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KPMG INTERNATIONAL

Corporate Sustainability

A progress report

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In cooperation with

Economist Intelligence Unit | The Economist

Contents

Our thanks are due to all survey respondents and interviewees for their time and insights.

Interviewees (listed alphabetically by company):

- Hugh Share, Senior Global Director, Beer & Better World, Anheuser-Busch InBev
- Jeanne Ng, Director, group environmental affairs, CLP Holdings
- Victoria Mills, Managing Director, corporate partnerships program, Environmental Defense Fund
- Mitch Jackson, Vice President, environmental affairs and sustainability, FedEx
- Wayne Balta, Vice President, corporate environmental affairs and product safety, IBM
- Len Sauers, Vice President for global sustainability, Proctor & Gamble
- Sören Buttkereit, Head, corporate sustainability external office, Siemens
- Bob Stoffel, Senior Vice President, engineering, strategy, supply chain distribution and sustainability, UPS (retired January 2011)

Foreword

The evidence that sustainability is becoming a core consideration for successful businesses around the world grows stronger every day.

It is a powerful undercurrent running through the pages of the business media, an almost compulsory topic of discussion at meetings of business leaders, and among the most thoroughly researched business issues of the past decade.

But translating this into action is not proving to be easy. As this survey shows, despite all the progress that has been made, more than a third of businesses still do not have a sustainability strategy in place. Of those that do, only one in three is reporting publicly on their progress.

Among those that have implemented the principles of sustainability, enthusiasm is high.

Nearly half of the people who took part in our survey thought that sustainable practices would definitely improve profitability for their companies. One respondent whose company has a long-running program reported that for every dollar they are spending, they are getting US$1.50-2.00 back, while another told us, with complete confidence, that "… all issues of sustainability will be solved by innovation."

So what are the problems preventing a wider take-up of sustainable practices?

On the evidence of our survey, they come down to three things:

- The need for financing solutions that will allow the longer term benefits of sustainability to compete with other programs with a higher short-term payback
- The need for common measures, and underlying systems that produce credible information, to analyze the impact of sustainability programs
- The need for a clear and rigorous international framework of regulation within which companies can plan with confidence.

The fieldwork for this study was carried out before the United Nations Framework Convention on Climate Change talks in Cancún, Mexico at which major efforts were made to win progress on the international agreements necessary for further adoption of sustainable practices.

These initiatives need to succeed because it is clear from our investigations that sustainability can be a source of innovation and growth, if governments help business to make it so. The large amount of private sector funds necessary to achieve climate change goals will be released only when investors are confident that governments are committed to making these new systems work.

We want to thank everyone who has taken part in this research project, especially our colleagues at the EIU and the respondents who gave their time to let us hear their views. We hope the report will be of value to anyone with an interest in achieving a genuinely sustainable future for business.

Ted Senko, Global CEO Climate Change & Sustainability and Yvo de Boer, Global Special Advisor

KPMG viewpoint

Clearly, sustainability is rapidly becoming a strategic priority for businesses. Around the world and throughout this survey, we see encouraging examples of pioneering companies that have recognized the imperative of sustainability and created strategies and solutions to effectively respond to the issue.

For a growing number, the concept of sustainability goes far beyond corporate social responsibility (CSR). It has become the strategic lens through which they view their businesses. For these organizations, sustainability offers an undeniable opportunity to gain competitive advantage, drive innovation and generate real bottom-line results.

And despite a complex array of challenges, these companies are already taking great strides towards shaping the global approach to sustainability. One need only look at leading global brands such as Proctor & Gamble, Anheuser-Busch InBev, UPS or CLP Holdings (all of which are profiled in the accompanying report) to see that these market leaders are setting the pace and standard by which their peers will soon be held accountable.

What propels these organizations – and a host of others like them – past their competitors is the recognition that sustainability goals must be tied to operational strategy and measured in the same way as other investments. And by treating sustainability as an investment rather than a cost, they have adjusted their business models to drive long-term change and make them more competitive in the market.

Other companies, however, still see uncertainties and complexities which stop them from taking the initial steps required to implement sustainability programs. For one, the lack of a clear and consistent regulatory framework makes it difficult for companies to formulate business decisions that can have a long-term effect on sustainability. At the same time, companies are struggling with understanding how to build an appropriate business case for sustainability programs as they grapple with sparse, inconsistent and often unreliable data.

An evolving regulatory environment

Notwithstanding any assumed progress on the international stage, it is clear that more needs to be done to encourage businesses to embrace sustainability.

For example, governments may consider designing regulations that provide incentives for businesses to transform. Indeed, in almost every jurisdiction, there is a real opportunity to create a stage upon which companies can achieve their sustainability goals in a commercially viable manner. Managed appropriately, governments may find that they can effectively deliver on their own environmental targets and create a self-sufficient market for sustainability.

In the meantime, many companies are assessing both the risks and opportunities that are posed by regulation. At the front end, this generally includes a mix of regulatory compliance reviews, enterprise risk assessments and tax exposure evaluations, and can often result in changes that position the company to mitigate their risk and create competitive advantage.

What gets measured gets managed

Outside of regulation, many companies are finding that their largest challenges stem from a lack of credible information, metrics and standards related to sustainability. This hampers progress in several ways. The first is – without meaningful benchmarks – many companies are unable to properly gauge their progress in relation to their competitors and market leaders. This goes to the heart of good business decision making, and presents an issue for all stakeholders including investors, shareholders and customers, all of whom are placing increased scrutiny on business and product sustainability.

For sustainability programs to be properly integrated into operational strategy, meaningful and reliable metrics must be developed along with the underlying processes and systems to produce such information. To determine long-term ROI and delineate bottom-line benefits, sustainability programs must include appropriate and relevant measurement that leverages both financial and non-financial metrics. Moreover, since this data will be used to evaluate overall performance, it should be subject to the same controls that apply to the company's financial systems to ensure the information is accurate and credible.

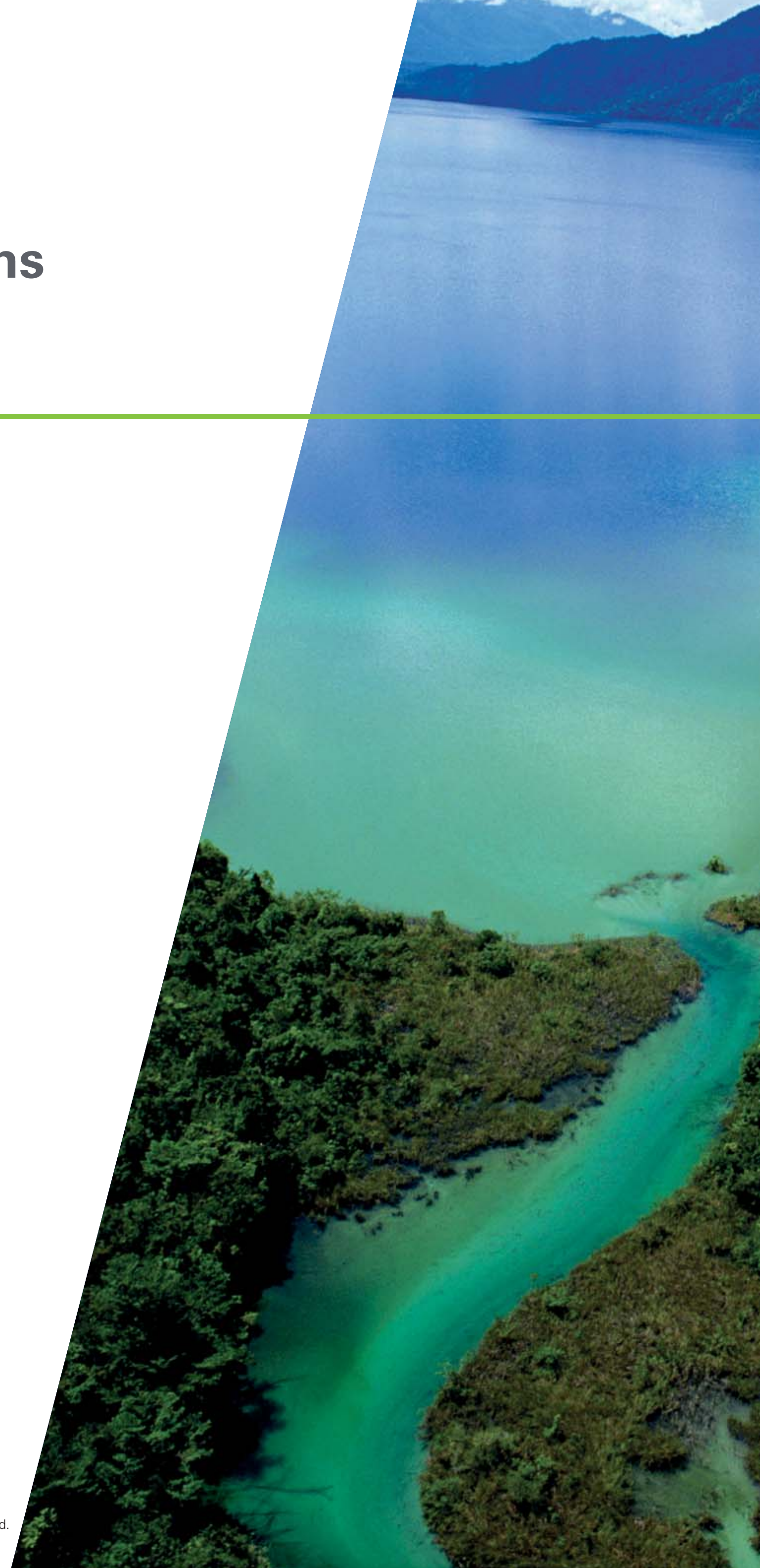
There is growing demand for the design of systems, processes, controls and governance frameworks that can properly measure and analyze sustainability metrics. And increasingly, assessments and audits of company sustainability reports are being conducted to provide stakeholders with a clearer view into the business's progress and accomplishments.

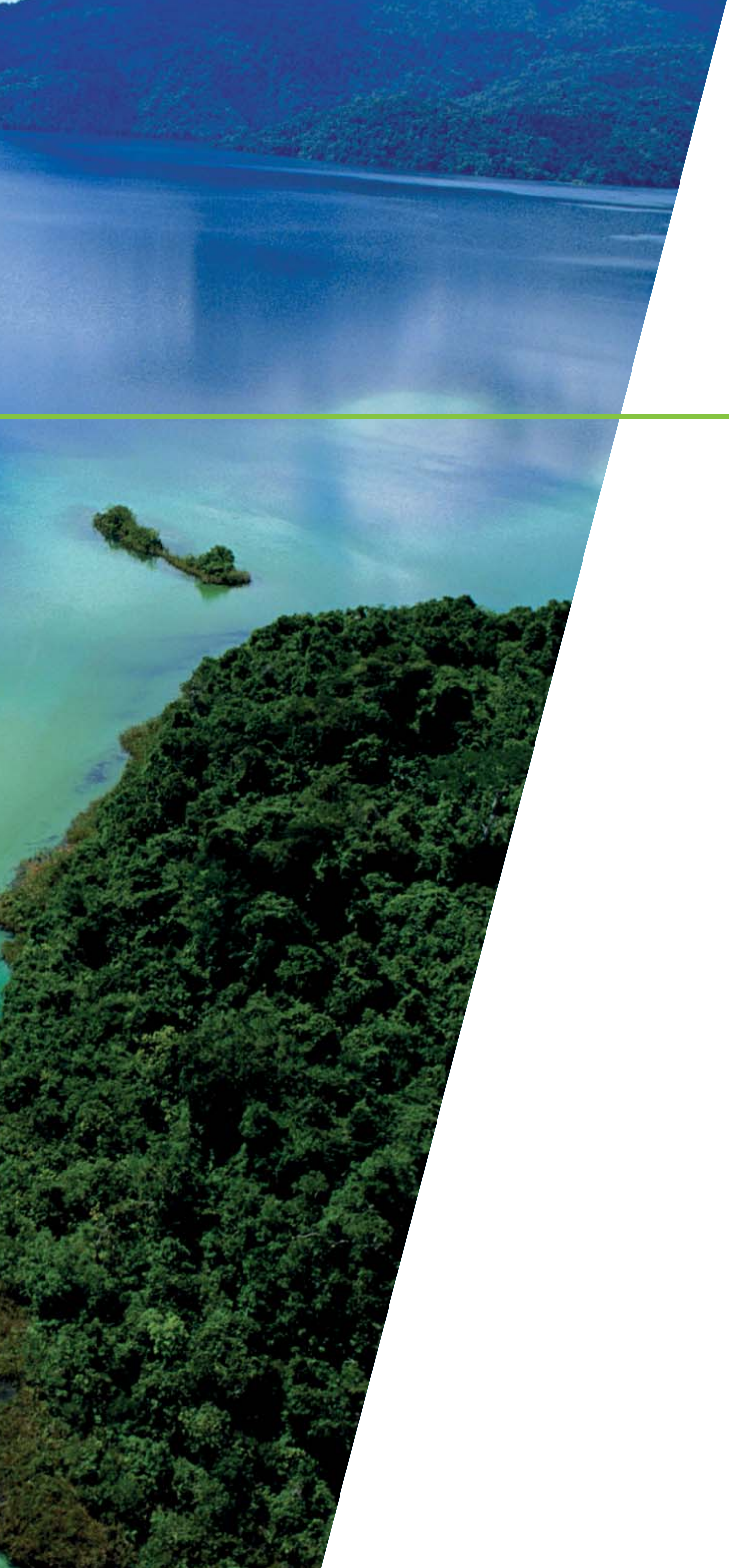
There are a number of encouraging initiatives under way that seek to create industry benchmarks and reporting standards such as the Global Reporting Initiative activities and the International Integrated Reporting Committee's work in this area. On a related front, new auditing standards are also under development: the International Auditing and Assurance Standards Board released a proposed new standard for Assurance Engagements on Greenhouse Gas Statements. But continued progress and collaboration among standard setters will be critical to furthering the meaningful reporting of sustainability initiatives globally.

Funding business sustainability programs

While one of the great challenges facing corporate sustainability programs lies in securing adequate long-term funding, we are seeing increasing levels of change and innovation in this area. As organizations increasingly view their business operations through the strategic lens of sustainability, many will find their programs can – and should – deliver measurable returns in the long-run. As you will find in the accompanying survey, some companies are already seeing returns of 50 to 100 percent on their programs; others believe returns to be much higher. This will invariably lead to new ways of thinking about financing strategic initiatives by leveraging both internal and external sources of funding.

From an external standpoint, global banks, investors and financial institutions are putting greater focus on the impact and design of sustainability programs to gain a better snapshot of a company's ability to assess risk, respond to change and deliver shareholder returns. A number of asset owners and mutual funds now evaluate companies on the sophistication and strength of their sustainability programs and include the outcomes in their investment decisions.





Working together to achieve real change

As the world drives towards a state of sustainable capitalism, much of the heavy lifting will fall on the private sector. For their part, governments will need to work together to develop and deliver clear and consistent rules in order to reduce the complexity and regulatory uncertainty of sustainability for business.

For their part, the private sector must continue to lead and move ahead with both individual programs and cooperative initiatives that support the creation of a broader sustainability framework. Those that have yet to take their sustainability program from a philanthropic CSR objective to something substantial that is embedded in strategy will quickly find that – without an integrated and proactive approach to sustainability – they will rapidly lose ground to their competitors.

In the not-too-distant-future, it will be those companies that understand and respond to the issue of sustainability by making changes to their business models and taking a commercial approach to investing in sustainability programs that will achieve real and lasting benefits over the long-run.

Looking Ahead

"I believe the private sector has the power to make a massive impact on global sustainability goals," said Yvo de Boer, KPMG`s Special Global Advisor on Climate Change and Sustainability and Former Executive Secretary, United Nations Framework Convention on Climate Change. "But empowering them to do so will require supportive policy and actions on the part of the world`s governments. As we look ahead to Durban, we call on policy makers to deliver a strong, clear and unified vision for the future of carbon pricing and regulation, and – in such a way – provide the consistent framework businesses need in order to commit to robust sustainability programs."

[1] The 17th Conference of Parties (COP-17) of the United Nations Framework Convention on Climate Change will be held in Durban, South Africa, November 28 – December 9, 2011

About this report

Corporate Sustainability: A progress report is a KPMG research paper, conducted in cooperation with the Economist Intelligence Unit. It reviews the importance of sustainability within business today and executive attitudes toward this issue.

For the purposes of this report, corporate sustainability is defined as: "adopting business strategies that meet the needs of the enterprise and its stakeholders today while sustaining the resources, both human and natural, that will be needed in the future."

The report is based on the following inputs:

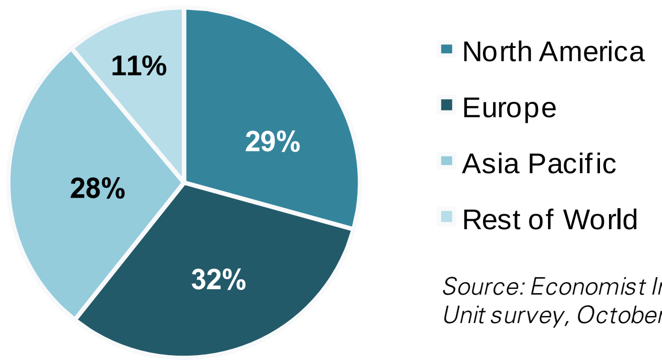
- A global survey of 378 senior executives, encompassing a range of industries, and evenly split among North America (US and Canada), Asia Pacific and Europe, with a smaller representation from the Middle East, Africa, and Latin America. Organizations of all sizes were represented: 40 percent of respondents worked for firms with revenues of at least US$1 billion, whereas 47 percent were from firms with revenues of US$500 million or less. The respondent base was very senior: 26 percent were CEOs, presidents or managing directors of their firms; half represented the C-suite or board; and all respondents were in a management position.

The survey was conducted in October 2010.

Chart 1

Survey has global perspective

(% of respondents located in each region)



Source: Economist Intelligence Unit survey, October 2010

- To complement this, and provide specific context, the Economist Intelligence Unit conducted extensive desk research and in-depth interviews with numerous corporate sustainability executives and experts.

Executive summary

This report examines the impact of sustainability on business practices, the role that government is playing, how firms are reporting on this issue and the challenges ahead. Some of its key findings include:

- **Sustainability has moved up the corporate agenda over the past three years.** Sixty-two percent of companies surveyed have a strategy for corporate sustainability, up from just over half in February 2008, despite the tough economic environment that has made many organizations focus on goals with immediate impact. Just 5 percent have no plans to create such a strategy, while remaining firms are in the process of developing such a plan.
- **Sustainability's main drivers are changing.** Although regulatory requirements, brand enhancement and risk management remain key drivers of sustainability, cost reduction is also a key rationale. The primary focus is on the environmental side, in particular with regard to resource and energy efficiency.
- **Sustainability is being viewed as a source of innovation—and new growth.** Forty-four percent of executives agree sustainability is a source of innovation, and 39 percent see it as a source of new business opportunities. Far fewer disagree.
- **Firms are increasingly measuring—and reporting—their sustainability performance.** Just over one out of three (36 percent) companies polled have issued at least one public report on sustainability, and another 19 percent plan to do so soon—although a sizeable minority (38 percent) have no plans to do so. Two key challenges on this front include generating relevant data and establishing relevant benchmarks.
- **Business wants a successor to the Kyoto Protocol.** Two-thirds (67 percent) of executives believe a new set of rules to replace those that will end in 2012 is "very important" or "critical". Just 8 percent think it is "not important". The field of sustainability is unusual in that corporate lobbying is weighted toward tighter rules, even though this may result in higher costs.

Introduction—Sustainability's corporate evolution

"No one can resist an idea whose time has come."

Victor Hugo's quote could well be applied to corporate sustainability at the dawn of 2011. Companies around the world remain committed to pursuing sustainability agendas, despite a number of factors: a severe economic downturn in many regions, high unemployment, a disappointing outcome from the 2009 Copenhagen climate change meeting and somewhat lower energy prices.

Indeed, the proportion of firms with a sustainability strategy has edged up to 62 percent, from just over half in a similar survey conducted by the Economist Intelligence Unit in early 2008. This rise was by no means a foregone conclusion a few years ago, but illustrates how the idea has caught hold within business.

Senior executives interviewed for the current report often cited the depth of engagement with the issue as the most surprising thing about their organization's sustainability policies. German industrial conglomerate Siemens, for example, now regards sustainability "not as a compliance topic, but as a strategy topic," says Sören Buttkereit, Head of the company's corporate sustainability external office.

It is worth noting, though, that this uptake is more common among larger, publicly listed firms, which are far more likely to have developed a corporate sustainability strategy (79 percent of those polled have one) than their smaller, privately held counterparts (49 percent). It can also be sector-specific: among consumer goods firms, for example, as many as eight in ten companies have developed a sustainability strategy.

Sustainability moves into the mainstream

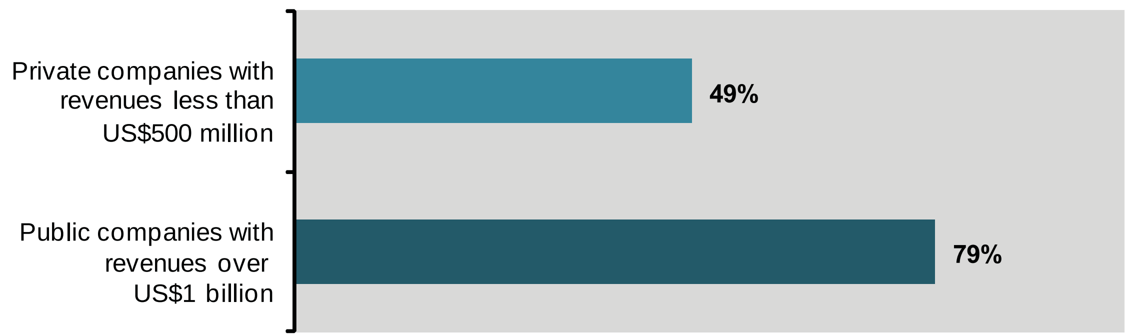
Nevertheless, uptake is widespread: only 5 percent of survey respondents say their company does not need a sustainability strategy, while most of the remaining firms without such a plan are busy developing one, or intend to have one soon.

As sustainability has moved into the mainstream, firms have worked to widen and deepen their efforts.

Chart 2

Larger companies are more likely to have corporate sustainability strategies

(% of respondents who say their companies have an all-encompassing strategy for corporate sustainability)



Source: Economist Intelligence Unit survey, October 2010

Although sustainability encompasses a broad range of issues, much work has centered on the environment—dealing with pollutants and greenhouse gases while improving efficiency in the use of physical inputs. And while the need and desire to do the right thing is often cited as their primary motivation, organizations are increasingly finding economic drivers for such actions.

Sustainability boosts bottom line

In a 2008 study, only 31 percent of respondents said the biggest benefit of adopting sustainability would be increased profitability; today, 48 percent of executives believe implementing sustainability strategies would boost the bottom line in some way, either by cutting costs (27 percent) or increasing profitability (21 percent). The benefits often flow to the bottom line, as the search for new efficiencies cuts costs. But they also can boost revenues by creating markets for new products and services. In both cases, sustainability strategies are triggering promising innovations.

These efforts are driving other changes. First, the need to measure such actions is giving rise to more internal monitoring and, as a result, external reporting.

Second, sustainability-related metrics and objectives are being applied more frequently to new investment and project-related decisions, and thus reshaping, to some degree, how some of these decisions are made.

For the passionate advocates of sustainability, all this is good news, but their work is far from finished. Most organizations are still at an early stage in implementing sustainability. Relevant skills and experience are in short supply. Many firms are grappling with the problem of deciding exactly what and how to measure, and appropriate benchmarks are scarce. The macroeconomic environment remains challenging, making it difficult to obtain approval for larger capital investments. And existing government policies—for example, long-standing subsidies for some types of energy—still undercut the economic viability of some newer technologies. Also, energy prices could well remain relatively flat in the medium term, thus somewhat weakening a key motivation to adopt energy-saving policies. In the long run, however, prices seem sure to increase.

Finally, the global regulatory environment remains fractured and uncertain, despite a majority of firms that are actually in favor of clear—including tighter—rules.

This report explores each of these trends. It argues that sustainability can be seen as a source of innovation and growth, especially if government helps. It outlines the challenges faced in measuring and reporting. Finally, it assesses the key hurdles still to overcome.

Where to next? Sustainability as a source of innovation and growth

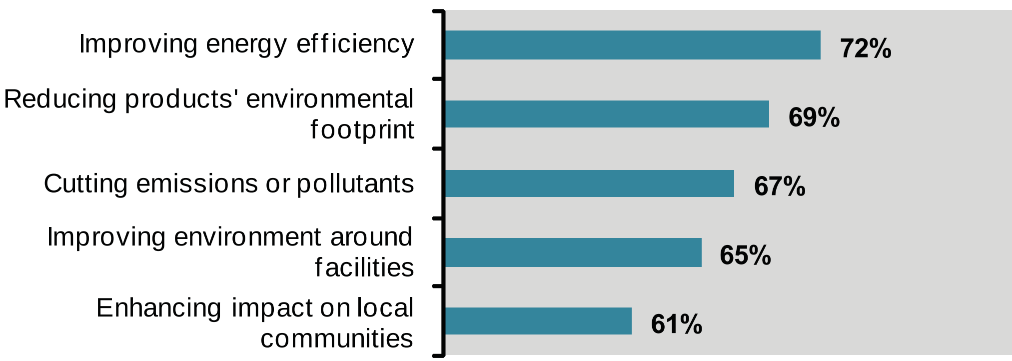
Over the past decade, the issue of sustainability has steadily gained greater prominence on the corporate agenda. Numerous factors have contributed to this, particularly a widening array of laws and regulations (cited by 42 percent of survey respondents) and a desire to enhance brand reputations (41 percent). Other drivers include concerns about managing risks associated with sustainability issues (29 percent) and an interest in cost reduction (27 percent).

Already, basic engagement is widespread: about seven in ten companies polled for this report have undertaken an array of sustainability-related activities over the past year—and will continue to do so. These typically include improving energy efficiency (72 percent); reducing products' environmental footprint (69 percent); and cutting either emissions or pollutants (67 percent). Executives interviewed for this report describe a wide range of such actions.

Chart 3

Companies engage in a variety of sustainability activities

(% of respondents who say their companies have taken these actions in the last 12 months)



Source: Economist Intelligence Unit survey, October 2010

Commitment to tough goals

This highlights the fact that businesses' engagement with sustainability has, in general, deepened in recent years, especially in the environmental realm. Many firms are committing themselves to tough goals, even without regulatory mandates, in part because they believe such rules will come at some point. Proctor & Gamble (P&G), with global revenues of US$78.9 billion in fiscal 2010, is a prime example. In late 2010 it set out a range of long-term targets for transforming its business, ranging from powering its plants solely with renewable energy to ensuring zero consumer and manufacturing waste goes to landfill. It has set a series of goals for 2020, such as using 30 percent renewable energy and reducing packaging by 20 percent. This comes even as the firm works to extend its reach to five billion consumers, from the 4.2 billion it currently serves.

"All issues of sustainability will be solved by innovation."

Len Sauers, Vice President for global sustainability, Proctor & Gamble

Delivering on such targets will require innovation, in terms of both processes and technology.

"All issues of sustainability will be solved by innovation, I have no doubt in my mind," says Len Sauers, P&G's Vice President for global sustainability. Executives polled for this report generally agree: 44 percent think sustainability is a source of innovation in their firms; just 18 percent disagree.

Such innovation is often focused on simple efficiency. Brewer Anheuser-Busch InBev (AB InBev), for example, focuses on cutting its water and energy use, while increasing recycling within its facilities. The firm, which had revenues of US$36.8 billion in 2009 and holds a global market share of nearly 25 percent, is working to cut water use by 30 percent by 2012 compared with 2007 levels, among other goals.

Increased internal efficiency

Hugh Share, Senior Global Director for the firm's Beer & Better World program, says its internal efficiency system helps create more efficient brewing operations by standardizing processes worldwide. Its most efficient brewery, in Cartersville, GA, uses 3.06 hectoliters of water for every hectoliter of beer produced, compared with a company-wide average of 4.3 hectoliters in 2009. Those lessons have helped a company plant in Ningbo, China, cut its equivalent rate to 3.5 hectoliters, the brewer's target level for all of its plants by 2012. It did so by implementing various innovations, including narrower nozzle diameters on bottle-washing machines.

"We have a very strong culture around business performance in every area and so I see that as something that is just going to drive efficiency in our operations in many different areas, of which sustainability is one," says Mr. Share.

Logistics industry

The logistics industry is another example. With the huge volume of goods delivered each day, even tiny efficiency gains can translate into significant savings. Take UPS, which operates a fleet of some 100,000 vehicles across more than 200 countries, delivering an average of 15 million packages each day to generate revenues of US$45.3 billion in 2009. "If I can take a second out of handling those every day, that's thirty million dollars a year," says Bob Stoffel, the firm's Senior Vice President for engineering, strategy, supply chain distribution and sustainability until his retirement in January 2011. The improved use of planning technology alone has enabled UPS to trim 20 million miles a year from its deliveries, by enabling optimization of collection and delivery routes, for example.

Alternative technology and fuels

Mr. Stoffel is also investigating alternative vehicle technologies and fuels, such as compressed natural gas, hybrid-electric, all electric and hybrid-hydraulic. This alternative-fuel fleet has already driven nearly 200 million miles. In such areas, UPS knows it needs to embrace new technologies, but here the economics can be trickier. "Some pay back quickly, whereas for others there is not a quick pay-back. But we have to keep investing in the future and we'll make those trade-offs," says Mr. Stoffel. "So when you look at all the areas in which you can invest, you look at where you get the most return on investment and where you get the greatest reduction in carbon."

Sustainability economics is spreading

Such weighing of the economics of sustainability is spreading into other investment and project-related decisions too.

At CLP Holdings, a Hong Kong-headquartered energy firm with 2009 revenues of HK$50.7 billion (about US$6.5 billion), for example, the committee that signs off on new projects and investments now includes the environmental affairs director, along with legal, HR and other departments (see case study on page 32).

Sustainability prompting firms to develop new products and services

Sustainability is not only driving greater efficiency internally, but is also prompting firms to develop new products and services. P&G has embraced open innovation to bring in new ideas for both internal efficiencies and new or better products, such as an effective cold water washing detergent. It actively encourages its 75,000 suppliers to suggest ideas, and co-develops them with the vendors—about half of its innovations are now created this way. This in turn drives new business growth: during 2007-12, it aims to generate US$15 billion in sales from products that help consumers reduce their environmental impact, such as by cutting energy used for laundry.

P&G exemplifies how leading firms are embracing sustainability as a source of new growth. According to the survey, about four in ten (39 percent) executives see sustainability as a creator of new business opportunities; far fewer disagree.

And internal lessons can help shape external solutions, too: Wayne Balta, Vice President for corporate environmental affairs and product safety at IBM, says his firm's long experience in improving the environmental sustainability of various products and processes has in turn aided the company in developing new solutions for clients.

Developing a new focus

All this points to a change in the way sustainability is being viewed. Siemens, for example, has shifted over the past two years from a focus on risk and compliance to something that directly drives business expansion. Siemens' portfolio of environmental products and services—including energy-efficient gas turbines and offshore wind farms, as well as desalination and water-cleaning technologies—already outperforms the company's other businesses. In fiscal 2009, it generated €23 billion (about US$32 billion) in sales from these products.

The global economic downturn of 2008-10 has not been as detrimental to the progress of corporate sustainability as might have been expected. However, given that the financial services industry has been hardest hit, one of the challenges created by the recession is difficulty in obtaining financing for sustainability-related projects.

Businesses vying for financing for relevant investments were hit from two sides. On the one hand, access to credit from traditional sources has been substantially curtailed, especially for small and midsize companies. On the other hand, many projects have become less attractive due to the sharp fall in many resource and energy prices in 2009 especially. "The business case deteriorated because of the input prices," says Siemens' Sören Buttkereit.

Nevertheless, there have been many creative examples of how some financing approaches might work. For example, energy services companies (ESCOs), ranging from small providers such as Streamline Power in the UK to large players such as Ameresco in the US, have created various "pay as you save" products, which allows businesses to install energy efficiency measures with no upfront costs and with repayments that are less than the cashflow savings generated from reduced energy costs.

Such financing schemes are boosted by the fact that many corporate investments seeking internal funding are often required to demonstrate a payback period of just 2-3 years, thus implying an annual return of 33 percent or better. "Many people would be happy to have a 6-7 percent return, in these times, when interest rates are so low, so the real challenge is in finding new financial structures to take it off companies' balance sheets," says Mr. Buttkereit.

Accordingly, many vendors provide financing schemes to accompany their technologies. They compete against various rivals, including those that are linked to specific energy utility firms or other independent ESCOs.

For firms not willing or able to access external financing, another approach has been to bundle up projects with longer and shorter payback cycles.

"What some companies are doing is creating a portfolio of investments where they group together investments with very short payback and that may not have big financial gains, with longer payback ones that might have huge financial gains," says Victoria Mills, Managing Director of the corporate partnerships program of the Environmental Defense Fund.

In so doing, the basket of investments can help achieve the firm's internal payback requirements, thus persuading the CFO to support the initiatives.

The role of government

More laws and guidelines required

The field of sustainability is unusual in that businesses generally agree that government should do more in terms of setting rules and targets. On almost every other issue, firms seek greater deregulation, but frustratingly slow progress in establishing new international laws and guidelines on sustainability have left companies in a tough position: aware that new rules are coming, but with no certainty as to what they will entail.

Indeed, a large majority of the executives surveyed for this report are overwhelmingly in favor of an effective, global successor to the Kyoto Protocol—the first phase of which is due to end in 2012. Many are following up with political action: about one in five executives report their firms are lobbying government about domestic legislation relating to climate change.

Of those that are, twice as many want tougher domestic regulations than those looking for weaker rules—and nearly four times as many want tougher international regulations.

Case Study: How FedEx, UPS and other logistics firms are driving new transport innovation

In its efforts to increase its fleet's fuel efficiency, FedEx has lobbied the US government to set fuel economy and greenhouse gas regulations for commercial vehicles.

The goal was not only to aid internal efforts to reduce consumption, but also to help create a market for more efficient vehicles, as the firm alone doesn't have the purchasing power to transform the market. "We felt the best way to [have an impact] was through a regulatory approach, as it created a market for manufacturers to produce and sell these efficient technologies," says Mitch Jackson, FedEx's Vice President for environmental affairs and sustainability.

But as Mr. Jackson acknowledges, different companies will have different reasons for trying to shape the legislative agenda. "In some cases they're trying to bring their greener innovative products to market and so they need legislation in order to do that, whether it's a price on carbon or something else. In other cases, certain industries or businesses are trying to actually put the burden upon other sectors of the economy."

This unequal burden is an important point, and highlights the fact that the ongoing drive toward tougher regulations will help some firms, just as it hinders others. On the one hand, significant numbers of executives think new rules on climate change, for example, would provide fresh incentives to innovate and create new products (40 percent), or encourage companies to adopt more wide-ranging sustainability initiatives (39 percent).

Far fewer think otherwise. "Talking about 'green growth', you're saying you can actually increase growth if you are in the right industries, and by the way that will increase resource efficiency," says Siemens' Mr. Buttkereit.

Goals and parameters

Others add that the creation of certain high-level goals, such as the EU's targeted 20 percent reduction in carbon emissions by 2020, or similar US plans to cut emissions by 17 percent (albeit from a different baseline), has provided companies parameters to guide their strategic planning: "We think it's helpful in establishing benchmarks," says UPS's Mr. Stoffel.

> ***"Talking about 'green growth', you're saying you can actually increase growth if you are in the right industries, and by the way that will increase resource efficiency."***
>
> *Sören Buttkereit, Head, corporate sustainability external office, Siemens*

A clearer picture

As things stand, companies cannot yet fully assess the impact of the ongoing climate change negotiations.

The recently concluded COP16 talks in Cancún produced a promising range of new agreements on the post-2012 framework. These include increased actions to reduce emissions by developing countries and financial support and technology transfer mechanisms to support such actions, but details on exactly how such mechanisms will work remain to be decided. Accordingly, executives have longer to wait before having a clear picture as to demands for their firms to cut emissions in the coming years.

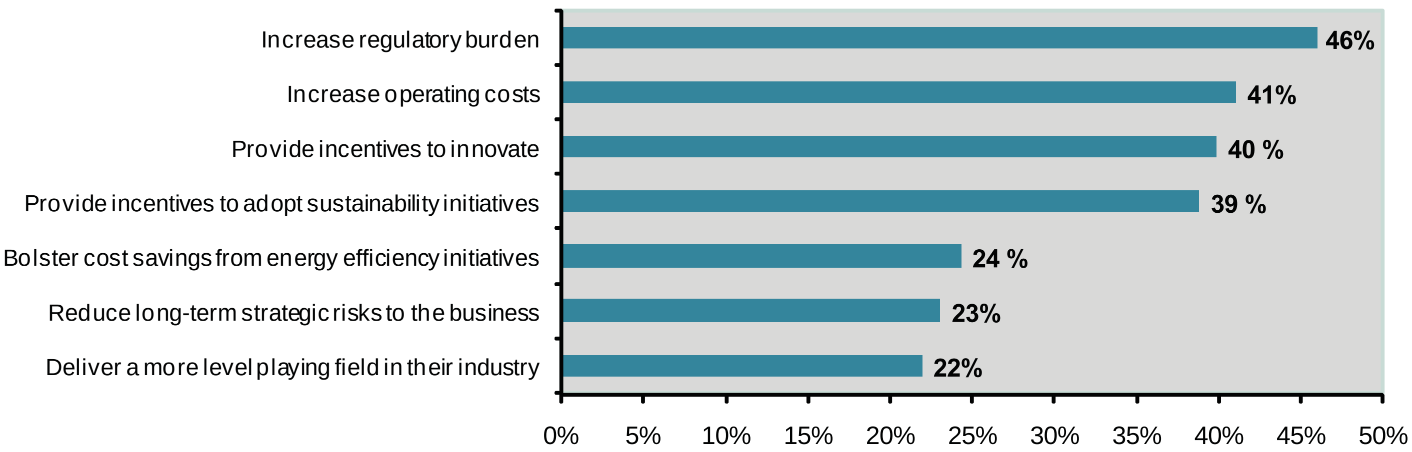
Still, there are decidedly mixed feelings as to the impact of a global climate accord. Nearly half (46 percent) of executives polled think this would add to their regulatory burden – and increase operating costs (41 percent).

Twenty-two percent think such an accord would deliver a more level playing field within their industry – in part because global rules are interpreted and implemented in widely varying fashions within individual countries. And 23 percent think it will reduce the long-term strategic risks to their business from such things as an adverse climate.

Chart 4

A global climate accord brings opportunities and challenges

(% of respondents who expect these impacts if a global climate change accord is reached)



Source: Economist Intelligence Unit survey, October 2010

Measuring and reporting

The number of dedicated sustainability reports produced by companies has mushroomed over the past decade. In 1996, only about 300 firms globally did so; but as of early 2010, some 3,100 did, according to CSR Insight, a research firm. About one in three companies polled in our survey produce them now, and more than half will do so over the next two years. Smaller, privately held companies are least likely to report on these issues. Fully two-thirds of large companies, with annual revenues of US$5 billion or more, currently produce these reports, and a further 12 percent plan to do so within two years. Many are old hands: IBM, for example, has issued sustainability reports for two decades. A more recent take on this has been a movement toward integrated reporting, which provides both financial and non-financial information in a single document (see case study on page 24).

Even without reporting, companies seeking to embrace sustainability need to measure their existing performance on a wide range of metrics, from energy consumption to water usage. "We look at very basic measures like greenhouse gas emissions, energy and water consumption, solid waste—these are all important, countable things," says Victoria Mills, of the Environmental Defense Fund.

"We look at very basic measures like greenhouse gas emissions, energy and water consumption, solid waste—these are all important, countable things."
Victoria Mills, Managing Director, corporate partnerships program, Environmental Defense Fund

For many firms, this is already a long-established activity. UPS, for example, tracks its CO_2 emissions, water usage, gallons of fuel used, energy consumption and so on. As part of its tracking, it establishes benchmarks that are meaningful to its specific business. It tracks not only its total emissions, but also its emissions on a density basis, based on packages, revenue and weight.

Accordingly, as its clients' businesses grow, they can see their carbon emissions per package or per kilo, for example. Such measurement is not straightforward: although UPS has detailed data for its fleet of airplanes, it does not have equivalent data when it sends some packages via a commercial airliner or other third parties.

It also has a scale challenge in needing to measure consistently across the 214 countries in which it operates.

Measures and benchmarks

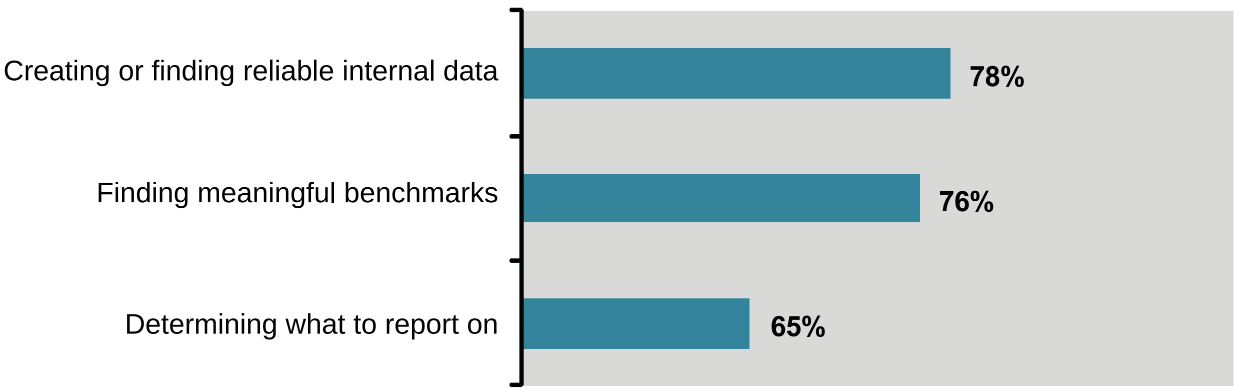
Appropriate measures and benchmarks are still being worked out for many industries, adding to the overall challenge. Survey respondents flag difficulties in finding meaningful benchmarks (76 percent) as a major or moderate challenge, along with creating or finding reliable internal data (78 percent). Take AB InBev: the company is aware that most of its impact, in terms of its water and carbon footprint, is actually incurred outside of its walls.

"Most of it is in agriculture. Where [the complexity] comes in is that there's not really a standardized methodology for calculating or estimating these impacts," says Mr. Share. He cites the example of trying to calculate the total water used within a specific product, given the paucity of data in the supply chain, especially within agriculture, where official rates for issues such as evapotranspiration (the sum of evaporation and plant transpiration from the ground to the atmosphere) or groundwater usage are lacking. "That's where the technical challenge is," he says.

Chart 5

Deciding how to measure is more difficult than deciding what to measure

(% of respondents who consider these a "major" or "moderate" challenge)



Source: Economist Intelligence Unit survey, October 2010

Executives from both P&G and Siemens also highlight the challenge of sprawling product portfolios—and their impacts.

"We are in so many different businesses that size and breadth creates challenges," says Mr. Sauers.

At Siemens, for example, it is difficult to calculate how many tons of greenhouse gas emissions are saved if a lighter and more efficient set of trains is installed in a city.

Nevertheless, both firms also benefit from their scale, by having resources to draw on, and a longer history of trying to track such things. At P&G, a Global Business Systems Group develops standards for tracking materials and raw inputs, ensuring plants consistently track energy, water, waste and so on. "We're able to tap into all those systems to get a collective corporate number," says Mr. Sauers.

"A supplier scorecard… allows us to extend our measuring and our tracking beyond just our own fence line."

Len Sauers, Vice President for global sustainability, Proctor & Gamble

P&G faces a new challenge in applying such systems across its vast supply chain. It has co-developed a supplier scorecard with its partners, and is rolling it out to its 400 largest suppliers. "It allows us to extend our measuring and our tracking beyond just our own fence line," says Mr. Sauers.

However, given that P&G's key metrics are well defined, this challenge is less daunting: "You should be tracking those things anyway and you should have programs in place toward reduction in [energy, water or other resources used] because they do lead to great cost savings."

"...you should have programs in place toward reduction in [energy, water or other resources used] because they do lead to great cost savings."

Len Sauers, Vice President for global sustainability, Proctor & Gamble

Case Study: CLP—From integrated processes to integrated reporting

Energy firm CLP Holdings has been working for some time to bolster both its internal and external efforts to grapple with its environmental impact.

On the internal front, the challenge has been to add environmental metrics and targets to its investment and project considerations. Accordingly, its environmental affairs team now weighs in on all new investments being considered. "Our job is not to say yes or no, our job is to say, this is everything that's wrong with it, this is what you do, this is how much you should probably budget," says Jeanne Ng, Director of CLP's environmental affairs team. The firm's bid to build a new coal-fired power plant in Jhajjar, India, exemplifies this. CLP had to balance the negative environmental impact of coal against the social and economic benefits provided.

After a robust debate, its board voted to reduce the standard rate of financial return over the lifecycle of the project in order to ensure that the latest emissions reduction technologies were installed (despite this not being a prerequisite of the bid). That way, the company could remain on course for its overall emissions reductions targets. Ms. Ng admits this is an isolated case, but says such debates are now more common. Externally, CLP works hard to communicate such efforts. It actively benchmarks itself against other firms, such as South Africa's Eskom or France's EDF, while also sharing best practices with these firms.

In 2009, it launched an interactive version of its sustainability report to make it more accessible. It details its operating performance in line with Global Reporting Initiative (GRI) standards, with data independently verified at the plant level by local assessors.

The aggregate report is then checked again by another independent firm. CLP's progress on this front helped the firm win a sustainability reporting award from the not-for-profit organization Globe Award, which works to recognize and encourage sustainability in business, society and academia.

So what's next?

Ms. Ng is now reviewing how to integrate CLP's financial and sustainability reporting, following in the footsteps of a handful of pioneers, such as BASF, Philips and Novo Nordisk. This won't be easy, she admits: "There's another learning process. [Different departments] talk in different languages and yet we all need to agree [on common] metrics." But work is underway, and Ms. Ng is already on an International Integrated Reporting Committee working group, established in August 2010 by the Prince's Accounting for Sustainability Project (A4S) and the Global Reporting Initiative (GRI) to set standards and frameworks for integrated financial and sustainability reporting.

Such integrated reporting is set to spread quickly, in both developed and emerging markets. In South Africa, for example, several firms, including Anglo Platinum and Eskom, have already produced integrated reports. This follows the introduction of the country's King Report on Corporate Governance in 2009, with which all companies listed on South Africa's JSE Securities Exchange must comply. The report recommends that all firms produce an integrated report in line with GRI guidelines, or else give an explanation as to why they have not.

Challenges ahead

Corporate sustainability advocates have made much progress in recent years.

Today, corporate sustainability is a mainstream issue that is often led from the top. In many cases, sustainability-related activity is increasingly addressed as an efficiency issue. Indeed, given that leading firms have long embraced new efficiency initiatives, it is surprising that many firms are only now focusing on potential gains in resources and energy management.

But embedding such thinking into the far greater pool of smaller and less regulated firms is far from assured.

There are still many challenges to doing so.

For one, relevant skills and experience are short on the ground, especially in a business context. CLP's Director of the environmental affairs team, Jeanne Ng, notes that her team is comprised of environmental specialists, which is a challenge when trying to liaise with business unit heads. This is especially pertinent when different functions measure things in different ways, and highlights another need: the development of standards and definitions that can be applied across a range of industries, and rolled out consistently across global supply chains.

Establishing priorities

At a macro level, the global economic environment hinders some, even as it aids others. Of all the barriers to sustainability, this is the biggest: 45 percent of executives say business survival and short-term financial pressures are bigger priorities right now. Simply put, while most companies could save by cutting resources costs, many management teams cannot drop their focus on retaining customers and protecting revenues at this time. And while many firms have embraced cost-cutting in recent years and boosted resource- and energy-efficiency programs, some of the necessary capital investments are simply too large, especially for smaller firms with limited access to finance.

ROI plays a role

The economic environment can also affect the expected payback period from efficiency projects, for example by creating uncertainty about future resource costs.

For those firms that are heavily reliant on oil, such as UPS or FedEx, there may be a strong long-term incentive to invest in a range of projects that can help to curb this fuel use. But for others, such as services firms that consume relatively little fuel, an expectation of flat energy prices in the medium-term may lead them to focus on other initiatives that offer a faster return.

At P&G, for example, all sustainability-related investment decisions, whether associated with implementing renewable energy or making environmental improvements in a particular operation, are subject to the same return on investment calculations.

"For every dollar we spend, we are getting US$1.50-2 back."
Wayne Balta, Vice president, corporate environmental affairs and product safety, IBM

But amidst this economic uncertainty, some executives see scope for companies to maneuver ahead of rivals. "I think that's really, at the end of the day, where the competitive advantage can be for corporations, being able to overcome these barriers and implement these kinds of things without those cost increases," says Mr. Sauers. IBM's Mr. Balta agrees, noting that within his firm, many environment-related investment decisions have paid off. " If you think it is expensive to do things for the environment, you should try ignoring it. You'll find out how expensive it gets." He says IBM's decades-long effort to improve environmental performance reaps major returns: "For every dollar we spend, we are getting US$1.50-2.00 back."

A final challenge is the regulatory environment. In the US, where proposed federal energy bills have stalled, states are implementing their own regulations. Companies that do business in more than one location are likely to meet the most onerous requirements. Internationally, recent climate talks have delivered only modest progress. All of this affects corporate decision-making: "I think the worst thing that could happen is that you have uncertainty about regulation," says Siemens' Mr. Buttkereit.

Conclusion—Seven key steps to implementing and benefi from corporate sustainability

Corporate sustainability comes in many forms, and produces many different outcomes. In our global survey of business executives, which polled a wide range of industries and company sizes, executives were asked to provide an example of a benefit they had gained from a sustainability initiative.

- **Use scenario planning to identify potential risks to your business—and new opportunities to exploit.** A key sustainability challenge, especially in the environmental realm, relates to regulatory and economic uncertainty and the likely impacts these might have. Scenario planning can help establish a range of potential legislative and economic environments in which your firm might end up operating, putting particular challenges into focus and also sparking new ideas about emerging opportunities.
- **Set ambitious targets—and lead by example.** Although many firms are making solid progress by cutting resource use in specific departments, leading global firms are setting the pace by establishing tough, long-term goals that define a vision, balanced with interim deadlines that force progress today. Both P&G and Anheuser-Busch InBev have set themselves ambitious goals for creating more sustainable businesses and are now focused on achieving initial deadlines and targets. Decisive action here can often put firms ahead of the regulatory agenda, or industry peers.

- **Start measuring environmental inputs and productivity across your business.** As the management maxim holds, what gets measured gets managed. Firms need to start measuring resource usage and productivity across all parts of their business, from water used per unit of output to energy consumed per delivery mile driven. At the outset, this can be a challenge for newcomers, especially in areas where data is difficult to obtain or proper guidelines and standards are not yet established. Global guidelines and standards can be helpful and are widely used.
- **Tap into employee engagement—both internally, and across business partners.** Executives interviewed for this report cited the unexpectedly high levels of employee interest in their endeavors. Companies should tap into this enthusiasm, not only to increase engagement levels among staff, but also to gain access to new ideas and approaches at every level of the business. This can be extended to business and supply chain partners too.
- **Develop internal lessons into external products and services.** Firms with experience of optimizing their own businesses have found this to be a rich source of expertise that can in turn help develop new products, services or innovations for clients.

IBM for example is drawing on its decades-long experience of controlling and then preventing pollution to help inform and drive innovation in this area and develop services to offer to clients, such as its Smarter Planet proposition.

- **Explore other benefits that can be derived from action on sustainability.** Consider what other opportunities may result from actions on sustainability in your industry or market. Survey respondents have discovered a wide array of benefits emerging from their efforts. Aside from the improved resource efficiency, cost reductions and risk mitigation discussed in the report, other internal gains have included better relations with suppliers and partners, new products and services and more motivated employees. Externally, investor awareness may be improved, and new markets may open up as a result.

- **Benchmark and report progress.** One of the key objectives for many firms engaging with sustainability is the desire to enhance their brand. Accordingly, it is important to develop accurate and transparent reporting to be shared with a range of stakeholders, from potential investors and shareholders to clients and business partners. In order to provide a relative measure of how the business is performing, firms need to benchmark themselves against their industry peers. They can do so by reviewing industry metrics published through relevant organizations such as the World Business Council for Sustainable Development, or by sharing relevant data and best practices through industry bodies. This also helps to develop appropriate standards and benchmarks for particular industries.

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