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White Paper

Sustainability Goals that Make an Impact

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Introduction

In this paper, we will explore the link between goal-setting, environmental and financial performance, and stakeholder recognition, making the case for tangible sustainability goals. We define "tangible goals" as goals that include measurable, quantifiable targets for environmental improvement for a defined period of time.

We also introduce several best practices, provide our observations on emerging trends in this space, and offer suggestions to companies wishing to set goals that make an impact.

Methodology

Insights and opinions in this paper are based on research conducted by CH2M HILL in 2012-2013 using our project proven benchmarking methodology. It includes analysis of publically available sustainability data sets and corporate sustainability reports; disclosure sources such as CDP submissions, 10-K reports, Dow Jones Sustainability Index; and other third-party analysis, "Green" rankings, news articles and industry publications. For this research we reviewed publicly available information for 23 companies, including oil & gas (9), mining (7), and chemical (7) sectors. The performance of all companies was compared in 8 environmental aspects against a set of 10 criteria. In addition, we interviewed 5 senior sustainability executives from 2 oil & gas companies, 2 mining companies, and 1 chemical company, all of which have global presence. We developed a standard questionnaire for the interviews, which provided consistency between the interviews and enabled easy comparison between the interviewed companies.

Improving Performance by Setting Tangible Sustainability Goals

The past five years have seen an increase in the number of corporations setting and publicly disclosing sustainability goals. From our client and enterprise experience we understand the significant investment of resources, time, and organizational effort that go into the creation and implementation of sustainability goals. As new environmental aspects such as biodiversity, ecosystem services, and product-level impacts, are being incorporated in sustainability programs, the level of effort required for goal setting only increases. Corporate sustainability managers are left asking "how can I set sustainability goals that truly improve performance in my organization?" Recent research by CH2M HILL reveals several insights into this question.

Tangible sustainability goals help drive performance improvement.

Corporate goals are central to business management. They create organizational alignment, inspire and drive performance improvement, and signal aspirations to external stakeholders.

Our research, along with several recent studies[1], indicates a link between tangible sustainability goals and improved environmental and financial performance of the firm. It seems that firms that set tangible, public sustainability goals are more likely to have senior leadership commitment to these goals, and to invest in strong organizational processes to manage progress against goals.

Likely, this correlation is due to several factors, including the fact that firms that set tangible sustainability goals are more likely to have:

- **A formal sustainability strategy.** It creates organizational alignment, and increases company focus, investment, and management commitment.
- **A supporting implementation framework.** It ensures that progress against goals is tracked, mitigation measures are designed to achieve goals, and success is reported in the context of the goals over defined periods of time. Successful goals are supported by practical projects and clear plans and are closely linked to corporate business priorities.
- **A comprehensive sustainability governance structure.** Companies where sustainability is housed in corporate affairs or public policy appear to focus more on sustainability as a public relations activity. Engaging senior staff reporting to Board of Directors and/or the CEO seems to be important for the success of the goals.
- **Executive compensation tied to the achievement of sustainability goals to incentivize improved performance.** When management compensation is linked to the success of sustainability goals it seems to drive their implementation.

1 Griffin, P.A., and Yan Sun (2012) "Going Green: Market Reaction to CSR Newswire Releases";

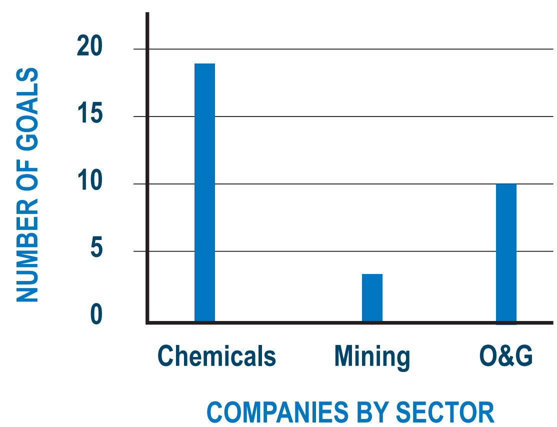
Eccles, Robert, Ioannis Ioannou, George Serafeim, 2011. "The Impact of a Corporate Culture of Sustainability on Corporate Behavior and Performance." Harvard Business Review Working Paper 12-035;

Mahler, Daniel, et al. (2009) "Green Winners." AT Kearny

Figures 1 and 2 show the number and type of sustainability goals the reviewed 23 companies set.

Sectors differ in their approach to setting publically available, measurable sustainability goals. Companies in the chemicals sector tend to set more public goals than those in the mining and oil & gas sectors. The specific types of goals these companies set are shown in Figure 2.

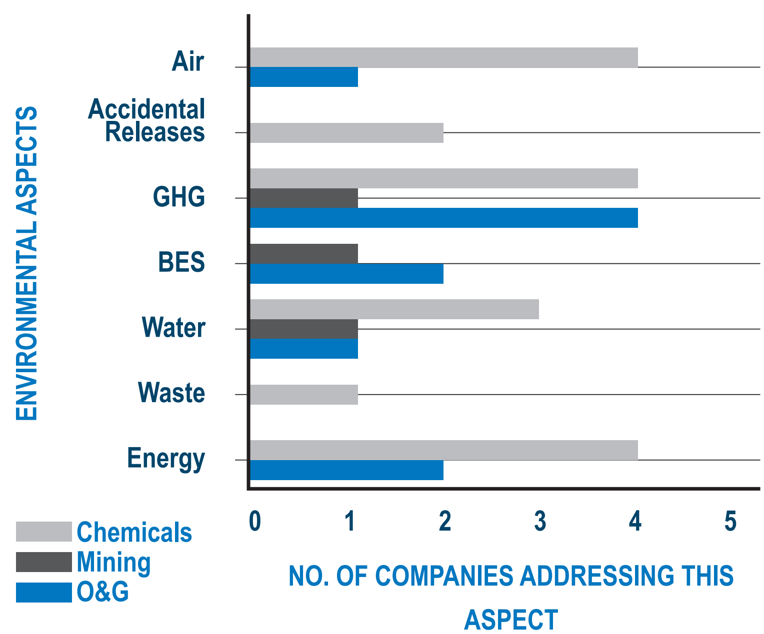
Figure 1
Number of Goals by Corporate Sector



The following sources were reviewed in 2012-2013 to assess the number of sustainability goals for the 23 companies studied: publically available sustainability data sets and corporate sustainability reports; CDP submissions, 10-K reports, Dow Jones Sustainability Index; third-party analysis, "green" rankings, news articles and industry publications

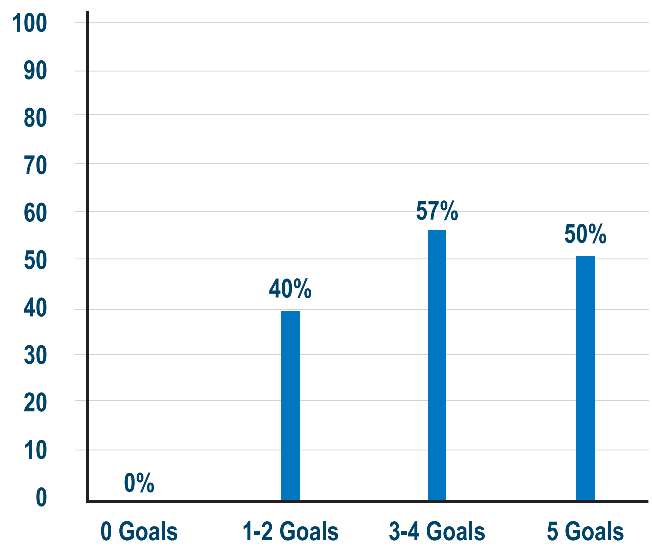
Leading companies usually set goals around their most significant environmental impacts. Not surprisingly, the companies from the oil and gas sector focus predominantly on energy efficiency and GHG emissions. In addition to GHG, mining companies focus on water strategies including detailed water accounting, goals, objectives, standards, and policies. We have observed growing interest and focus on biodiversity and ecosystems services (BES) as an opportunity to manage environmental aspects in an integrated manner across all reviewed sectors.

Figure 2
Number of Goals by Environmental Aspect



The data suggests that environmental performance improves relative to the number of goals a company sets. Thirteen of the 23 companies measured absolute GHG emissions reductions, energy intensity and water use and were used in the analysis. Companies that successfully reduced usage of 2 or more indicators over two years are considered to have improved their performance.

Figure 3
Performance Relative to Goals N=13



Our research shows that performance improves at companies that set goals. Companies with goals are four to five times more likely to improve their performance than companies with none. In particular, companies with three to four goals show the best performance improvement. Our experience suggests three to four goals are usually defined as a result of careful prioritization and can drive organizational focus. This number of goals pushes companies to improve without diverting resources in so many directions that progress is hampered. Companies that set five goals tend to have focused on sustainability for a longer period and have already achieved easier-to-reach goals. They typically set more aspirational goals such as "net zero waste" which can require larger amounts of resources and time to achieve.

By striving to meet their goals year-over-year companies continually stimulate performance improvement, particularly compared to companies with no measurable goals. Companies without goals and the accompanying governance frameworks and strategies may fail to address sustainability challenges associated with environmental concerns, competition for scare natural resources, and social opposition, therefore negatively impacting profitability and the social license to operate.

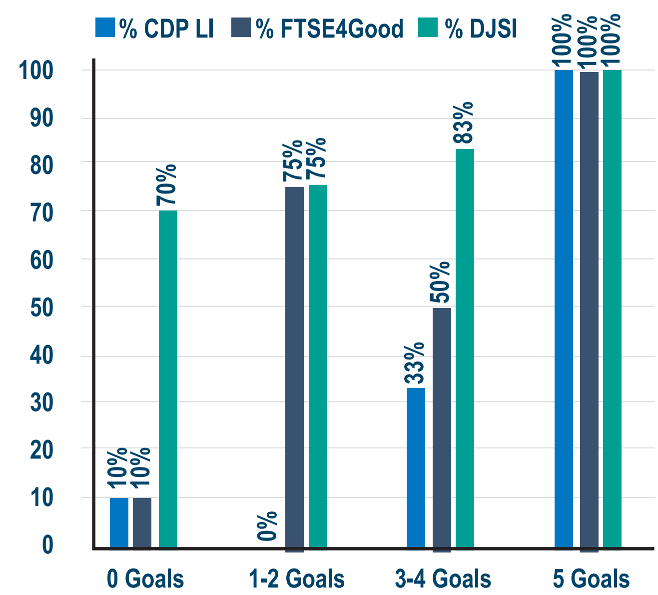
Companies with goals not only improve environmental performance but also financial performance. In working to meet their goals, companies reap cost savings by reducing energy use, greenhouse gas (GHG) emissions, water consumption and waste. These savings can positively impact the bottom line, in addition to boosting employee satisfaction and productivity.

Tangible sustainability goals correlate with external rankings, ratings, and recognition of leadership.

An indicator of improved performance is inclusion in leading sustainability indices that list only those companies which outperform their peers in terms of sustainability. Our research suggests that the presence of tangible sustainability goals is a strong indicator of future performance on many sustainability performance indices. Companies that set tangible sustainability goals are also more likely to enjoy recognition, awards, and rankings by third parties.

The more goals a company sets, the more likely it is to be listed on a sustainability index as a leader in environmental performance.

Figure 4
FTSE4Good, DJSI and CDP's Carbon Performance Leadership Index Achievement (2011 or 2012) by Number of Tangible Sustainability Goals



We observe a strong link between a company's public, tangible sustainability goals and likelihood of being listed on the DJSI, FTSE4Good Index and the Carbon Performance Leadership Index, three leading sustainability indices that include only leaders in economic, environmental and social performance. Some companies are listed on the DJSI without having set public goals. These companies may be in the midst of business expansion and may have chosen not to disclose publicly goals they may not be able to meet while their production expands. However, they may be recognized on DJSI because of the methodology used by the index which does not rely solely on publicly available information.

Thirty-nine percent of the companies surveyed have received awards from organizations such as the US Environmental Protection Agency and Corporate Responsibility Magazine for their sustainability performance at the corporate level, beyond specific project-level work. Eighty-three percent of these have set tangible goals, suggesting again that goal setting increases likelihood of external recognition.

Tangible environmental goals help set context, track progress, identify and celebrate successes. They can lead to recognition which could result in competitive advantage in a market of increasing stakeholder awareness and willingness to reward companies that are good environmental stewards. Goals should be viewed as a management tool for stimulating performance improvement.

Sustainability goals send a strong, positive message to stakeholders.

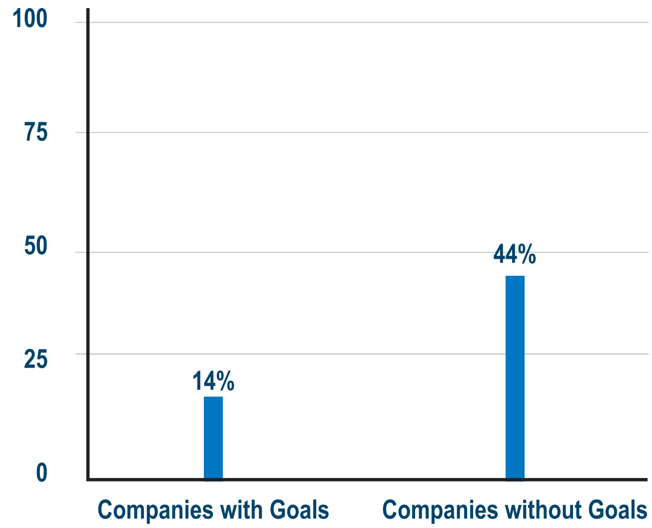
Leaders that set tangible and public goals send a strong message to stakeholders including shareowners, employees, governments, NGOs and local communities.

By disclosing their goals, companies openly signal their understanding of how to maintain competitiveness over the long term despite sustainability and climate change-related risks. They could build a positive relationship of trust. They could then pursue productive stakeholder dialogue through which they may learn methods to improve their products, operations and community relations.

When companies do not publicly disclose goals, shareholders are more likely to resort to filing shareholder resolutions in order to assess how a company will address risk. These companies may face more stakeholder opposition to capital intensive projects, be less able to expand their business into new geographies, have limited access to new markets, and enjoy less success with new product and service lines.

Our research of shareholder resolutions filed through Ceres, the Interfaith Center for Corporate Responsibility and As You Sow indicates that these companies enjoy more positive and productive relationships with stakeholders. Figure 5 shows the number of sustainability-related shareholder resolutions received by companies with goals and those without.

Figure 5
Shareholder Resolutions vs. Goals



We recognize that some of the reviewed companies set internal measurable goals but do not publicly disclose them. The reviewed companies vary in organizational culture, stakeholder engagement processes, and sustainability disclosure. Sustainability goals and the progress toward achieving them are receiving increased scrutiny with growing stakeholder awareness and expectations. Because companies are being rated and ranked for their goals and progress, some firms are reluctant to set public targets.

However, investors, financial institutions, and shareholders are becoming increasingly savvy with regard to incorporating sustainability criteria in their investment decisions. They seem to increasingly expect the quality, scope, and rigor of sustainability goals, metrics, and disclosure to correspond to the quality of financial data. Having access to Environmental, Social, and Governance (ESG) data enables them to make informed decisions for the long-run, including considerations of non-technical risks and license to operate, thus providing great access to capital to sustainability leaders.

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Best Practices

We suggest a number of best practices that may help companies in their sustainability goal setting process.

Set multi-year, organization-wide goals

- Sustainable development requires long-term thinking, so multiyear goals are most appropriate. Coupling these long-term goals with annual targets or milestones that can be adjusted if necessary seems to most effectively drive performance improvement and behavioral changes.
- Sustainability leaders set multi-year sustainability goals at the corporate level while the annual targets are set at business unit level, thus providing a practical framework for measuring and adjusting performance to achieve goals.
- In sophisticated companies, each corporate goal is managed by a goal leader supported by multidisciplinary teams from across the business operations.

Design robust, business-focused processes to monitor progress

- Aligning their sustainability programs with business planning, strategic priorities, and staff compensation models is critical for their success.
- Sustainability leaders have a robust process for setting, monitoring, and tracking their progress against goals on an annual basis and making changes to their annual targets and metrics.
- Sustainability leaders report progress against the goals to their management frequently—typically quarterly—with sustainability being a top agenda item for Board meetings.
- An increasing number of companies tie compensation of senior executives to the success of their sustainability goals, linking compensation to environmental objectives implementation and Key Performance Indicators (KPIs).

Involve stakeholders in the goal setting process

- The goal-setting process brings most business value when it involves a broad group of stakeholders. Internal stakeholder engagement is recommended, since all parts of the enterprise will ultimately be responsible for goal achievement.
- Engaging external stakeholders in the goal-setting process helps calibrate goals and objectives, identify new socio-economic trends, and improve corporate reputation. We recommend establishing an external sustainability council that includes thought leaders from academia, NGOs, government, and industry. This external council can help drive innovation, long-term sustainability perspective, and a dialogue beyond current corporate performance.
- Publicly disclosing on progress toward goals can further engage stakeholders- internal and external and can help a company refine goals as needed.

Future Trends

Companies should continuously monitor the ever-evolving field of sustainability to ensure that they are responding to stakeholder concerns, accessing business benefits, and addressing the material environmental issues that impact the business. Our research points to several emerging trends that should be considered when setting sustainability goals:

- Currently most organizations focus on environmental impacts of their direct operations only. We see a strong shift towards materiality and inclusion of supply chain in goal-setting and reporting.
- In many cases, stakeholder pressure has led companies to set product- or service-level goals. By reporting and tracking environmental performance at a product level, customers are able to better understand their contribution to a firm's overall environmental impact and make consumption choices based on that information.
- We identified a trend towards setting more business- related goals vs. impact - reduction goals—for example, setting revenues targets for green products. Tying sustainability goals to business metrics provides context for the firm's sustainability effort and makes the value proposition to a broader group of stakeholders that sustainability is an important investment.
- Companies are moving towards more "visionary" goals—for example to achieve "zero waste" and "zero carbon emissions." However, they balance these aspirational and motivating goals with short-term, interim targets in order to maintain credibility with stakeholders and avoid greenwashing (marketing "spin" which deceptively portrays a company's actions as environmentally friendly).

Towards Goals that Make an Impact

CH2M HILL assists clients in designing sustainability goals that truly improve corporate performance, enhance relationships with stakeholders, and lead to improved brand reputation and competitive positioning. We suggest that companies:

- Set tangible, time-bound, forward-looking, public sustainability goals.
- Link sustainability goals closely to corporate strategic priorities.
- Design strong organizational processes and an implementation framework to support achievement of these goals.
- Develop robust monitoring and tracking processes to document not only progress towards goals, but also business benefits—financial, reputational, or otherwise—that are simultaneously realized.
- Set goals that go beyond direct operational impacts to include other value chain impacts that are material to the business.

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