

**IBM Institute for Business Value**

# **Driving performance through sustainability**

*Strategy, synergy and significance*



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### **IBM Institute for Business Value**

IBM Global Business Services, through the IBM Institute for Business Value, develops fact-based strategic insights for senior executives around critical public and private sector issues. This executive report is based on an in-depth study by the Institute's research team. It is part of an ongoing commitment by IBM Global Business Services to provide analysis and viewpoints that help companies realize business value. You may contact the author or send an e-mail to [iibv@us.ibm.com](mailto:iibv@us.ibm.com) for more information. Additional studies from the IBM Institute for Business Value can be found at [ibm.com/iibv](http://ibm.com/iibv)

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By *Karen Butner*

**Enterprise sustainability** has shifted from a cost and compliance requirement to a growth play, according to an elite group of innovative leaders. Increasingly led by C-suite executives, comprehensive sustainability programs optimize resource consumption and environmental efficiencies, drive brand value, reduce risk and exploit growth through product and service innovations. For a growing number of companies, sustainability is serving as a key differentiator in the market, helping drive business performance and fuel top-line growth.

As business and industry leaders face the challenges of the twenty-first century, they are compelled by conscience, compassion and competitive necessity to consider – and act on – a broad range of socially responsible and sustainable programs. No longer just a matter of legal compliance or philanthropic generosity, enterprise sustainability today is a strategic business imperative.

A myriad of converging environmental and societal issues confront today's nations, cities, communities, businesses, industries, corporate executives and, indeed, each and every individual. In this world of increased instrumentation, interconnectedness and interdependency, there is a conscious and, for many, welcomed move toward the adoption of a more sustainable agenda.

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*Today, sustainability is a strategic business imperative.*

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This is not to say there is collective agreement as to how best to address challenges such as climate change; increasing demand for energy, water and other natural resources; and greenhouse gas emissions. Indeed, these are all complex issues without one-size-fits-all solutions. There is, however, agreement that businesses, organizations, governments, NGOs (nongovernment organizations), cities and communities *do* need to address these challenges. Steps taken that help reduce excess demand, eliminate waste and minimize inefficiencies are important. Increased adoption of practices that allow for reuse, recycling and repurposing is essential to reversing the continued depletion of finite natural resources and paving the way for a more sustainable future.

As savvy consumers become increasingly interested in learning more about a business's commitment and approach to sustainability, corporate policies and programs are being more closely scrutinized. Information about a company's track record and actions such as those pertaining to ethical behavior, community relations, health and safety programs, environmental protection, financial stewardship, and employee and supplier diversity is subject to broader consumer inspection.

Widespread consumer research and discourse increasingly demand that companies be held accountable for the credibility of the programs they espouse – and the conclusions consumers reach can have a direct impact on an organization’s brand strength and desirability.

Embedding effective sustainability within and among enterprises can provide numerous corporate benefits:

- Competitive differentiation and positive brand image
- Cost efficiencies in energy, water and waste management
- Potential for gaining share of new and growing market segments.

To ascertain the depth of today’s enterprise sustainability programs and practices, the IBM Institute for Business Value polled and interviewed 320 executives across a wide variety of industries and geographies. We asked about the strategies, plans and initiatives they are pursuing to further their sustainability agendas. We found that businesses have actually assimilated a much more strategic view of sustainability, with many executives starting to visualize and realize sustainability as a *growth strategy*. In fact, 37 percent of executives surveyed are utilizing sustainability as an opportunity and platform for growth, and a small subset of this group – which we call the innovators – has been particularly successful (see sidebar: Research overview).

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*Many executives are utilizing sustainability as a growth platform.*

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## Research overview

### Study methodology

IBM surveyed and/or interviewed executives at 320 global companies representing 26 industries in 31 countries. The primary industry represented was consumer products. Company sizes ranged from less than US\$ 1 billion (32 percent) to US\$1 to \$10 billion (49 percent) to over US\$20 billion (19 percent). Executive participation included Chief Sustainability Officers (14 percent), Vice Presidents of Sustainability (21 percent), Other C-Suite Executives (14 percent), Senior Vice President/Executive Vice President or General Manager (19 percent) and Directors (32 percent).

### Innovators

We identified a small group of leaders within our research population based on sustainability program maturity and the value achieved for the enterprise. Representing 8 percent of our survey population, these innovators, as we call them, boast advanced programs that implement sustainability-leading practices, realize tangible and measurable business benefits from these initiatives and, most important, gain new competitive advantage in their markets through sustainability-driven innovations. Sustainable enterprise innovators are an elite group with some common characteristics:

- Sustainability is core to their business strategy.
  - Their sustainability program is positioned for competitive advantage.
  - They have a comprehensive, “mature” sustainability program with an established management system and top-down organization and network alignment, scoring 47 and above on an index totaling 60.
  - They target, measure and monitor sustainability performance.
  - They achieve significant value in all areas of cost efficiency, risk reduction, brand and reputation enhancement, and growth, scoring 17 and above on an index totaling 20.
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Using our study data and analysis, we sought to identify best practices and effective strategies of those companies that are well on their way in their journey toward becoming a sustainable enterprise. We identified three guiding principles – which we have dubbed the three Ss of sustainability – to help companies either improve or spark their sustainability pursuits:

- **Strategy:** Establish a leadership vision and strategic alignment
- **Synergy:** Create a comprehensive program of cooperative action
- **Significance:** Implement a program that brings tangible value to both the enterprise and the world.

### Strategy: Sustainable leadership

CEOs and C-suite executives have long been accountable to a varied group of stakeholders, including their customers, employees and communities, as well as investors. In part due to continuing globalization and the complexities it brings, as well as the convergence of digital information, companies are under increasing pressure from these stakeholders to articulate and demonstrate a comprehensive sustainability strategy and program.

We believe it is paramount that leadership establish and communicate a sustainability vision supported by a well-defined strategy. Our research revealed that most companies are on a path toward articulating their vision, with more than half indicating they have a well-developed leadership vision for sustainability. They have assessed impacts, have identified issues and are measuring, monitoring, evaluating and communicating their strategies. However, only 40 percent have documented a detailed strategy that includes priorities,

objectives and assigned resources for accountability. Even fewer – 34 percent – are executing a plan with defined roles, processes and systems to implement their strategy.

But where does sustainability fit in the overall business strategy? Twelve percent of the companies in our survey do not have a documented sustainability strategy. Only 8 percent decouple sustainability from their business strategy, with their sustainability projects and initiatives being independent from the overall business strategic direction. Over a third of participants report a “loosely” integrated strategy, while 23 percent report their sustainability strategy is aligned with the overall business strategy. The rest, our innovator group, consider their sustainability strategy to be core to their overall business strategy.

Regardless of how it fits into the overall business strategy, a successful sustainability program must have the right level of leadership attention and commitment. We found many companies do indeed have appropriate executive sponsorship. Forty-three percent of respondents indicated their programs report to the CEO office, reflecting the program’s importance to the overall health and wealth of the enterprise. In these cases, the CEO’s role is to provide a strong leadership voice – to set the direction and tone of the overall program and create the “license” or call to action. The CEO works hand-in-hand with the Chief Sustainability Officer (CSO) or other executive in charge of sustainability to articulate the vision, agenda, goals, targets, execution plans and performance achievement to the board of directors and internal and external stakeholders.

## Case in point

### *L'Oréal designs and executes sustainability strategy at its best*

In the context of new and emerging legislation, rising societal expectations and worldwide environmental and health concerns, sustainable and responsible innovation is a priority for L'Oréal. L'Oréal's executive leadership team wanted a comprehensive environment management strategy that would outline the company's commitments to the development, production, distribution, and sale of innovative products of the highest quality in an ethical manner. It sought to minimize the company's impact on the environment and guarantee the safety and health of its employees, customers and communities. The strategy focuses on multiple sustainability initiatives that span product and distribution operations, including:

- **Carbon dioxide emissions:** Set a goal to halve carbon dioxide emissions by 2015 by looking for savings in every part of the business and beyond, from energy use to products in use, from raw materials to transportation, and from suppliers to the production line.
- **Water:** Implemented a formal water conservation program to reduce total water use and increase eco-efficiency.
- **Waste and recycling:** Created a waste reduction program with the long-term goal of achieving zero waste to landfill. Current target is to reduce waste per finished product by 50 percent by 2015.

- **Sourcing:** Strategically manage raw materials to conserve precious ingredients for the future; protect biodiversity; and reduce adverse effects on the environment, health and quality of life.
- **Supplier relations:** Forge long-term relationships with suppliers that focus on mutual respect, transparency, regular communication and high standards.
- **Packaging:** Implemented a program that has made significant progress in reducing the environmental footprint of packaging in recent years.
- **Sustainable buildings:** All new major construction and significant renovation projects are required to meet Leadership in Energy and Environmental Design (LEED) standards or equivalent local certifications.
- **Transport:** Operations teams are located as close as possible to the markets they serve for greater efficiency in logistics and transport.

The company's sustainability strategy has shown results, with many external reports and agencies placing L'Oréal high in sustainability rankings.

***"Sustainable consumption is a shared responsibility between industry and all of its stakeholders."***

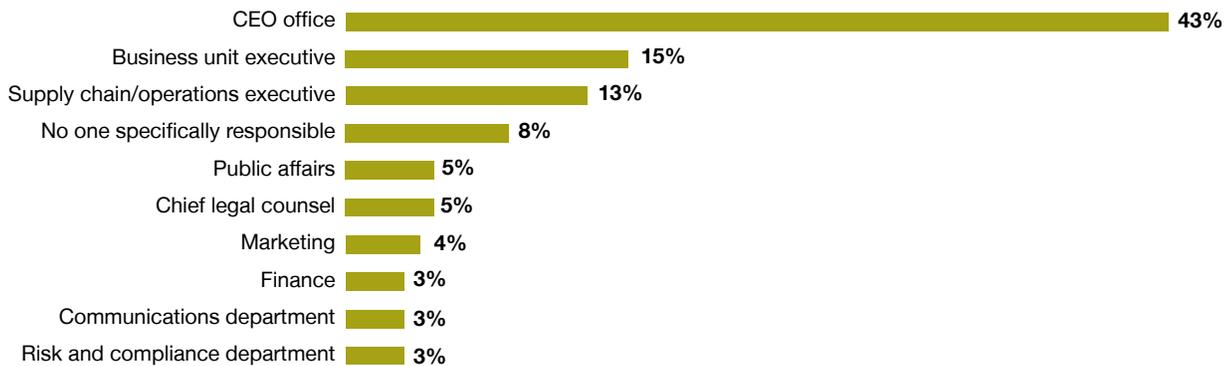
Francis Quinn, Director Sustainable Development, L'Oréal

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Almost half of the companies in our study have a CSO or an executive with equivalent responsibility orchestrating their programs and initiatives, and this function, in general, reports to the CEO office (see Figure 1).

The CSO's key role is to ensure that the sustainability strategy is optimized and fully integrated into the business planning process, the CEO and other C-level executives and senior managers remain engaged, resource and plan contention is

### Where does the primary sustainability function report in the organization?



Note: Numbers do not total 100 because of rounding.

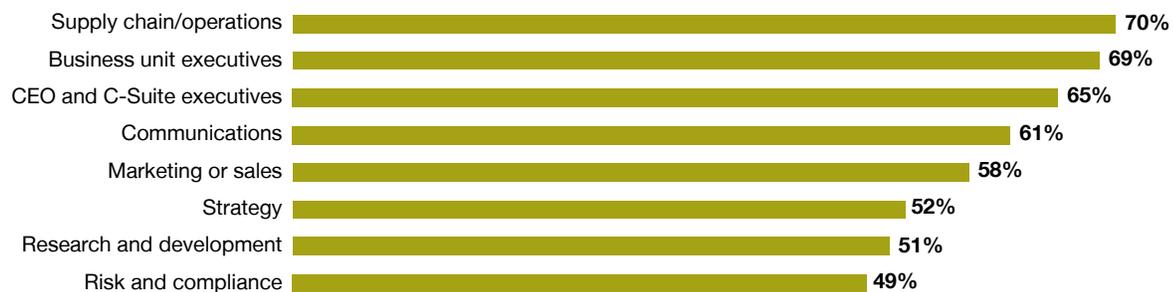
Source: 2011 IBM Institute for Business Value and Esty Environmental Partners Sustainability Research Study.

Figure 1: Leadership commitment.

effectively managed, and appropriate responsibility and accountability models are in place. In addition to strategic alignment of the C-Suite and business unit executives, most programs involve an array of cross-functional expertise, the most common being supply chain/operations, followed by

communications, marketing or sales, strategy, research and development and, of course, risk and compliance (see Figure 2). The CSO needs to continue to evangelize the program until sustainability is part of the fabric of the enterprise with participation across the organization.

### What parts of your organization participate in your sustainability program?



Source: 2011 IBM Institute for Business Value and Esty Environmental Partners Sustainability Research Study.

Figure 2: Organizational alignment.

**Innovators standout on strategy**

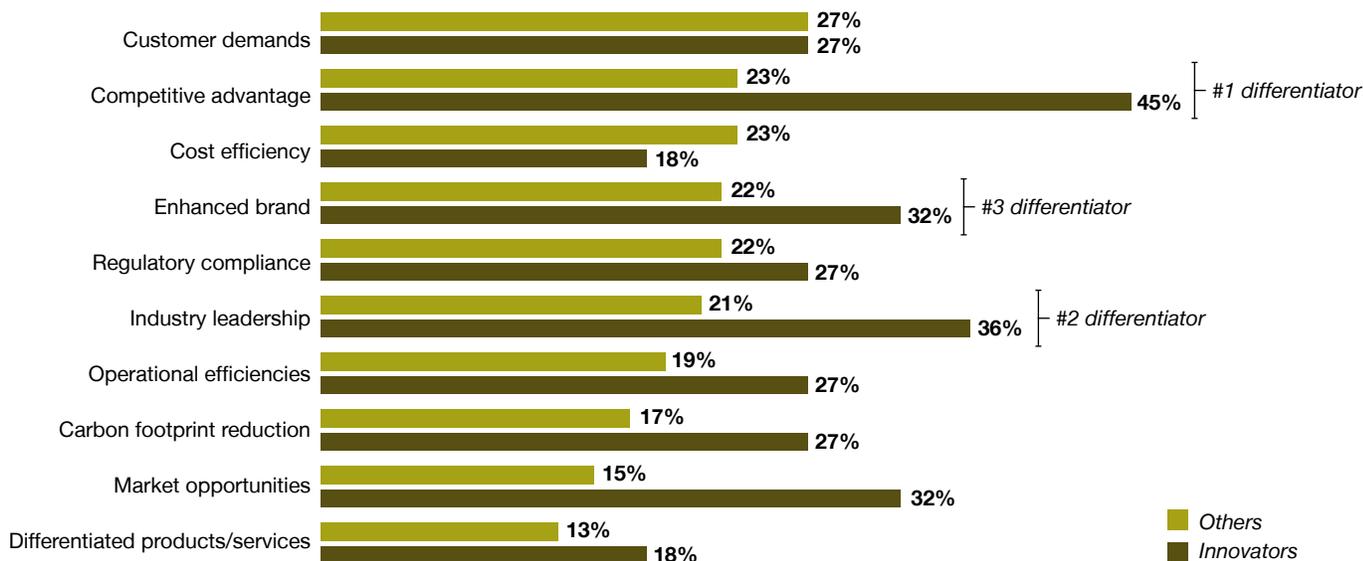
The innovators indicated that their sustainability strategy is *core* to their overall business strategy. When asked about the strategic objectives of their sustainability programs, innovators most often cited competitive advantage, followed by industry leadership and enhanced brand (see Figure 3). For the rest of the population, the top response was customer demand, followed by competitive advantage and cost efficiency.

The innovators strive to become industry leaders, and they focus on innovative sustainable practices to achieve this goal. Their priorities focus on environmental challenges (61 percent), social challenges (49 percent) and outside-the-enterprise broader economic challenges (40 percent).

Many innovators are involving stakeholders in their sustainability activities, communicating their plans and proffering their strategies as a tool to recruit new employees. Many are engaging the extended enterprise – including customers, suppliers, partners, NGOs and other interested parties – in the co-creation of innovative sustainability strategies. In addition, realizing the importance of goal setting, innovators monitor their performance against clearly articulated goals, targets and measures and report their successes to employees, customers, business partners and shareholders.

Our innovators understand that a sustainability strategy is the foundation that supports a comprehensive program and true value achievement. Innovative companies – those leading the way with well-developed strategies – articulate a sustainability vision and accompanying strategy that are core to the overall business strategy and position them for competitive advantage.

**What are the strategic objectives of your sustainability strategy?**



Source: 2011 IBM Institute for Business Value and Esty Environmental Partners Sustainability Research Study.

Figure 3: Strategic objectives.

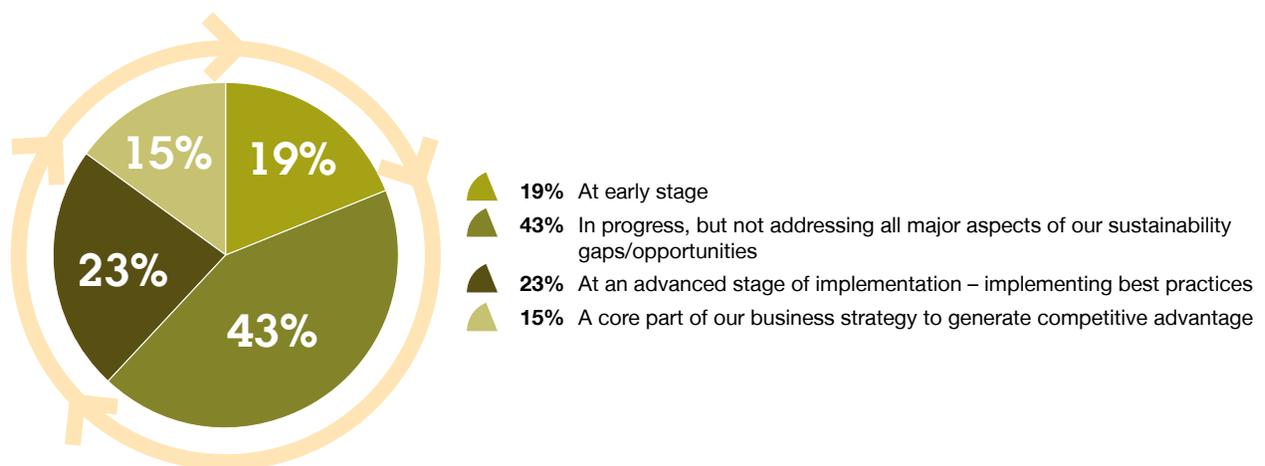
### Synergy: Sustainable cooperation

Our research indicates that companies are at varying levels of progress in their sustainability programs. Some are just starting their journey (19 percent), while close to half (43 percent) have sustainability programs in progress but are *not* addressing all aspects and opportunities. A quarter of participants have advanced programs and report that many of their initiatives are at advanced stages of implementation, including incorporation of “best practices.” A few leaders – 15 percent – report that their overall sustainability program is a *core* part of their business strategy designed to generate competitive advantage (see Figure 4).

Overall, most companies (94 percent) are focusing their programs and initiatives on reducing environmental impact. This includes energy reduction, water management, waste management, and green-house gas (GHG) emissions management. Understanding the evolving environmental regulatory landscape is important to them. They are implementing these eco-efficiencies with an objective to reduce costs. They are also improving the environmental footprint of existing products and services through repackaging and product design.

Organizations around the world are implementing environmental improvement efforts (see Figure 5). Similar to those in other regions, Asia Pacific companies are focused on implementing programs to reduce environmental impacts of energy and water demand, greenhouse gas emissions and waste generation. Their next priorities concern implementing cost-cutting eco-efficiencies.

European companies’ initiatives share these same practices with Asia Pacific, with outstanding consideration on improving the environmental footprint of their products and services. This extends across the entire lifecycle of product design through end of life. Current attention is also on setting organization structure and governance models. Also, as in North America, there is a strong emphasis on programs that include measurement targets, scorecards and performance criteria evaluation.



Source: 2011 IBM Institute for Business Value and Esty Environmental Partners Sustainability Research Study.

Figure 4: Stages of sustainability programs.

## Case in point

### *Johnson Controls reduces greenhouse gas and reinvents its product line*

A Global 200 company with 140,000 employees in 150 countries, Johnson Controls faced pressures, both external and internal, to address its greenhouse gas (GHG) emissions footprint. The company recognized that this issue represented an opportunity to show sustainability leadership, while fundamentally changing its product strategy, as well as how it interacts with its value chain ecosystem.

The company began a concerted effort to compile and report its GHG data. Johnson joined the U.S. Environmental Protection Agency's (EPA) Climate Leaders program and made improvements to its measurement program. Tracking GHG data, however, was just the beginning – Johnson knew it had to act on the data as well.

Johnson Controls embarked on a comprehensive GHG emissions reduction strategy that focused on its buildings, fleet, manufacturing processes and technology. In 2007, Johnson Controls submitted the inventory of its U.S. GHG data to EPA's Climate Leaders for audit and then announced a commitment to reduce its U.S. greenhouse gas intensity (GHG emissions per dollar of revenue) by 30 percent from 2002 to 2012. Climate Leaders deemed this goal sufficiently aggressive, and Johnson Controls became a "Climate Leaders Goal Setter." Johnson Controls further demonstrated its corporate-wide commitment by extending the same 30 percent GHG intensity reduction target across its global operations, a goal the company achieved in 2008.

In 2009, Johnson Controls made an additional 30 percent GHG intensity reduction target for its global operations from 2008 to 2018 and expanded the scope of its sustainability

plan to address emissions associated with the company's supply chain. In alignment with its own vision, the company expects its suppliers to conduct business in a safe, sustainable manner, including issues related to human rights, working conditions, employee safety and energy management. Suppliers are invited to respond to the Carbon Disclosure Project and are surveyed to generate a sustainability rating, giving Johnson Controls a method for measuring and tracking the sustainability activity and compliance of its supply base.

Upon becoming exceptionally adept internally at tracking and acting on GHG considerations, Johnson Controls saw the opportunity to make sustainability central to its product offerings. In 2008, Johnson Controls acquired PWI Energy and began offering its internal Energy and Emissions Management System to customers to help them reduce costs, reduce energy use and report their own GHG emissions. Today, sustainability is marketed as a central feature of almost every product the company promotes.

***"Many of our customers, in both the public and private sectors, are asking us to help them achieve their sustainability goals in a comprehensive and cost-effective manner. Our early focus on sustainability management and reporting; our global capabilities in performance-based energy services and technology; and our expertise in measuring, managing and verifying energy-savings projects help us be a valued partner to environmentally conscious organizations around the world."***

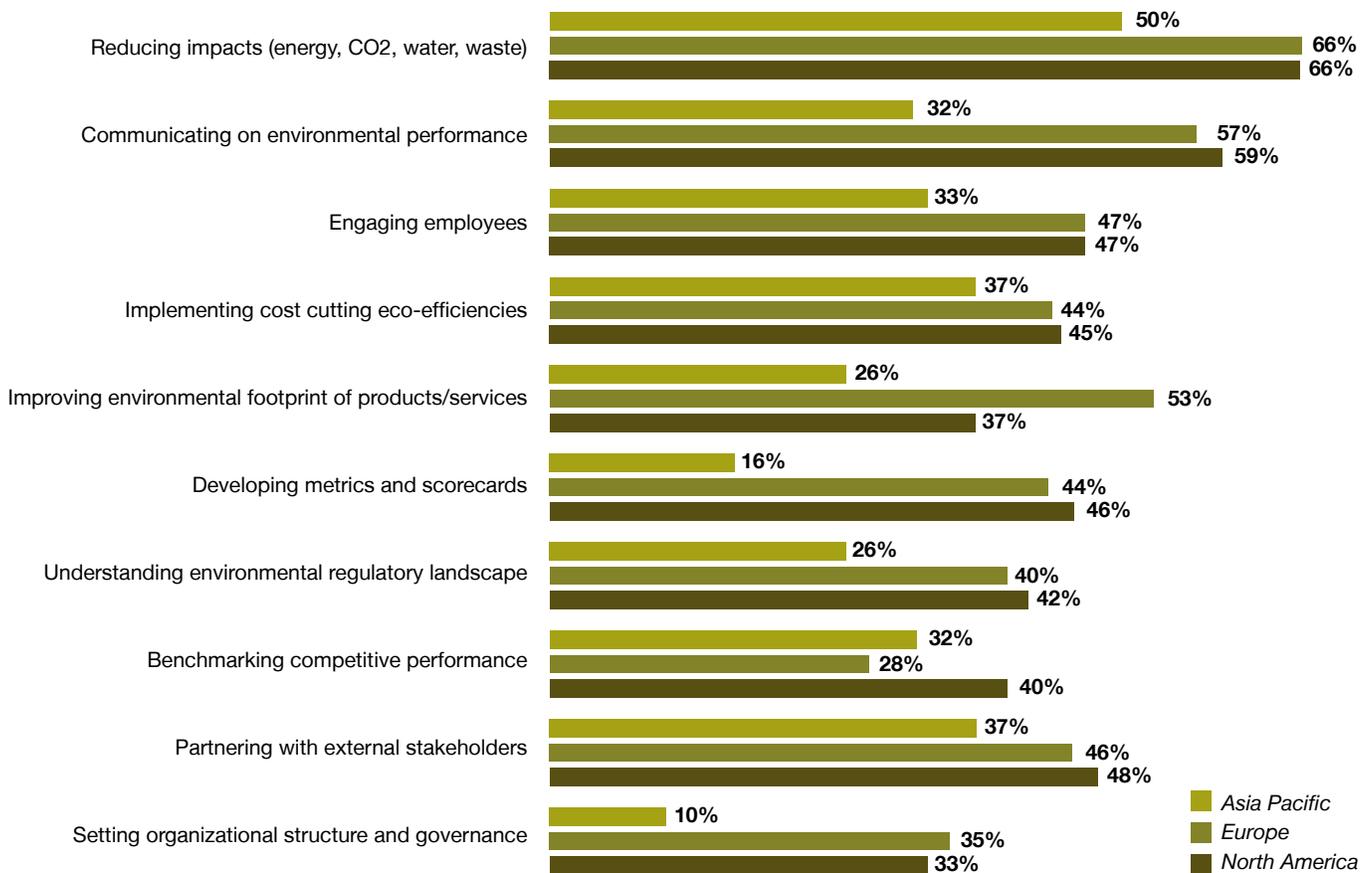
Clay Nesler, Vice President, Global Energy and Sustainability, Johnson Controls

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If we dig deeper into the primary concern of reducing environmental impacts, North American companies are focused on understanding the environmental regulatory landscape. The reach in North America is also greater, including communicating performance to stakeholders, engaging employees and partnering with value chain stakeholders.

With all of these programs, monitoring and measurement are key. While an aspirational goal can be set through a vision statement, detailed strategy and associated program plans are required to help ensure the execution of specific targets. Many companies are embracing a comprehensive monitoring and measurement agenda, but there is generally room for improvement.

**To what extent have you implemented the following sustainability practices? Top 10**  
*(Respondents who answered "significant")*



Source: IBM Institute for Business Value.

Figure 5: Global implementation of sustainability practices.

Most companies in our study (82 percent) are measuring their initiatives to reduce resource demand and environmental impacts (energy and water use, carbon dioxide emissions, waste generation). Other high-ranking categories for measurement include cost-cutting eco-efficiencies (72 percent), communicating and reporting on environmental performance (71 percent), and improving the environmental footprint of existing products/services through repacking or recycling (60 percent). Only about a third of our survey participants are measuring the effects of marketing and branding initiatives and managing social and supply chain risks.

Sustainability monitoring and measurement systems should not exist alone on an island. Goals and targets should be set in the planning phases, and each sustainability initiative must be measured against targets and evaluated not only for its impact on sustainability but also benefits to business.

For example, a global aeronautics manufacturer's environmental health and safety team executed a comprehensive measurement and management system that uses a strategy map to highlight relationships in key business processes and their impact on one another. In addition, the team determined specific metrics for each initiative that roll up into the larger strategy map. It also weaved key performance indicators into the corporate measurement and reporting system, aligning the metrics to strategic goals, clarifying the relative weighting and assessing performance to target. This process helps align initiatives with resources and helps ensure they support objectives and goals to achieve the full benefits realization of the sustainability transformation.

### **Innovators standout on synergy**

Innovative leaders clearly stand out from the crowd. They have a comprehensive sustainability program that provides *synergy* to the enterprise, employees, customers, trading partners and the environment. Figure 6 illustrates the overwhelming extent to which these leaders embrace all aspects of sustainability. Their top initiatives (with 90 percent and above citing significant programs) include:

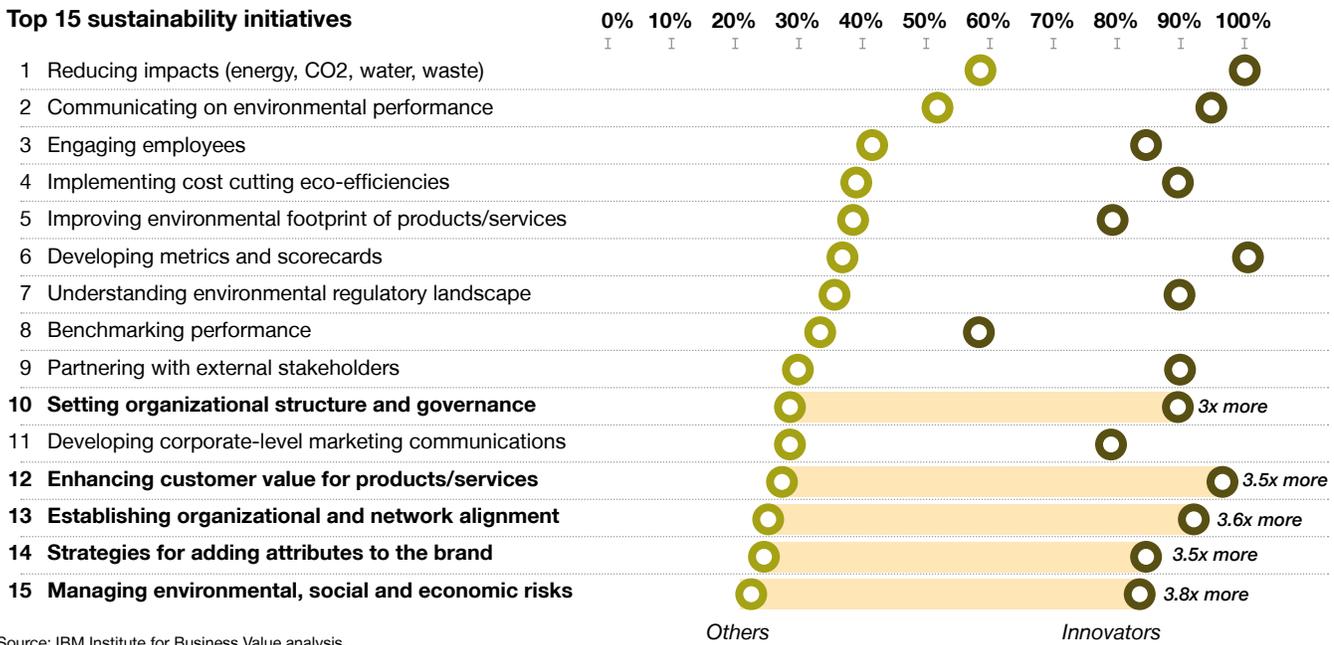
1. Reducing resource demand and environmental impacts (energy and water use, carbon dioxide emissions, waste generation)
2. Developing metrics, scorecards and measurement systems
3. Incorporating sustainability benefits into the customer value proposition
4. Communicating and reporting on environmental performance
5. Setting organization structure and alignment for sustainability management
6. Implementing cost-cutting eco-efficiencies
7. Improving the environmental footprint of existing products/services
8. Understanding the environmental regulator landscape.

These leaders embrace a comprehensive and synergistic set of initiatives, but what is really interesting is the degree to which the innovators lead the charge. Among their top differentiators are managing risks and establishing organizational and network alignment. In fact, innovators are over three and a half times more likely to have implemented such initiatives. They are also adept at incorporating sustainability benefits into the customer value proposition and developing strategies for adding attributes to the brand.

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*Accurate metrics and scorecards can facilitate the execution of specific sustainability targets.*

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Source: IBM Institute for Business Value analysis.

Figure 6: Top sustainability initiatives.

Another area of differentiation is setting organizational structure and governance. Innovative leaders make sure that the board of directors, the CEO and C-suite executives – led by the Chief Sustainability Officer – are setting the sustainability agenda and are aligned on key priorities, goals, targets and progress. They have a formal *management system* of governance and reporting structure to their shareholders, their customers and the public. In addition, they understand that employee engagement is critical, and they are also keen on partnering with external stakeholders (e.g., suppliers, service providers, NGOs). Many are collaborating to co-create their strategies and program charters.

All of the innovators are stringent in developing key sustainability performance metrics, creating scorecards and regularly reporting the status of their programs to executive management. They set targets against goals and have an integrated reporting system that includes value statements of the environmental, financial and brand impact of their efforts. In addition, innovators excel in their communication efforts. They strive to establish organizational alignment, as well as engage and communicate with their employees, value chain network partners and customers. They also develop and implement broad corporate-level sustainability marketing and communications initiatives, communicating with and educating their stakeholders to promote their sustainability agenda.

Many companies have shifted their thinking about what it means to be environmentally and socially responsible. The innovators, or leaders, clearly see the importance of a comprehensive, synergistic program that delivers multiple value streams, including cost reduction, risk reduction, brand and reputation enhancement, and growth opportunities.

### Significance: Sustainable value

Successful sustainability programs can reap benefits for the environment, as well as the enterprise and its customers. In fact, a surprising number of companies regard sustainability as a platform for growth and differentiation:

- Over two-thirds of the business leaders polled and interviewed are focusing on sustainability initiatives to create new revenue streams.
- Over half believe that their companies' sustainability activities are already giving them an advantage over their top competitors.

Companies are beginning to see that when sustainability initiatives are aligned with business objectives, they can bring competitive differentiation; permission to enter new markets; and favorable employee, customer and value chain positioning. They can also contribute to cost savings. Many sustainability initiatives, including those that reduce energy consumption or benefit the environment, can help reduce overall cost structures and help increase productivity.

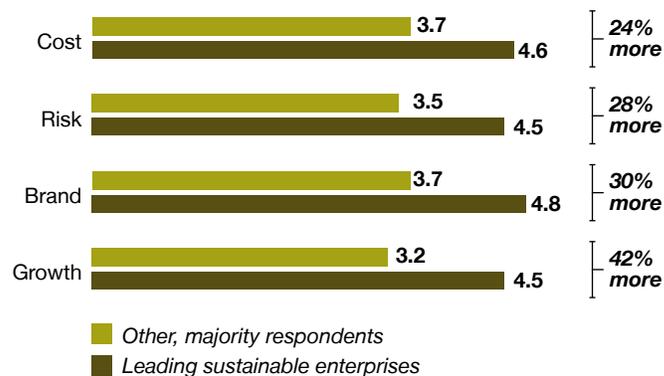
Successful sustainability efforts can also lead to competitive differentiation and innovative ways to grow the business. Many companies are adding specific sustainability attributes to their brand by introducing new products, packaging and labels that underscore brand conscience and enhance the customer value proposition. In fact, 81 percent of the companies in our study are implementing initiatives to support creative customer value propositions.

### Innovators standout on significance

There is consistency in how sustainability leaders establish their top objectives and what they measure. Top sustainable enterprises measure cost cutting eco-efficiencies; the impacts of energy, water, GHG emissions and waste management programs; and the environmental footprint of existing products throughout their lifecycle, including repackaging, recycling and refurbishment.

Looking at the overall significance or value achievement, we found that the leading sustainable enterprises – the innovators – enjoy 24 percent better returns on sustainability efficiency and cost reduction initiatives and 28 percent better scores for risk management (see Figure 7). But the real story here is in branding, the customer value proposition and growth. Leading sustainable enterprises achieve 30 percent greater results from their branding initiatives. Moreover, consumers in some emerging economies are just beginning to form opinions about many global companies, making the enterprises' brand and reputation key factors for future growth.

**On a scale of 1 (low) to 5 (high), how would you rate the value or significance of your sustainability initiatives on cost, risk, brand and growth?**



Source: IBM Institute for Business Value analysis.

Figure 7: Leading companies – innovators – achieve significant value.

Many companies already regard sustainability as a platform for growth and differentiation, and some leaders see it as an entry point into new markets and partnerships. According to our calculations, which were based on survey responses, leading sustainable enterprises achieved significantly more growth than others from their initiatives to include sustainability in new, revenue-generating product/service innovations – in fact they were 42 percent more successful.

These innovative leaders realize that a comprehensive sustainability program offers significant value to the environment, customers and the enterprise itself. Sustainability activities can have a positive environmental impact and – at the same time – lead to increased growth opportunities for the company and new products and services for customers.

## Case in point

### *Verizon reduces environmental impact*

Verizon is addressing sustainability from two directions: Its own carbon footprint and new ways the company's broadband technology can help customers be more energy efficient and reduce their own carbon footprints.

Verizon is working to reduce its own environmental footprint by minimizing the impact of its buildings, operations and vehicles:

- Pursuing energy efficiency certifications for its buildings – 109 buildings have been certified through the U.S. Environmental Protection Agency or U.S. Green Building Council through 2010.
- Increasing the number of alternative fuel vehicles in Verizon's fleet with a goal of having 15 percent of its fleet powered by alternative fuels by 2015.
- Reduced fuel usage by more than 9.7 million gallons in three years – which has saved more than 85,000 tons of carbon dioxide.
- Established a new metric to measure carbon intensity so the company can increase the efficiency of data moving through its networks.

The company's main goal is to make sustainability an integrated part of how its employees do their jobs every day. Verizon is also committed to providing sustainability-enabling products and services for its customers. The company:

- Launched two ENERGY STAR certified set-top-boxes for its FiOS video services in 2010. These boxes are at least 30 percent more energy efficient than previous models.
- Launched eco-friendly cell phones and accessories, including the world's first certified carbon free smartphone – the CITRUS.
- Expanded its portfolio of smart network solutions such as video conferencing, smart grid and cloud computing.
- Is partnering with entrepreneurs and suppliers through Verizon's Technology Innovation Center to embed next-generation wireless capabilities into machine-to-machine applications, many of which are specifically designed to optimize energy efficiency.

***“When it comes to sustainability, Verizon leads by example. We consistently take a 360-degree view of our processes, our people and our products to improve our actions when it comes to our impact on the environment.”***

James Gowen, Chief Sustainability Officer, Verizon

## Conclusion

We believe three key sustainability principles can assist all organizations in achieving – or improving – competitive advantage and industry leadership:

1. Develop an integrated *strategy* with leadership commitment and an innovative vision.
2. Implement a comprehensive program for economic, environmental and network *synergy*. The whole is much greater than the parts. Set targets and measure and manage performance.
3. Realize the *significance* of the value that can be achieved in reducing costs, avoiding risk, increasing the brand value and driving enterprise growth. Intangible value, such as that associated with brand image or relationships, further increases the significance.

As it is with all corporate policies, programs and practices, there will be leaders and there will be laggards. In today's complex, rapidly evolving global market place, proactive early adopters of a value-oriented comprehensive approach that embraces the principled elements of sustainability can help drive new levels of effectiveness and efficiency.

Sustainability initiatives can yield real and rapid value, including the potential for improvements in resource efficiency, risk mitigation, brand enhancement and revenue growth. But to achieve long-term value, enterprises need to execute a well thought out plan to drive their transformation to becoming a *sustainable* enterprise.

## Call to action

We have learned from our innovators and the various case study examples included in this report that many enterprises are making great strides in their comprehensive programs with value-based goals and results. As you reflect on your enterprise's progress in its journey to becoming a sustainable enterprise, we suggest you consider the following questions:

## Strategy

- Is your company's sustainability strategy and program directed by a C-level executive (Chief Sustainability Officer or equivalent)?
- Does this executive report to the CEO office and, ultimately, the board of directors?
- Is the sustainability strategy a core part of the overall business strategy and used as a differentiator for competitive advantage?
- Is there organizational alignment on sustainability initiatives, with accountabilities, resource plans and target commitments?
- Does your company have a formalized public sustainability report or Web site? Are sustainability attributes added to the brand through public reporting, advertising and full product disclosures?

## Synergy

- Are product and service lifecycles designed for sustainability – from packaging to disposal?
- Are your company's processes optimized, applying lean sigma principles?
- Are you using advanced analytics to model energy efficiency and impact? Do you use predictive analysis for environmental impact management?
- Do you have "smarter buildings" for resource efficiency and "green data centers" for IT efficiency?
- Do you optimize transportation and travel for GHG emissions reduction?
- Have you reengineered manufacturing processes and supplier compliance for water, energy and waste reduction?

## Significance

- Do you set targets, measure success and monitor performance to plan?
- Are you implementing cost-cutting eco-efficiencies – reducing the impacts on energy, carbon dioxide, water and waste?
- Do your strategies and initiatives include adding attributes to the brand?
- Are you managing environmental, social and economic risks?
- Is your sustainability program positioned as a platform for growth and differentiation?
- When it comes to sustainability, is your company an innovator?

The journey to becoming *and remaining* a sustainable enterprise is evolutionary in itself and requires continuous commitment and revision to remain relevant (see sidebar, Case in point: IBM's long-standing commitment to environmental leadership). Many companies have comprehensive strategies

and programs underway, as evidenced by their corporate sustainability reports, annual reports and specialized Web sites. However, enterprises are at varying levels of sustainability "maturity" – some are starting their journey, while others have achieved advanced, sophisticated programs.

### Case in point

#### *IBM's long-standing commitment to environmental leadership*

IBM's environmental policy objectives address topics from workplace safety, pollution prevention, energy conservation and smart buildings to product design for the environment and the application of IBM's expertise to help address some of the world's most pressing environmental problems. This comprehensive environmental affairs policy is supported and implemented by a global environmental management system (EMS) that governs IBM's operations worldwide.

The EMS integrates the company's various environmental requirements, incorporating specific mechanisms for setting environmental policy, strategy and planning; implementation and operation; measuring and monitoring; and management review. Such efforts helped IBM become the first major company to obtain a single global registration to the International Organization for Standardization's ISO 14001 in 1997.

Also committed to working with environmentally responsible suppliers, IBM introduced its supplier environmental evaluation program in 1972. In 1998, IBM explicitly encouraged suppliers to align their environmental management systems with ISO 14001 and to pursue ISO registration. And in 2004, IBM published its Supplier Conduct Principles to articulate the company's supply chain social and environmental requirements. In 2010, IBM issued new requirements and objectives, calling for suppliers to deploy a corporate responsibility and environmental management system, measure performance and establish voluntary environmental goals, publicly disclose performance results,

and cascade this set of requirements to their own suppliers that perform work material to products and services supplied to IBM.

Similarly focused on promoting energy efficiency across the hundreds of facilities that support its global operations, IBM has taken a leadership role in implementing energy conservation and building management practices. For example, using a solution that integrates asset and service work-order management with energy and sustainability management analytics, IBM's Rochester, Minnesota, campus realized an estimated 5 percent year-over-year incremental energy savings, an 8 percent annual savings from equipment operating costs (based on pilot program observations), improved asset reliability, longer asset lifespan and decreased operational costs.

IBM's proactive environmental and sustainability initiatives have served the company well, further illustrating that strong environmental leadership fosters business efficiency and effectiveness.

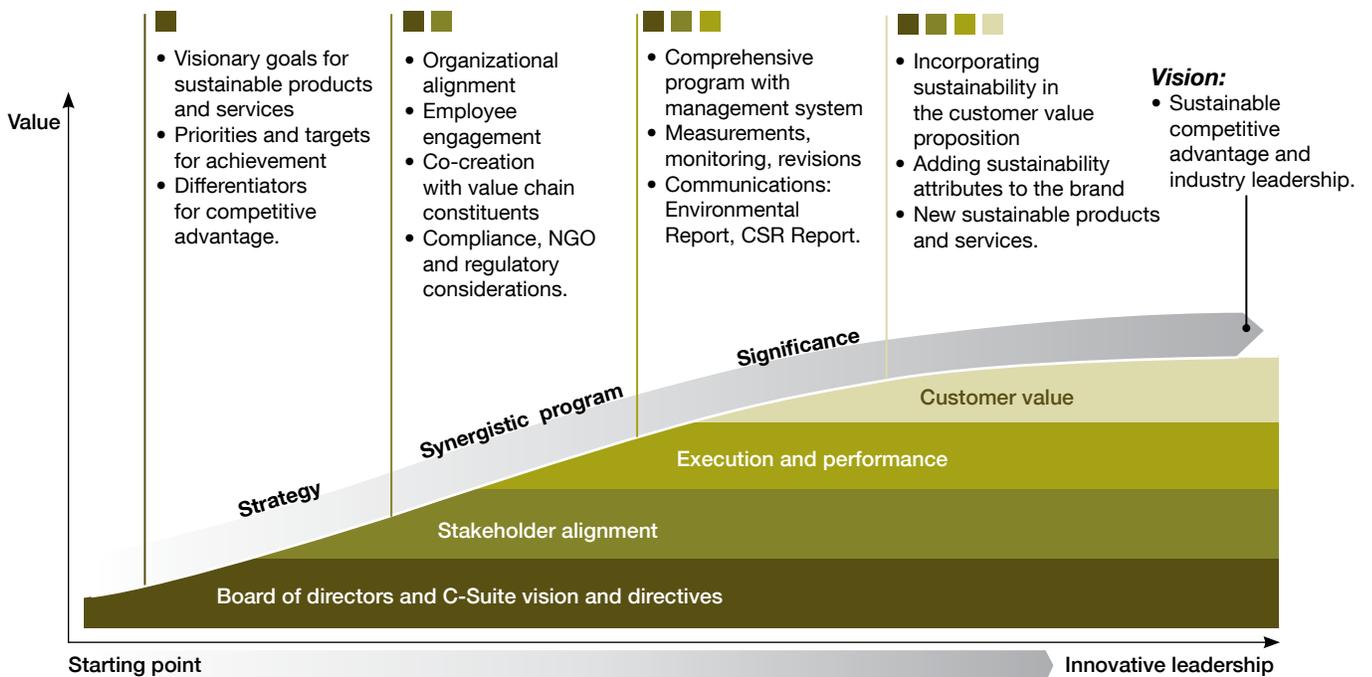
*"We pursue innovation that matters, for our company and for the world. It is one of our core values. And it means more than just creating and building great products. It involves how our work can help people and societies to thrive. So when it comes to the environment, our interest is in strategic innovation that fundamentally improves the way business and the world work – and benefits its people."*

Wayne Balta, Vice President, Corporate Environmental Affairs & Product Safety, IBM, 2008

Sustainability leaders are realizing tangible and measurable business benefits from initiatives to improve environmental efficiencies. In addition, they are communicating their programs and performance, aligning their stakeholders from associate employees to value chain partners, and – perhaps most important – increasing customer value (see Figure 8).

To learn more about this IBM Institute for Business Value study, please contact us at [iibv@us.ibm.com](mailto:iibv@us.ibm.com). For a full catalog of our research, visit [ibm.com/iibv](http://ibm.com/iibv).

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Source: IBM Institute for Business Value analysis.

Figure 8: The journey to a sustainable enterprise.

### About the author

Karen Butner serves as the global sustainability and supply chain management research director for the IBM Institute for Business Value. Karen is the architect and author of the “IBM Global Chief Supply Chain Officer Study: The Smarter Supply Chain of the Future” and has authored numerous publications on sustainability. Karen is frequently invited to speak at international venues and is widely quoted in leading business and industry publications. She can be reached at [kbutner@us.ibm.com](mailto:kbutner@us.ibm.com).

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