Incorporating Sustainability into Strategy

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How integrating sustainability practices into your corporate structure helps boost business, enhance the company image and save costs

Over recent years, mainstream media has reflected the increasing shift in mindset towards “the green agenda”, “sustainable lifestyles”, and “environmental responsibility”. The term sustainability embraces various principles and practices designed to encourage active preservation of our environment and communities, while also promising attractive financial gains. Many companies now realize that millions of dollars can be saved by implementing sustainability programs across their value chains. Anyone willing to take a closer look at the subject can potentially profit from these programs.

Sustainability: the Corporate Impact

Sustainability is best described as an entity’s ability to maintain itself into the future. Historically, the concepts have primarily focused on people and the planet but companies are now beginning to understand how sustainability can also bolster financial performance.

More than being the “flavor of the month”, sustainability has become a crucial mindset, enabling firms to secure their existence and shape up for the future.

There is often a misconception that environmental practices require high capital expenditure. In practice, “going green” actually lowers costs, as illustrated by the example of energy waste reduction programs: energy bills shrink and emissions decrease. The result is a virtuous cycle with benefits for the bottom line, the corporate image and the environment.

This article explores some of the neglected areas in which implementing sustainability practices offers potentially significant financial gains.

Reducing Operational Costs

Companies still overlook the beneficial impact sustainability practices have on the bottom line. This stems partially from the notion that it is a luxury, more than a strategic approach, to tackle such initiatives. Taking a closer look at operational costs can shed light on the low-hanging fruit and significant savings opportunities buried within the organization.

One major opportunity is energy expense. Businesses are now welcoming consumption-reducing programs as a means to reduce costs without large capital investment. Low-cost initiatives, such as employee awareness campaigns, light motion sensors, energy-efficient equipment, low-consumption light bulbs and greater use of natural light can have a profound impact on reducing energy consumption. Considering that the 120 million homes and 7 billion square feet of commercial buildings in America alone account for about 40 % of total U.S. energy consumption, it soon becomes clear how significant and quick the gain from these small energy-saving steps can be.

Legislation, in the form of tax incentives, is also encouraging companies to implement sustainable practices. This includes property tax exemptions, income tax credits or easier access to financing and government grants. To qualify for these programs, companies must either install energy-efficient equipment, implement pollution-control mechanisms or utilize environmentally-friendly materials, recycled components etc.

Enhancing Innovation

Leading companies have set up teams to reconsider the way existing products are manufactured and how to incorporate sustainable practices into future production. Significant advances have been made in the way we view and understand the properties of recycled materials. As a result, we are now witnessing a surge in new product creations which use discarded materials while still fulfilling stringent company requirements. Nike is a good example. The company used plastic bottles from landfills in Japan and Thailand to manufacture soccer jerseys for the last World Cup. Through an innovative use of materials, they have incorporated PET plastic into a manufacturing process that uses 30 % less energy but still produces a top quality product.

Other companies are looking further ahead, to the impact their products have on the environment. As part of these efforts, a team at P&G has developed a laundry detergent that works equally well with cold water, reducing the energy consumption for each cycle. They estimate that approximately 3 % of the energy cost for the average home are generated from just heating water. A cold water detergent therefore has a vast potential to help consumers reduce consumption. Over the coming years, companies which invest in innovative product development or product redesign will boost their corporate image and gain an edge over competitors down the road.

Strengthening Brands

In the past, companies exploited sustainability as a way to foster good relationships with the community and bolster their reputation for social responsibility. Ultimately, your brand conveys your organization's values. With the increasing global concern about the environment, companies can now leverage their sustainability achievements, investments, and skills, to strengthen their value and reputation. And, on the flip side, those businesses that fail to resonate with what consumers and stakeholders deem to be important will see a detrimental impact on their brands.

Improving Employee Recruitment & Retention

Talent acquisition and management is a complex task, and it is worthwhile exploring how sustainability practices can help to attract and retain top talent through enhanced workplace satisfaction and call to service.

One of the most common applications generally overlooked as sustainable is "telecommuting" programs, which allow employees to work remotely. Remote workplaces save companies money by reducing infrastructure and support requirements (office space, equipment, parking etc.), while allowing employees to spend more time at home with their families. In June 2009, Cisco released a report showing they have generated an estimated annual savings of

$277 million by allowing almost 2000 employees to work remotely. In addition to savings for Cisco, this group of “ex-commuters” prevented over 40,000 metric tons of carbon emissions being released into the environment due to avoided travel. At an average of 30 miles per daily commute, it was estimated that employees saved more than $10 million per year in gas.

Mitigating Risks

It pays for companies to understand how sustainability impacts business risks. Do changes in legislation affect raw material supplies? Will tax incentives or new tax mandates significantly alter operational costs? Can sustainability mitigate some of these risks or, on the other hand, what is the cost of doing nothing?

Regulatory requirements on carbon emissions are now a familiar part of the corporate environment. The UN meeting on global warming in Copenhagen in December 2009, the on-going “Cap and Trade Program” negotiations in the US, and similar programs in Europe clearly indicate the direction in which legislation is heading. As a result, businesses investing in sustainable practices have begun to partner with government agencies in order to attain early compliance and access public funds to support their “green” initiatives.

Sustainability: Corporate Implementation

Sustainability practices can enhance ANY part of business operations, regardless of the industry, service or product. This means that every stage of corporate activity needs to be evaluated, from raw material extraction, through production, distribution, service delivery, consumption, and ultimately, disposal. As the examples above illustrate, sustainability is a broad area which can serve as a strategic tool to create a competitive advantage and add value throughout the organization and community.

During the recent economic downturn, many companies used eco-friendly programs as a strategic means to become leaner and cut costs, while simultaneously improving corporate consciousness and the “greenness” of their image. However, most of these companies tend to have piecemeal efforts, lacking a truly systematic approach to sustainability.

In order to effectively improve corporate sustainability, Tefen has developed a set of guidelines which can be applied to a wide range of service-based and heavy industry sectors. This framework is based on three pillars:

I. Sustainability Operations
II. Sustainability Marketing
III. Sustainability Management

and incorporates three key components:

1) internal processes, pertaining to production plants or facilities,
2) external alignment, addressing green “values” of product and company, and
3) organizational components, related to governance and management of the sustainability agenda.

I. Sustainability Operations

The point of intervention here is intrinsically linked to the specific type of corporate operations. For example, the primary focus in the manufacturing industry is on production, as this generates the highest energy costs. On average, two-thirds of cost-cutting and emission-reducing opportunities involve behavioral, procedural and maintenance matters rather than investment in new equipment. Most potential savings can be identified by the in-house technical staff through the use of cross-functional workshops, interviews and structured root-cause analyses. In primarily office-based industries, such as banking, financial services, IT and media, the emphasis should be on changing employee behavior and introducing low-investment solutions with short-term payback. Typical areas of improvement include “switch-off programs”, efficient equipment (IT, lighting, a/c), office paper reduction (e-billing, no duplicate printing), fleet optimization (eco-driving courses), phone/video conferencing and insulation of buildings. Operational improvements such as these can reduce consumption by 10 % to 20 % of the annual energy baseline (electricity, gas, fuel etc.).

II. Sustainability Marketing

The incorporation of sustainability practices into corporate strategy and the operational framework aims to cut costs and carbon emissions but also to boost the company brand and image. Marketing and communication are therefore key levers here. Due to the enhanced public interest in "green issues", it is now essential that businesses are perceived to be "low carbon" and "environmentally conscious". The ability of a company to communicate its efforts to become greener and to also involve and engage stakeholders is particularly crucial for those companies whose value, and ultimately reputation, is intrinsically linked to intangible equity and brand image.

III. Sustainability Management

Sustainability needs to be an embedded process with clear objectives, roles and management tools. It is vital that a governance model is identified which assigns clear responsibilities to employees at all hierarchical levels; that a distinctive environmental policy is drawn up the company and that a set of KPIs are compiled to systematically track results (i.e. report-and-review activities). Accountability plays a pivotal role in preserving the early achievements over the long term. In recent years, leading companies have created specialized departments to monitor and measure the results of the corporate green agenda. These departments are most commonly found in sectors subject to carbon emission regulations (e.g. automotive, steel, energy). However, any company deciding to implement environmental initiatives should define and implement an effective tracking system for achievable and measurable results at all corporate levels. It is important to balance the top-down approach with a bottom-up commitment to greater awareness, acceptance and culture change by the whole organization.

Success Stories

Tefen has implemented this sustainability framework in many industrial and service sectors. We recently supported a leading media company in its efforts to reduce the carbon footprint of its multiple business units, numerous office locations and thousands of employees. The business had taken a piecemeal approach to sustainability, which was in dire need of a systematic makeover. The management team envisioned an integrated sustainability program, covering all offices and involving people at all levels of the organization.

We measured the consumption and the relative CO_2 emissions for each business unit and office location. This detailed analysis examined consumption of electricity (lighting, a/c, IT equipment), gas (heating systems), fuel (vehicle fleet), paper (billing etc.) and water. We then calculated the gap with respect to industry benchmarks and best practices, finding significant scope for improvement in terms of cost optimization and CO_2 reduction.

Area	Unit of measure	Potential for reduction	Examples of initiatives
Energy (electricity and gas)	KWh/Sq. foot	-17 %	• Switch off programs • IT settings, server virtualization
Paper	Eq. sheet/FTE per year	-25 %	• E-billing • Printer settings
Fuel (fleet)	Mileage per Gallons	-20 %	• Eco-driving course • Tele and video conferencing
Water	Cubic meter/FTE per year	-25 %	• Notices

Together with nominated business representatives, we used checklists and other tools to identify specific levers for action which would bridge the ascertained gap. This self-assessment basis underlined the inclusive and participative tone of the project from the very start. One key aspect of the sustainability program has been to change employee attitudes and behavior with a view to raising awareness.

Based on our framework and methodology, we structured a program with 3 main areas:

I) Operational system (energy and material waste reduction),
II) Marketing and communication (editorial initiatives, environmental awards, debates),
III) Management systems (governance, KPIs, MBO).

After presenting the program to top management, we assisted with the implementation phase and kick-off of the overall initiative.

Sustainability at Tefen

Tefen is committed to pursuing both external and internal sustainability initiatives. We have implemented various programs at our global headquarters to promote energy conservation and reduce printing expenses. The major energy consumption areas tackled were:

- Lighting – reducing daytime lights, installing power controllers plus status quo review to ensure use of optimum energy efficiency (bulbs, sensors etc.).
- Air conditioning – shutdown program 5 times a day.
- Equipment – end-of-day shutdown for all computers and replacement of inefficient units (servers, laptops etc.).

These activities, including employee education and awareness programs, have yielded an overall reduction in our energy bill of 48 %. In addition, printing expenses have been reduced by 70 % in 5 years. Tefen also enjoys the following benefits from its sustainability efforts:

- Business level – alignment with global trends, development of new competencies.
- New revenues channel – position as an environmental leader gives Tefen a competitive edge on the market.
- Financial level – leaner processes and monetary gains.
- Cultural level – the measures taken clearly highlight the company's mission and goals.

This approach has permeated our corporate culture and triggered many local programs at Tefen locations worldwide. Our offices in Germany are now powered by hydro-electric sources, reducing their carbon footprint to zero. Other branches are undergoing internal analysis to establish opportunities for further sustainability optimization.

Where to Start

Decision makers in any organization can create added value for their stakeholders by identifying and implementing sustainability strategies. Globally renowned management consultant Peter Drucker points the way: "You can't manage what you don't measure". The first step is therefore to create a corporate "sustainability scorecard". You need to understand your status quo, carbon foot-print and the impact your company has across the value chain.

Incorporating sustainability into your business strategy ultimately gives you a competitive advantage, lowers short-term costs and enhances potential mid and long-term revenue.

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