

Creating the “Wholly Sustainable Enterprise”

Driving shareholder value through enterprise sustainability

Sustainability is rapidly emerging as a critical element of business strategy, driven by a convergence of factors — increasing regulation, changing customer expectations, competitor and technology advances, value chain partner requirements, brand equity protection, and global risk management.

If your company's social and environmental performance focus is still in the future tense, as in “going” green, we believe you're in danger of learning that your competitors have already picked up and “gone.” Companies must undertake sustainability-driven transformation efforts in order to improve financial, environmental, and social performance. Sustainability, approached the right way, can be a significant driver of enterprise value and must generate economic value in order to evolve from an environmental specialty to a mainstream growth engine. Leading companies have begun driving improved shareholder value by broadening the definition of ‘Sustainable Enterprise’ and by executing green practices where doing so delivers positive returns.

The ‘Wholly Sustainable Enterprise’ (WSE) is defined as a company that generates continuously increasing value through application of sustainable practices in the entire base of activity — products and services, workforce, workplace, functions/processes, and management/governance.

For practical purposes, this means developing an overall approach to sustainability and corporate responsibility in such areas as buildings and real estate, human resources, supply chain and operations, product design and manufacturing, and management process. It involves multidisciplinary approaches to energy and emissions management, real estate portfolio size, location and configuration, ‘green’ IT such as data centers, servers and infrastructure, zero net footprint manufacturing, optimized logistics and transport networks, alternative fuel fleets, and many more.

Companies have addressed some specific areas, but few have established a broad strategy, identified key initiatives that drive value while improving social and environmental performance, and measured and reported results in a consistent, verifiable way. Market perceptions of “greenwashing” and visible scrutiny from activists and shareholders require a level of rigor in such reporting.

The rate of change is increasing. Companies that build a capability for ‘sustainable transformation’ will lock in competitive advantage as the marketplace, regulation, and customer demand move in

this direction. Companies that do not invest now run the risk of being reduced in value if the effect of sustainability on brand equity drives real and rapid changes in market valuations.

‘Sustainable Enterprise Transformation’ reflects a series of actions required to move a company to a more sustainable or green position relative to today's baseline. The term also describes the ongoing, continuous, and permanent evolution of the company through future development stages towards being truly renewable. It is, at once, the way to transform today's company to that of a sustainable enterprise, and it is also the way to establish a truly sustainable way of continuous enterprise transformation toward improved shareholder value and a reduced global impact footprint.

In addressing the strategy of building the WSE, practices must be defined more broadly than the traditional terms used in the past. In fact, to drive long-term and repeatable shareholder value, the definition and application of green principles must be expanded to encompass the entire activity base of the enterprise. What does it mean to be wholly sustainable? In the context of application to the business enterprise, the definition of “green” is evolving with a new set of core principles:

- Waste is reduced, eliminated, or reused.
- Net consumption of resource (capital, human or natural) for a specific product or service outcome is reduced.
- Consumed resource is partially or completely replaced.
- The ratios of natural-to-man-made and organic-to-synthetic are increased.
- The net global impact footprint (GIF) is reduced.

There are five major platforms where sustainability principles must be applied in order to transform the enterprise for value, including:

- **The Green Products/Services Portfolio:** Organics vs. synthetics; waste and pollution management; resource replacement; sustainable product design; closed loop production; life cycle service strategy; and localized/customized/distributed production.
- **The Green Workforce:** Human resource policies and procedures; culture; recruiting and retention; training; career path development; diversity; and community service.

- **The Green Workplace:** Global locations; physical plant; ergonomics; virtual workplace; green buildings; environmental discharge and waste; energy productivity and emissions reductions; and employee commutation patterns and access to mass transit.
- **The Green Function/Process Model:** Sustainability applied to traditional functions; enterprise-wide green process modeling and ERP; Sustainable sourcing, including local procurement and reduced/eliminated logistics footprint for raw material; WIP and finished goods; and Green IT including data centers, servers, and infrastructure.
- **The Green Management and Governance Principles:** Board and management accountability; sustainability tests; compliance; incentives; and ethics.

The framework for “greening the company” involves application of these principles across each element of the enterprise. The entire effort represents a fundamental change in the strategy and composition of the company, but the changes themselves are incremental and, hence, executable.

In a more specific example, one of the rapidly changing areas is in “green,” or high-performance buildings. Buildings are long lead-time items. But, faster than you can say, “sustainability issues are moving up the priority list,” you can bet someone has just built or retrofit a high-performance facility that offers a healthier workplace environment, lower energy consumption, reduced carbon footprint, and a tax incentive or two. In short, staying ahead of the green building curve is now part of a major market shift toward sustainable development, design, and operations.

Contributing to the current momentum are lowering costs, enabled by technology advances and the increased experience of suppliers, designers, and builders. We also expect to see the growing number of projects driving unit cost reductions, though short-term premiums on some materials and services may sprout up as demand rises. The bottom line is that we believe green building is materially affecting the real estate market, and it is not hard to foresee a time when legacy or traditional buildings quickly devalue while green buildings become the new minimum standard. Whether driven by market forces, regulations (building codes), or both, we are seeing increased evidence of the direct benefits of adopting an aggressive green building stance.

As high-performance building standards evolve, it is likely the requirements will get stricter, more independent verification will be required, and some level of standards customization in the U.S. Green Building Council’s Leadership in Energy and Environmental Design (LEED) certification and other models may be needed to account for geographical and cultural differences. Emerging public/private consortium models such as the Clinton Climate Initiative may drive materially improved return on investment through the establishment of purchasing standards, volume sourcing, lower cost of capital, additional credits and incentives, and leveraged suppliers, among others.

Models of this type may serve to both accelerate and simplify the green building journey for those organizations choosing to capture the benefits of sustainable activities.

Now is not too soon to start evaluating your current portfolio against future needs for new and retrofit construction, and to begin incorporating green building activity into the broader agenda of governance, risk management, and sustainability issues. Reevaluate any projects in the planning stages or on the

boards. Put the projects that are underway through a “green value engineering” exercise, and consider existing buildings for green retrofit using some of the newer delivery models available. Real estate and facilities have a critical place at the strategy table, because building and development issues affect governance — and performance — at the highest levels.

Companies that are ‘sustainable’ across the entirety of their activity base will drive improved short-term profitability and long-term stakeholder value while contributing to permanent betterment of social and environmental issues. By virtue of this win-win proposition, these are the companies that will sustain themselves indefinitely.

Companies can begin to outline transformation roadmaps that address the entirety of enterprise activity and to identify sustainability initiatives that will, in business case fashion, drive shareholder value. The Transformation Roadmap includes specific elements of the journey towards sustainability, social responsibility, and environmental sensitivity. However, the approach should be grounded in the practical realities of what is controllable, implementable, repeatable, and valuable.

Over time, enough companies undertaking enterprise-wide efforts of the types described here will create a de facto change in the underlying social, governmental, and environmental spheres in which they reside; hence; rational short-term actions on the part of companies and bold management teams will drive the types of changes advocated by politicians, environmentalists, and alarmists, but the improvements will flow from positive elements of growth, profitability, employment, and value — rather than from conflict, regulation, and premium costs. It is an opportunity for companies to control their destiny rather than waiting for new and potentially onerous regulation.

Evolving towards a fully sustainable global enterprise is a long-term journey. Companies are approaching these issues in different ways, for different reasons, and no clear picture has yet emerged on the market’s valuation of sustainability transformation. Yet, it seems clear that some action is better than none — even as a hedge against the possibility that sustainability will continue to grow in importance as a strategy. Build a global carbon neutralization program. Complete a global energy baseline and establish absolute and relative targets for investment. Educate and train management and the workforce on key principles of sustainability and corporate social responsibility. Publish a Sustainability Report — any report — to focus efforts on describing what is being done and why.

To learn more, join our webcast “How Manufacturers Can Grow a Lean, Green, Earning Machine” on September 26th. Visit www.managingautomation.com to register.

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