allows for better monitoring the raw material and energy cost of the gods that you procure, and what fluctuations these costs are likely to be subject to in the future.

There are also generic social indicators that are worth considering integrating in supplier evaluation – labour employed through the goods procured, labour cost of your procurement, and total labour costs of the supplier, preferably in relation to management pay.

There are no off-the-shelf solutions with a fixed list of indicators that can be used; they need to be specifically adapted to your needs.

# B.3 Selling & Branding

## B.3.1 Communicating Sustainability

In the ideal case, a company is not only identified through its products/services, but also its culture, value, and vision – both in the positive and negative sense. The vison of the company therefore needs to be communicated; and it needs to be communicated well, in a form that is visible, coherent, logical, but – never over the top. The vision of the company, its culture and values are, hopefully, based on or integrated a sustainability vision of the company and the environment the company works in.

Sustainability communication is therefore key to increase customer perception of the company as a brand, not only its products/services.

Communication these days happens more through on-line than off-line channels, based on rich content and graphically pleasing represented. The "Sustainability Report" of a company used to be the means of transporting this message. However, only very few people look at sustainability reports (ESG analysts, for example, and rating agencies), let alone read them. The key message of the sustainability report therefore needs to be available on-line – visible coherent, logical; and most importantly: integrated in mainstream reporting and communication, including advertisement and branding.

Some key elements of good sustainability communication include:

Overview of your business – challenges and opportunities, where your company is coming from, and where it is going too.

Numbers - extra financial reporting is considered standards these days. However, data without context is not very useful. Performance data therefor has to be communicated in the context of time (development over time) and comparable (i.e. normalised against the financial or other measurable indicators.

## B.3.2 Branding

The brand of a company is how a company and/or its products/services are perceived in the public, and thus, by the customers – whereby the company's self-perception is not always congruent with the public perception of the company. A company that is perceived to work along values that go beyond short-term profit maximising enjoys higher customer trust and therefore gives the company a competitive edge when a customer has two (or more) choices for similar products/services at similar prices. In addition, a good – sustainable – brand perception increases a company's perception as e preferred employer, i.e. facilitates recruitment of talented work-force.

The brand of a company has to do with the historic perception, its products, and the culture the company tries to reflect to the outside world. The most efficient sustainable branding

strategy is to have sustainable products/services (the more the better), and that your company is perceived as a leader or even better visionary in terms of integrating ESG factors in every-day life and management. In the absence of full integration, the sustainable brand has to be built through clever conveying of the company story, and where that story is supposed to lead to.

The sustainable values therefore should be conveyed in advertisements. However, it is important not to go over the top, in particular if the operational side and/or the products are not (yet) on the level that the branding message carries.

### B.3.3 Customer services

The best customer service a company can have are high-quality products/services at competitive prices. Good products/services at reasonable prices mean happy customers, and therefor fewer complaints, i.e. customer services are less important. The CMS of a company has 3 main functions –

- Product/service information (product choice support) before sales
- Guidance during sales
- After sale, including after-service, complaints management, feedback monitoring

In the before sale stage, product information is the most important. Product/service information includes transparency – i.e. full information of what is in the product/service and what it does, even if legislation does not require declaration of components. Customers are full age, and want to be informed fully informed. If you have a product/service that you wish no to declare fully, you better take it off the market. Denying transparency is not good for customer trust.

During sales, the shopping experience counts. Naturally, this is particular important in B2C businesses and consumer goods; it should not only be guided by what you want to sell, but also with the customers' needs in mind. A not to overlooked element is courtesy. Natural courtesy, as brought to near-perfection in Asia, but almost non-existent in the Western world. It is one of the largest secrets how to bring about courtesy that is not over the top.

After sales there are 2 main sustainability considerations: customer data (what does the company do with the date) and its safety (who is customer data protected against 3rd-party access). In addition, a coherent complaint management needs to be installed with consumer feedback collected in a systematic, analysis and used to inform future development.

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