



# **Delivering financial and business value through corporate responsibility and sustainability**

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## About IO Sustainability

IO Sustainability (IO) is a research and advisory services firm. We focus on enhancing the discipline of Corporate Responsibility, Sustainability, and Public Affairs to build strategic approaches that deliver Impacts and Outcomes (IO) for an organization and its key stakeholders.

IO's mission is to develop tools and solutions that promote a sustainable future for our clients. We do this through research, stakeholder engagement, and our multi-disciplinary approach to strategy and project implementation. For more information visit [www.iosustainability.com](http://www.iosustainability.com) or [SRochlin@iosustainability.com](mailto:SRochlin@iosustainability.com)



# Agenda

- Corporate Responsibility/Sustainability and Public Affairs
- Background on Project ROI
- The business value of corporate responsibility and sustainability
- Managing to deliver value by linking Public Affairs and Corporate Responsibility/Sustainability
- Next steps

# What is Corporate Responsibility (CR) & Sustainability?



**Reduce Footprint**



**Increase Handprint**



**Report**



**Accountability to stakeholders**

**Compliance**



**Planning cycle**

• 12 months

**Engagement**



**Planning cycle**

• 12 months

**Competitive  
Positioning**



**Planning cycle**

• 30 months

**Innovation &  
Transformation**



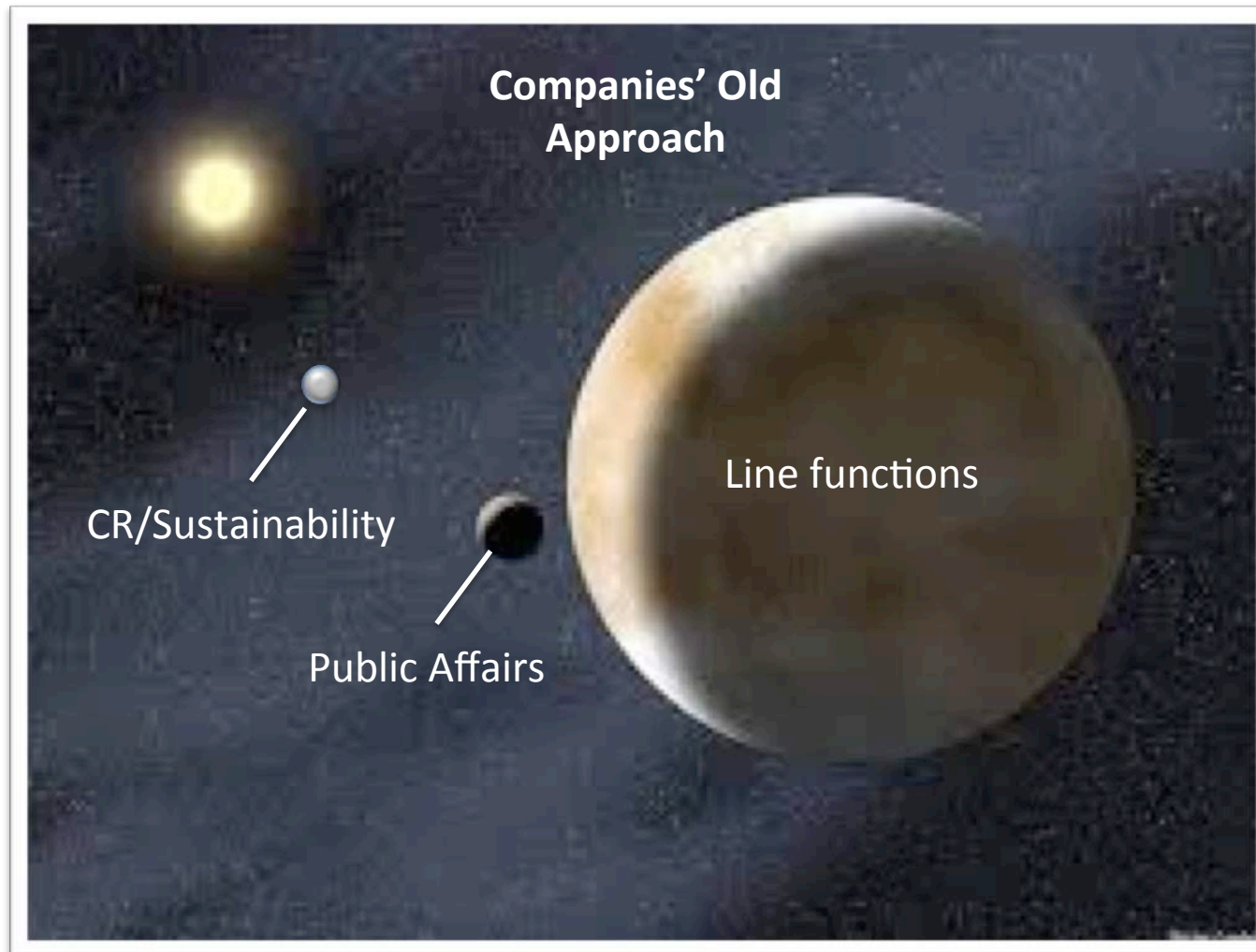
**Planning cycle**

• 60 months +



IO SUSTAINABILITY

# **We've seen a profound change in the link between Public Affairs and Corporate Responsibility (CR)/ Sustainability**





**Today, every part of the of the company's value chain  
has constituents to manage**



R&D

Materials

Inbound  
Logistics

Operations

Outbound  
Logistics

Marketing  
& Sales

Service





## Major Stakeholder Trends Are Scaling-up

### Adoption of Standards

- Anti-corruption
- Environmental
- Human Rights
- Inclusive development
- Supply chain accountability
- Treatment of Workers

### Increased Transparency

- Integrated Reporting
- Issue Disclosure
- Sustainability big data

### Supply Chain Accountability

- “negative screening” of suppliers
- “positive purchasing” for development

### Commercial climate leadership

- A million micro Kyoto-style Commitments

### Commercial-led safety net

- Access to health; energy; finance; etc.
- Foreclosure protection
- Job & income security

### A Sustainability leadership role for every industry

**Finance:** *The New Deal for the 21<sup>st</sup> Century*

**Oil, Gas, & Mining:**

- *The new international development agency*
- *Sustainable energy*

**Healthcare:** The new health ministry

**Every industry:**

- *Education*
- *Good Governance*
- *Global and local community development*





## Key trends in activism towards industry



**Activist Consumers Scaring the Additives Out of Food**

Consumer activism will grow



**The food industry is MANIPULATING us**

Activists continue to learn how to undermine the corporate playbook

**WON'T YOU BE MY FRENEMY?**

Frenemy activism: partner & adversary at the same time

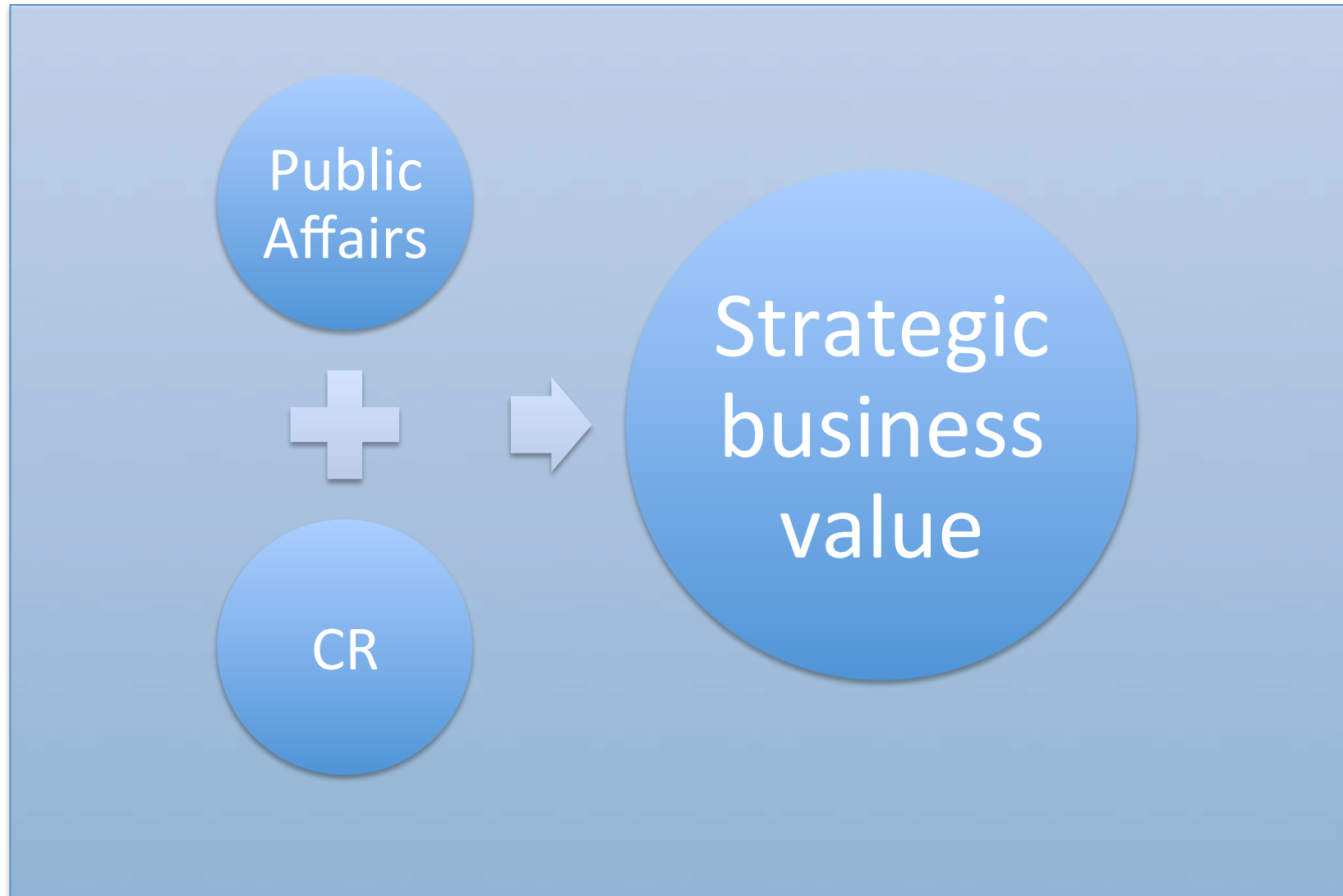
**ACCESS TO NUTRITION INDEX**

**GLOBAL INDEX 2013**



Access to "X" will intensify







## How to prove it?

- Defining the value (beyond low-hanging fruit)
- Measuring
- Adjusting to long payback periods
- Proving causation
- Making business case that executives and line managers can understand



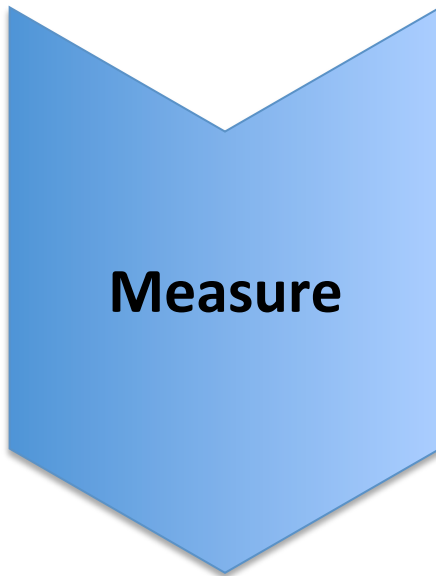
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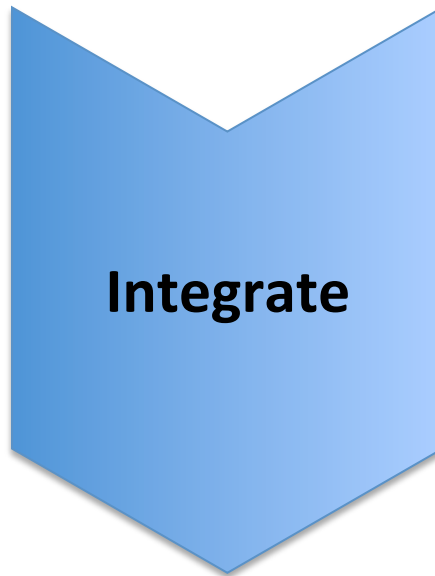
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BABSON



**Measure**



**Integrate**



**Improve**

**Build the Discipline**





# Methodology

- Address questions relevant to Senior Executives
- Emphasis on rigorous, recent, peer reviewed research
- Reviewed and assessed over 300 studies
- Focus on the *potential* ROI CR can deliver
- Identify lessons learned on managing to deliver ROI



## Headlines: From Over 300 Studies Reviewed

CR delivers financial value *if done well*

CR is an intangible asset

Lead or lag but don't dabble

For specific issues be like Goldilocks –  
do what's just right

Fit, Commit, Manage, and Connect



## Findings -- Summary Overview

## ***CC's potential* to drive market value and share price**

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**Increase Market Value by up to:**

**4% - 6%**

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**Over a 15 year period, increase shareholder value by:**

**\$1.28bn**

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**Increased valuation for companies with strong  
stakeholder relationships:**

**40-80%**

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## CR's *potential* value for financial risk reduction

Reduce the cost of equity by:

**1%**

Reduce share price volatility:

**2-10%**

Avoided market losses from crises:

**\$378M**

Reduce systematic risk by:

**4%**

Doubles the probability of investment grade rating

**\$38.4M**

Reduce credit spread by:

**40%**



## CC's *potential* value for marketing & sales

Increase Revenue from Sales by:

**Up to 20%**

Add a Price Premium of as much as:

**15% - 20%**

Consumer Commitment

**1-20% → 60%**

CR Consumer Segments	
Strongly motivated by CR	___%
Moderately motivated by CR	___%
Neutral	___%
Moderately dissuaded by CR	___%
Strongly dissuaded by CR	___%

## ***CC's potential value for reputation***

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**CC's Brand and/or Reputation Value  
as a % of total firm value**

**7% - 11%**

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**Sales & reputation risk protection**

**4% - 7%**

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## CC's *potential* value for human resources (HR)

Reduction in staff turnover rate

**25% - 50%**

Savings in terms of annual salary for every employee who stays that might have left

**90% - 200%**

Potential savings in wages to encourage hourly workers to stay

**\$3700**

Willingness to accept decline in compensation

**5%**

Productivity increase

**13%**

Increase in employee engagement

**7.5%**



## Findings -- Managing CR to Deliver Value



# **Follow Good Practices to Drive Financial and Wider Business Value from CR**

## **MANAGEMENT FRAMEWORK**

**1. FIT**

**2. COMMIT**

**3. MANAGE**

**4. CONNECT**



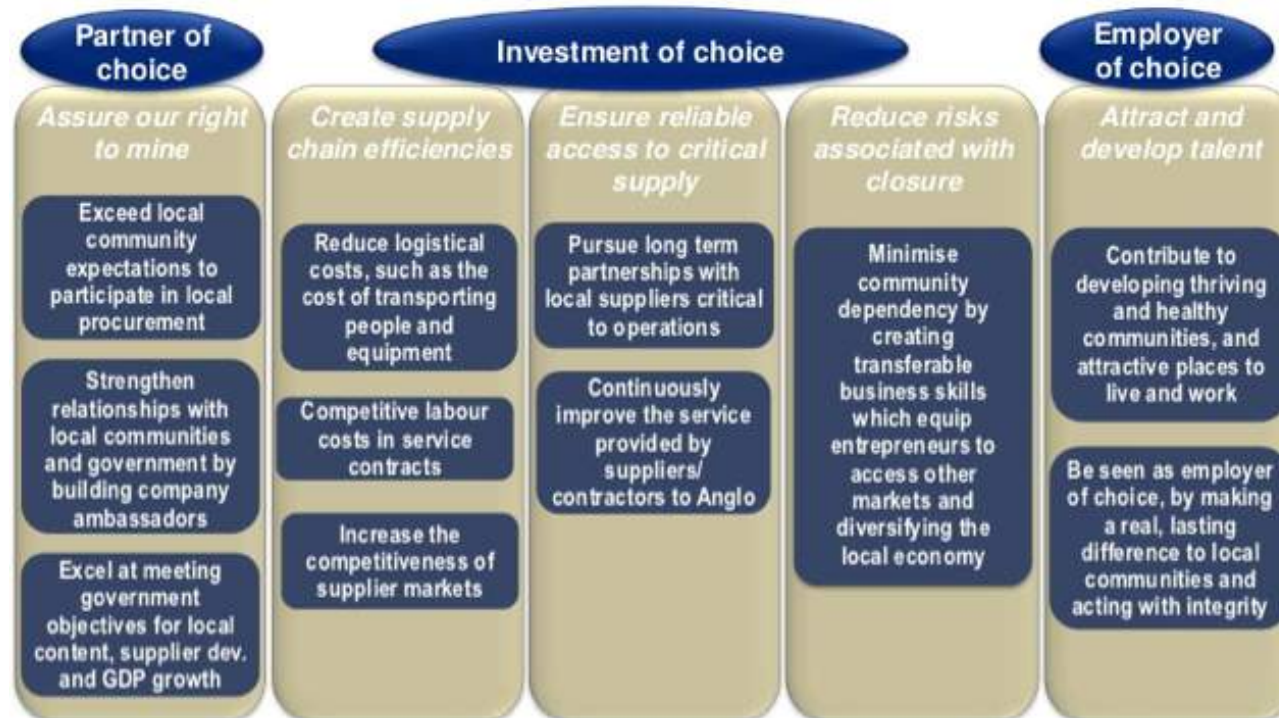
## Fit



- Procurement budget of \$10 billion/yr, 75% in emerging markets
- About 100x annual social investment budget
- Goal: be the industry leader and global benchmark for Supply Chain value creation

“Our vision is sustainable, responsible local procurement that positively contributes to a resilient supply chain and the economic and social development in the communities we operate.”

### BUSINESS CASE-LED APPROACH





## Commit

### **Lockheed Martin's Messages:**

- "Delivering Innovative Solutions for Today's Global Challenges"
- "Engineering a Better Tomorrow"

### **Lockheed Martin's Megatrends:**

- Cyber-security risk
- Growing population and its demands on Earth's resources
- Economic uncertainty

### **Lockheed Martin's Products:**

- Environmental monitoring
- Renewable energy (ocean thermal)
- Energy efficiency
- Health
- Food security



Marilyn Hewson  
Chairman, President, and CEO,  
Lockheed Martin

Source: <http://lockheedmartin.com/us/news/speeches/021815-hewson.html>



## Manage

CR needs to demonstrate a return across the three core pillars of Pirelli's strategy:

- Governance & risk management;
- Growth; and
- Productivity.

For governance and risk management Pirelli:

- Links CR to the Enterprise Risk Management (ERM) process.
- Assesses the CR topics with the greatest potential to affect enterprise risks
- Defines CR goals that would help support risk
  - A rolling resistance reduction
  - A reduction by 90% in the workplace accident rate
  - R&D on product safety and environmental performance
  - Responsible supply chain management





## Connect

### Benchmark of global health and nutrition companies



The companies with the strongest local community relationships had the highest success with regulatory agendas



## Case Study: what are the business implications for the Food & Beverage Industry?

Petitioned Los Angeles City Council and City Planning Department ▼

# Increase healthy food access and reduce fast food proliferation in South LA

change.org

### Food Companies Dropping Fake "All Natural" Claims from Their Labels



A growing number of food and drink companies are quietly removing these claims from packages amid lawsuits challenging the "naturalness" of everything from potato chips to ice cream to granola bars. -Wall Street Journal

TimothyJ.Trevelyan.org





## Key strategies for Public Affairs to gain value from CR/ Sustainability

The goal is to build our  
Network of Stakeholders

Build a portfolio of  
Strategies on the way  
there

Segment stakeholders  
and grow the # of Allies



## Next steps

- Develop an aligned stakeholder management strategy
- Develop signature initiatives that will support relationships with key audiences
- Design metrics and measure value added
- Join the ACCP-IO Pilot Project: Business of Social Investments

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