



Measuring Sustainability: Best Practices



Measuring sustainability performance is top of mind for many business executives. Companies across industries struggle to get accurate data and define indicators that drive performance improvement in ways that are meaningful to business objectives and stakeholders. 2011 sustainability reports from benchmark companies such as Timberland and Nike attest to this, as carbon measurement is fraught with challenges. But good measures are possible and help sustainability become a concrete growth platform. As Unilever CEO Paul Polman said in a June 2012 Harvard Business Review interview on measuring his company's sustainability mission, "...this is not some foo-foo dust. It's hard-wired, and you get what you measure."

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CEO, Unilever

It Starts with Engaged Employees

In my work with companies integrating sustainability into their organizations, I've learned sustainability involves a focus on both the human element and the technical data. People drive measurable improvement in sustainability, whether it's profits, expansion, energy consumed per unit of product, colleague or community well-being. Sustainability is not simply a technical engineering project. A recent PBS documentary reported high value manufacturing jobs are returning to the US where our workers have embraced extraordinary efficiency, doubling the value of what Americans make over China. The engaged workers at the new Volkswagen plant in Tennessee are a great example. Machines don't innovate...what people do and how teams work together result in meaningful, measurable improvements.

What to Measure

What does this mean for sustainability performance measurement? Success requires measuring the organizational *activities* that drive improvement; it also requires measurement of economic, environmental, and societal performance *results* that are caused by these activities.

Institutional investors get this. The big investors have been surveying the social and environmental activities of firms since the 1970s. Our more recent research over the past 15 years suggests that business value - from cost savings to new revenues - are optimized by *activities* related to five core competencies:

1. Management Commitment - demonstrated commitment from the people at the top of the organization (Polman is a great example), and leadership encouraged in people throughout the organization. Policies and best practices that are formalized and observable in the daily work of employees.
2. Measurement – measures and indicators that report financial and non-financial impacts of business on communities of people and the finite natural resources available to us.
3. Innovation – use of natural system principles to re-design business process ahead of regulatory requirements. It begins with eco-efficiency or the practice of driving out waste from existing processes, but requires a step change to eco-effectiveness...accepting waste as fuel or food and changing products at the design stage.
4. Engagement - raising key stakeholder awareness and seeking input and two-way communication among employees, customers, and investors on emerging risks and opportunities.
5. Assurance - proof; internal audit and independent verification of product and process sustainability claims.

Today's investor rating systems such as Dow Jones Sustainability Index and FTSE 4Good actually measure company *activities* in these core competencies.

Sustainability requires attention to all five core competencies and they are interdependent. For example:

- **Innovation** happens when strong **commitments are made by people at the top**; otherwise employees fall prey to inertia and set performance expectations that are met without the slightest bit of stretch.
- **Measurement of results** is greatly enhanced by indicators that focus on priorities such as revenue growth and environmental impact reduction. That way, when tension develops between economic and environmental interests, it can be used to guide investment in innovation.

An Example of Leadership from Financial Services

Bloomberg gets it. Their 2011 sustainability report received accolades from the Corporate Register, a global reporting awards program. While operating revenues increased 24% over four years and employee ranks grew by 34% over the same period, their carbon emissions grew 11% per million dollars of revenue. Many executives have been here. Growth increases carbon emissions; it is inevitable. So what did they do?

- Committed to reduce their carbon footprint 50% by 2013 through a mixture of efficiency measures and supplemental purchases of renewable energy credits. Since 2008, they have held the line on business travel emissions from miles traveled at 2.32 metric tonnes of carbon emissions per employee.
- Reduced waste to landfill by 39%.
- Increased investment in renewable energy by 76%. (And these energy investments are expected

to achieve an ROI of at least 15%!)

- Increased dollars spent on sustainability-related projects 56%. These indicators integrate sustainability into the business.
- Reported 'yes' to establishment of new climate change products, green building policies, environmental supply chain management, and assurance through independent verification.

In short, Bloomberg's indicators measured *results* and *activities* that reflect the five core competencies. All-in-one handy table of indicators that could be read at a glance! A busy executive's dream.

Clear results to gauge progress and guide the path forward.

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Susan has published numerous reports and articles on environmental management and industrial ecology in environmental journals and on behalf of U.S. EPA. She obtained her Master of Science degree in Technology and Science Policy from Georgia Institute of Technology, and she holds a Bachelor of Science degree in Biology from Western Illinois University. She resides in Washington, D.C.

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