Sustainability Strategy Transforms the Enterprise

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Capitalism is a dynamic system for creating economic value. It continues to evolve as the world changes. What once were considered externalities in the 20th century (side effects or consequences of industrial or commercial activities that affect other parties without being reflected in the cost of the goods or services involved) are being reconsidered in the 21st century. The focus now is on “shared value”—a new conceptualization defined by Michael Porter as the policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the social, environmental, or economic conditions in the communities in which it operates or is emerging. Creating shared value, far from being corporate philanthropy or social obligation, is now becoming understood as a key strategic pathway for revenue growth and durable profitability in the 21st century.

Over the past 10 years, the topic of sustainability has emerged as both a fundamental challenge and an important opportunity for strategic differentiation. In a recent study conducted by the United Nations, more than 93% of the 750 CEOs surveyed indicated that sustainability is important to their future success. Successful execution of a sustainability-focused strategy can achieve the promise of a triple bottom line: social performance, environmental performance, and financial performance. If Porter and others are correct, the challenge of achieving these outcomes—often referred to as “people, planet, and profits”—represents a business imperative that, inevitably, all organizations must address.

Amanco is one of the early successes of the sustainability movement and one of the first companies to successfully execute sustainability strategy using the Balanced Scorecard. Latin America’s leading manufacturer of plastic pipes and fittings, Amanco first introduced its sustainability scorecard in 2001. Initially Amanco focused on the social impact of its business on employees and the communities around its factories. But its sustainability scorecard has since been expanded to include conducting

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2 “A New Era of Sustainability,” UN Global Compact–Accenture CEO Study (2010).
business with low-income customers and fighting corruption in the sector, and now contains indicators for accident prevention and eco-efficiency.

Amanco was eager to find a way to clearly differentiate itself in a highly competitive and commodity-priced market. By focusing on the three dimensions of its bottom-line approach, it could successfully establish additional strategic “known fors” beyond being a low-price producer. The benefits include:

1. **Brand value.** Amanco established strong brand identity based on its sustainability differentiators (with emphasis on the social and environmental dimensions of its strategy).

2. **Market success.** Future market opportunities were seeded by supporting the economic success of new (small) customers whose success, in turn, brought larger customers, leading to new revenue opportunities over time.

3. **Cost savings.** Good environmental, health, and safety management saves money and contributes to increased margins.

Today, the parent corporation of Amanco (Grupo Nueva) continues this tradition. Its aim is to differentiate itself “through excellent social and environmental management, while always endeavoring to create economic value for [the Grupo Nuevo] companies.”

There are two prerequites for generating significant value from sustainability. First, firm leadership needs to demonstrate that sustainability is not just another initiative but is a new way of doing business that ultimately affects all key processes. Second, the strategy management framework must incorporate the social and environmental objectives as contributors to, and drivers of, financial performance; they should not be considered detractors. By integrating sustainability into its strategy management framework and understanding it as a differentiator and an enabler of business performance, Amanco is well equipped to achieve the triple bottom line.

**Building the Capabilities to Execute Sustainability Strategies**

Executing sustainability strategy, like executing business strategy in general, requires a disciplined approach. Although Amanco was an early innovator in the triple-bottom-line model, other firms have also successfully embraced the sustainability challenge and have developed rigorous approaches to the problem. Given the speed of change facing all global businesses, the question facing companies today is not whether to address the challenge of sustainability but when to do so.

Sustainability can be thought of as a thread running through the Kaplan-Norton six-stage execution premium process (XPP), with each stage playing a role. BSR readers of are already familiar with the general model. However, the transformative nature of sustainability requires new positioning of these stages. This work calls for an expanded set of capabilities to leverage the XPP for the purpose of successfully defining and executing sustainability strategy. The journey toward sustainability is potentially the most challenging—and most rewarding—opportunity of the 21st century. Figure 1 identifies the implications of sustainability for the XPP model.

**Stage 1. Develop the Strategy—Envisioning a New Future**

The first challenge leaders face in addressing sustainability is coming to terms with its potential impact on the business. Is addressing sustainability another cost to the firm and a potential drag on performance? Or is it a new source of competitive advantage and a driver of a potential earnings premium? The answer depends on a company’s scope of vision, and its ability to execute. Organizations such as Dow Chemical, Wal-Mart, General Electric, and many others are finding that sustainability is now a key enabler of their growth strategies, requiring very broad levels of engagement across their enterprise and business ecosystems.

The challenge firms face with respect to developing a sustainability vision is one of letting go of past beliefs so that leadership can see the future in a rapidly changing and resource-constrained world. It is relatively painless to establish a sustainability initiative that revolves around risk management and some enhanced operational efficiencies. But developing a broad-based sustainability vision—one that is deeply integrated with core business strategy and that becomes a driver of new revenues from sustainable product and service innovation—represents a serious challenge even for the most effective leaders. To establish such a vision at Xerox, the senior management team engaged in a series of long-range scenario planning exercises that allowed its top officers to better envision a future world in which they competed under a variety of conditions, ranging from business as usual to a state where the world had undergone fundamental shifts driven by social, economic, and environmental issues such as climate change and resource contention. That kind of experiential learning can help management see new opportunities as well as emerging threats.

In the rapidly growing case file of firms whose leaders have come to recognize what has been referred to as the “sustainability imperative,” it is common practice to establish long-range, sustainable business objectives that are beyond the
present capability of the firm to execute. Paul Polman, the CEO of Unilever, set his $60 billion global consumer products corporation on a mission in 2009 to double the size of the firm by 2020 based largely on transforming Unilever into a provider of sustainable products using innovative processes and new business models to deliver improved health, nutrition, and well-being to consumers around the globe. Although much has already been accomplished, many new solutions remain to be invented. However, Unilever publicly committed to the vision in its Sustainable Living Plan and has laid the groundwork for success through many years of building internal sustainability strategy execution capabilities.

Formulating strategies that can achieve breakthrough results requires engaging the extended enterprise of stakeholders (including employees, suppliers, customers, NGOs, and other interested parties) in the development of innovative ways of doing business. Engaging stakeholders in creating a “shared vision” requires a significant shift in thinking and behavior. Engagement with outsiders that were once adversarial can become an asset for developing sustainability vision and strategy. Partnerships between Wal-Mart and the Environmental Defense Fund, Dow Chemical and the Nature Conservancy, and The Coca-Cola Company and the World Wildlife Fund, once unimaginable, now demonstrate the power of partnerships to drive innovation and create shared value.

For example, Wal-Mart credits its dozen “sustainability value networks”—made up of NGO and academic sustainability experts, partners, suppliers, and internal operators—as critical to driving breakthrough solutions that simultaneously improve business performance and sustainability objectives. In almost all cases, this kind of transformational partnering on a new vision requires the CEO to personally make the case for change, explain the new business logic to insiders and outsiders alike, and drive home the point that achieving breakthrough performance requires everyone to get in the game.

**Stage 2. Translate the Strategy—The Need for New Analytic Frameworks**

The identification and achievement of transformational objectives to support the sustainability vision requires new and highly advanced analytic capabilities, beginning with those related to conducting full life-cycle analyses of all relevant impacts, such as environmental, social, and economic factors. It is a major challenge for most companies to establish a baseline for assessing sustainability impacts, let alone analyzing the life-cycle implications of water and energy resources alone is a significant undertaking. However, firms committed to realizing the full benefits of sustainability leadership must go beyond the basics to analyze the potential for new revenue streams, a new strategy. This is particularly true when the firm seeks differentiation on social and economic dimensions and desires to achieve enhanced revenue growth from new or reengineered products and service offerings and the positive brand impacts

**FIGURE 1: SUSTAINABILITY STRATEGY EXECUTION—A SPECIAL CASE OF THE GENERAL KAPLAN-NORTON MODEL**

The general Kaplan-Norton model for strategy execution—the Execution Premium Process (XPP)—includes six stages. The Lubin-Esty Model of Sustainability builds on this basic platform and identifies an expanded set of requirements that should be considered when executing a sustainability-focused strategy.

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<td>Identify the value gap between vision-based aspiration and current reality, and select a course of action to achieve the vision’s targets.</td>
<td>Reframe core business strategy built on a new shared vision incorporating social, environmental, and economic drivers of value creation.</td>
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<td>Identify and fund the strategic initiatives that help the organization achieve its targeted objectives.</td>
<td>Develop the new analytic frameworks and capabilities needed to discover opportunities and risks resulting from social, environmental, and economic factors.</td>
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<td>Stage 3: Align the Organization</td>
<td>3. Co-Create the Sustainability Strategy</td>
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<td>Align organizational units and employees with the strategy by communicating and cascading the strategy, and through compensation.</td>
<td>Deploy new “open” processes to co-create the sustainability strategy with customers, partners, regulators, and other stakeholders.</td>
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<td>Stage 4: Plan Operations</td>
<td>4. Implement the Sustainability Plan</td>
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<td>Ensure that resource capacity, operational plans, and budgets reflect the direction and needs of the strategy.</td>
<td>Ensure integration of sustainability into operational planning and management across the enterprise with active participation from all key external stakeholders.</td>
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<td>Conduct operational and strategy review meetings to assess whether, and how well, the strategy is working. Leverage feedback to monitor and adjust performance.</td>
<td>Establish transparent reporting capabilities—based on rigorous data management and analysis platforms—to share performance results with all relevant entities.</td>
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<td>Use the scorecard data to periodically assess whether the strategic hypotheses are valid. Modify and adapt the strategy over time.</td>
<td>Use multiyear planning horizons to set voluntary stretch targets that encourage breakthrough thinking and large-scale transformation.</td>
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often associated with them. To do so, they must develop appropriate consumer and customer segmentation models to better predict how investments in enhancing product and service sustainability attributes can translate into potential market share and/or revenue growth and profitability improvements.

Similarly, firms investing in employee engagement programs around sustainability, as many are doing, need to be able to forecast how increased engagement affects employee productivity and retention. Measuring these intangibles is a key capability for a firm wishing to integrate sustainability with core business strategy.

**Stage 3: Align the Organization—Developing and Deploying the Sustainability Strategy**

A desire to execute a defensive sustainability strategy that seeks to make incremental improvements in performance can most likely be managed within the existing strategy execution framework. But for firms determined to differentiate on sustainability and lead the market, aligning the organization around those breakthrough objectives while also performing well on the day-to-day sustainability goals is a serious challenge requiring new methods and capabilities. British Petroleum’s Beyond Petroleum strategy was a prime example. The breakthrough vision was there, but organizational alignment and commitment were not. As then-CEO Tony Hayward said before the Deepwater Horizon disaster, “Our problem is not with the strategy itself but with our capacity to execute.”

As sustainability strategy moves from incremental improvement to transformational change, requiring something closer to total company involvement, sustainability objectives must be cascaded down the chain of command and become managed as a part of each unit’s responsibility, with accountability for results flowing back up the chain. Resourcing of sustainability strategy must also be planned at the functional or business unit level so that goals are appropriate to the resources available and local ownership exists.

At higher levels of organizational maturity, the CSO’s key responsibilities are to ensure that the strategy is optimized and fully integrated into business planning processes, that the CEO and other C-level executives and senior managers remain engaged in the strategy, and that contention over resources is effectively managed. As sustainability objectives move from special initiative status to part of the firm’s way of doing business, more sophisticated responsibility and accountability models need to be put in place.

**Stage 4: Plan Operations—Implementing the Sustainability Plan**

To fully integrate sustainability and business goals, firms will need to establish policy and stewardship objectives for each of the major elements of their value chain, in effect, expanding sustainability management from R&D and product design to sourcing, supply chain, and logistics. Many sustainability leaders, such as Boeing, IBM, and Xerox, have established sustainability councils comprising key business and functional executives in the firm who are tasked with overseeing implementation across the firm’s value chain.

It is the responsibility of the CSO to ensure that value-creating processes, systems, and tools are in place to deliver results. Meeting the objectives of the strategy requires the CSO to effectively partner with management to recognize the need for new capabilities and to support their development. Unilever’s sustainability leadership team undertook such an effort with its Brand Imprint program. Unilever wanted to standardize a process for brand managers to understand and internalize both the positive and negative environmental, social, and economic effects of the production and use of Unilever’s products. Brand managers could then adapt their products based on a better understanding of how their products would be viewed by consumers, other stakeholders, and key opinion leaders. This structured evaluation and planning process has been a key factor enabling Unilever to develop its ambitious Sustainable Living Plan.

Organizations with more sustainability experience integrate their sustainability goals and objectives into standard operating procedures, including monthly, quarterly, and annual business review processes. GE, already famous for its rigorous approach to execution, applied the same values to its sustainability plans, with CEO engagement in quarterly scheduled reviews of all business units. Firms are also incorporating tools and systems to manage sustainability plans internally and co-manage sustainability across the extended enterprise of suppliers and partners, providing needed support to those parties both to advance their goals and to enable implementation. Wal-Mart’s efforts to develop shared plans, sustainability objectives, and sustainability scorecards with thousands of suppliers around the world brings the planning challenge to new levels.

In addition, some firms seeking higher-level performance objectives have modified their personal performance and review processes. For example, Dow Chemical asks all newly promoted senior managers to review their new unit’s existing sustainability objectives and update plans within

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90 days of taking office. This ensures personal commitment to implementation while keeping the objectives current.

**Stage 5. Monitor and Learn—Evaluating Sustainability Performance**

Firms seeking transformational objectives will need reliable performance information to support effective decision making. The infrastructure demands to support successful execution are just now being addressed by leading firms, as they put in place more coherent and structured sustainability management systems. In its role as sustainability innovator, IBM has developed an Environmental Management System that enables it to not only promulgate sustainability policy consistently across its enterprise but also effectively monitor performance and discover new best practices that can be successfully leveraged across business units and functions. Successful execution of sustainability strategy requires the same kind of commitment to fundamental data that we have seen in previous eras with regard to quality, customer management, and enterprise resource planning. Major corporate infrastructure providers such as Oracle, SAP, and IBM each have product initiatives aimed at supporting the systems requirements firms face as they scale up their sustainability programs.

Information access and transparency are prerequisites to achieving meaningful impact. The real results must be communicated to relevant internal and external audiences, including employees, customers, shareholders, and others. Failure to report in a transparent manner (whether by design or capability) undermines collaboration and stakeholder confidence. Firms that want to create value with sustainability must report initiative outcomes (internal performance improvement) as well as external impacts (social, environmental, and economic). Many “standards” efforts, such as the Global Reporting Initiative, have been working to establish comparability across firms and industries. These efforts, although still in their early stages, are critical for achieving transparency on a broad basis.

In addition, some CSOs are implementing their own internal assessments of their firm’s capabilities to execute. Does each department have sustainability goals? Are they measurable? Are they managed through a periodic review process? This kind of picture of the maturity level of the firm’s business units, departments, and key functions is a critical element of building implementation capability.

Firms that seek to create competitive advantage with sustainability often find that translating planned or realized benefits into terms the financial markets can comprehend is a particular challenge (and a great benefit when done well). As a firm’s approach to sustainability matures and is recognized for its efforts, it can begin incorporating sustainability performance indicators into standard quarterly and annual reports, demonstrating that it has gained a “sustainability premium” from the market. GE is one of the best examples of this approach. It reports data on sales from sustainable products to bolster analyst and stakeholder understanding of the potential impact. With revenues from sustainable products now in the range of $20 billion annually, and sustainable revenues significantly outpacing traditional product growth rates, it’s not hard to see how—and why—GE has positioned itself to generate a sustainability premium.

**Stage 6. Test and Adapt—Re-Envisioning Sustainability**

Coming back to our starting point—but now with a very different baseline—leading firms periodically renew their sustainability vision and goals, through a structured process to identify big (hairy and audacious) goals and milestones, as well as opportunities for breakthrough results. The periodic review of the vision and the strategy used to achieve it engages stakeholders by asking the key questions: Are we pursuing the right goals? At the right pace? With the right resources to achieve the desired outcomes?

**Dow Chemical’s 10-Year Stretch**

There was an initial adjustment period to Dow’s 2005 goals, when some people thought the goals might be a passing fad. But Dow’s 10-year goals became an important part of the firm’s identity, and employee pride became linked to the goals’ success. Dow’s strong reporting discipline and commitment to issuing annual progress reports to the public underscored the message to employees that the company was serious about reaching its goals. Because the goals became embedded in the company culture, they survived several top management changes. And the goals proved to have a strong return on investment (ROI). Dow saved more than $5 billion from a $1 billion investment.

For its next set of 10-year goals—the “2015 goals”—Dow wanted to continue its momentum by taking safety, energy efficiency, and protecting human health and the environment to the next level. Dow’s Sustainability External Advisory Council challenged Dow to use the 2015 goals to achieve significant breakthroughs that would move from self-improvement to world improvement. With 2015 now approaching, the results are clear: Dow has sustained the effort through broad-based engagement, both internally and externally, to shape its efforts for goal realization. This process allows Dow to renew the vision and successfully adapt to a changing world.
Leading firms that have integrated sustainability into their core business strategies undertake this re-envisioning process with the same intensity of purpose as the renewal of overall business strategy. This process is different from an annual review and forms the basis of the kind of multiyear, long-term goal setting that we referred to in the strategy development stage.

Dow Chemical is a case in point. Long-range goal setting is critical to Dow’s sustainability success. In 1996, the company announced its “2005 Goals,” an unprecedented approach that set voluntary stretch goals for environmental performance. The targets were bold: a 50% reduction in chemical emissions, a 75% reduction in emissions of priority compounds, and a 50% reduction in waste and wastewater. Embarking on long-range goals—as opposed to incremental, annual goals—encouraged breakthrough thinking at Dow and paved the way for transformation of the corporate culture.

Re-envisioning is a special case of adapting strategy. As leaders discover the potential and the peril of the sustainability imperative for their firms, they will come to understand that they need to do more than reduce waste, recycle, and reuse. Instead, they must rethink, reframe, and redesign the core value propositions that their firms deliver. As in the computer industry of the 1980s and 1990s, those who fail to prepare for persistent and fundamental business shifts—driven by the laws of nature—in combination with unceasing innovation, put their enterprises at great risk. Failing to see the opportunity for a sustainability premium will doom many firms to a loss of competitiveness and market position.

**Take Your Sustainability Strategy to the Next Level**

Organizations that treat externalities as factors outside the responsibility of the enterprise organizations often miss the opportunity to gain new advantage by creating a new shared vision and shared value. Such exclusion of externalities—the dominant mind-set of capitalists in the 20th century—has led to the widespread societal mind-set that embraces the need for increasing levels of regulation to protect the consumer, the worker, and the environment. By embracing the newly understood opportunity to do well by doing good, leading organizations will gain the advantage of creating shared value and will reinvent their position in the economy, in society, and in the physical world.

Getting ready to meet the sustainability challenge is leadership’s next big challenge and the driver of innovation. Is senior management committed to a sustainability vision? Is sustainability integrated with the organization’s business strategy? Does the organization have the analytic capabilities to identify opportunities and risks? Can the sustainability strategy be translated into the maps and measures needed to implement strategy? Is the organization capable of reporting about its current performance and progress? If there is a plan in motion, is the organization capable of re-visioning to meet the rapidly evolving demands of the sustainability imperative? These capabilities take several years to develop. The time to move is now.