



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.



Agenda

- Background on Project ROI
- The business value of corporate responsibility and sustainability
- Managing to deliver value
- Next steps

What is Corporate Responsibility (CR) & Sustainability?



Reduce Footprint



Increase Handprint



Report



Accountability to stakeholders

Compliance	Engagement	Competitive Positioning	Innovation & Transformation
			
Planning cycle <ul style="list-style-type: none"> • 12 months 	Planning cycle <ul style="list-style-type: none"> • 12 months 	Planning cycle <ul style="list-style-type: none"> • 30 months 	Planning cycle <ul style="list-style-type: none"> • 60 months +
Major functions <ul style="list-style-type: none"> • Technical assessment, auditing, reporting, and improvement of regulatory and voluntary systems 	Major functions <ul style="list-style-type: none"> • Code & standard adoption; comms; stakeholder management; partnering; program design; & reporting 	Major functions <ul style="list-style-type: none"> • Shared value programming; pilot products; social innovation; supplier development; green production 	Major functions <ul style="list-style-type: none"> • Strategic planning • R&D & product development • Business process redesign
Examples <ul style="list-style-type: none"> • Emissions • Legal & ethical conduct • Safety 	Examples <ul style="list-style-type: none"> • Giving & volunteer • Engagement • Reporting • SRI, Ratings, Standards 	Examples <ul style="list-style-type: none"> • Cost Savings • Pilot products • Pilot R&D • Cause campaign 	Examples <ul style="list-style-type: none"> • Products foster sustainability • “Net positive” footprint



The challenge of making the CR and Sustainability business case

- 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



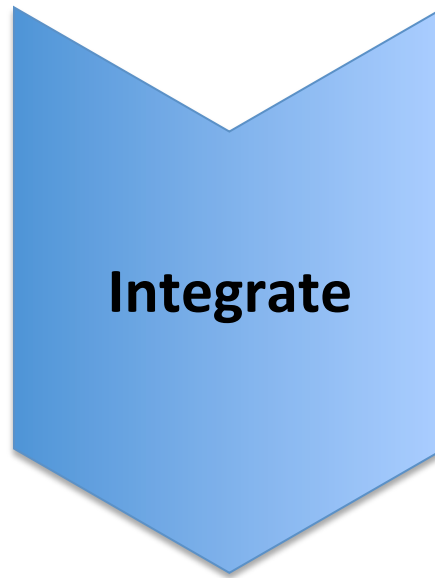
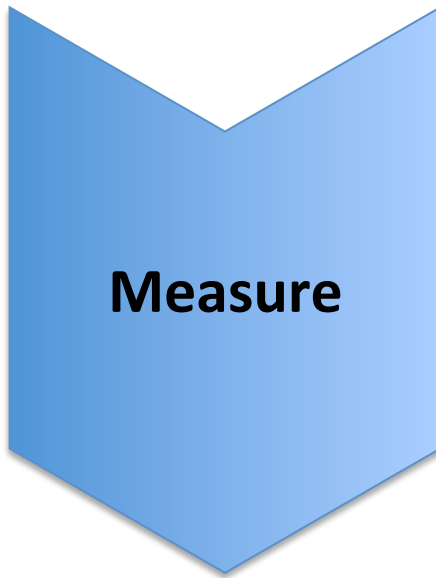
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BABSON



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**

Increase Market Value by up to:

4% - 6%

Over a 15 year period, increase shareholder value by:

\$1.28bn

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

40-80%

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

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

7% - 11%

Sales & reputation risk protection

4% - 7%



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

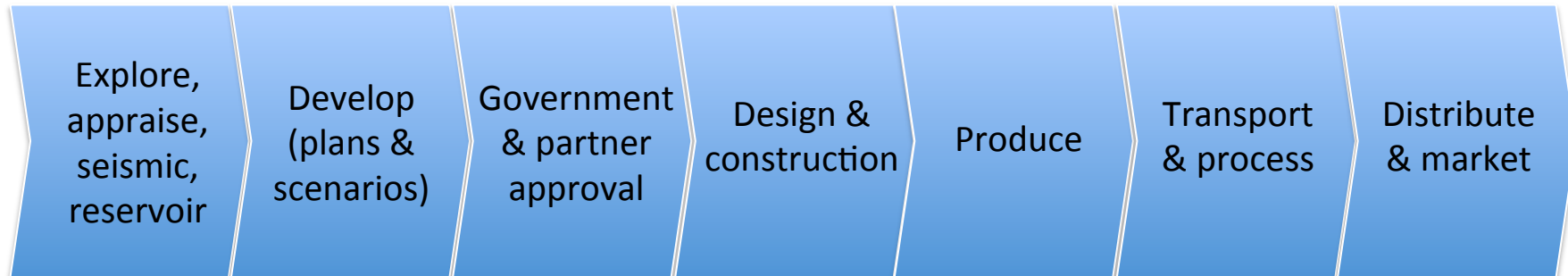
3. MANAGE

4. CONNECT



Fit

Align CR & Sustainability with core business priorities...



(Example from the Oil, Gas, and Mining Industries)

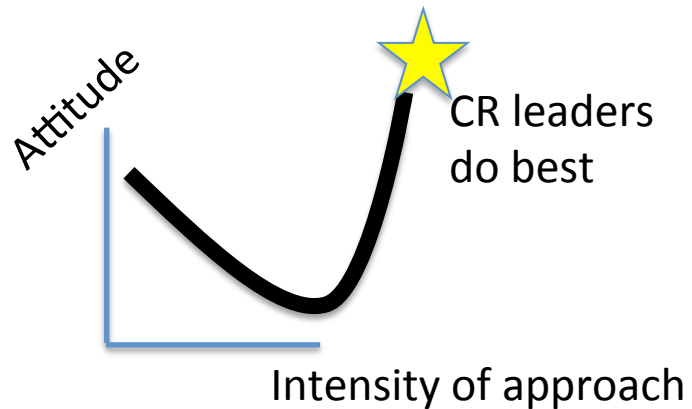
...in a way that core stakeholders can understand





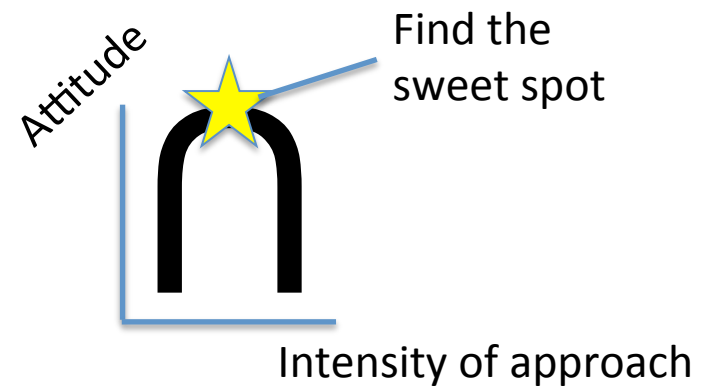
Commit

**For the total
CR approach**



***Go big or go
home***

**For specific CR
initiatives**



***Find what's
"just right"***



Manage: focus on the value we want to create

- ☐ a) Reduce risks & protect license to operate worth 10% of the company's value (and beyond)
- ☐ b) Nurture, grow, & protect a CR-related brand/reputation asset worth up to 11% of the firm's value
- ☐ c) Boost how shareholders view performance to enhance share price and market value by as much as 6%
- ☐ d) Enhance competitive positioning with, and deepen the engagement of, your customers leading to revenue growth
- ☐ e) Enhance your competitive positioning with, and deepen the engagement of, your employees leading to reduced turnover and higher productivity
- ☐ f) Some combination of the above

Connect

ROI potential takes off when companies involve core stakeholders in CR and sustainability planning and delivery

Core stakeholders



Case Study – Supporting Marketing and Sales

“Marketing people felt they were being held back by our sustainability challenge and that it took their eyes off the ball of growing their brands. On the other hand, the sustainability people thought marketing was part of the problem and would never take them seriously.”

Unilever:

- Adds social purpose to brand positioning
- Credits a 26% increase in sales to CR. E.g.,
 - Lifebuoy’s hand washing program has reached 119 million people and achieved double digit sales growth
 - Signal’s brush day and night health campaign has reached 49 million people and helped sales grow by 22 percent



Keith Weed
Chief Marketing Officer
Unilever

Unilever Takes Corporate Branding to TV for First Time

Ogilvy Ads Back Drive to Fight Child Hunger With Feeding America

Case study – Supporting Reputation



The CVS Research Institute found a 1% drop in cigarette pack sales in the 13 states that have a CVS pharmacy market share of 15% or more. “One percent may not sound like much but it’s a very substantial amount when you consider the mortality and morbidity associated with tobacco,” says Dr. Troyen Brennan, chief medical officer of CVS Health.

Source: <http://time.com/4019987/cvs-tobacco-cigarette-ban/>

- Tobacco would undermine CVS’s reputation as a health care provider
- But dropping tobacco would cost about USD \$2 billion in annual sales
- In 2014, CVS announced it would stop selling cigarettes and all tobacco products
- Sales in CVS’s retail pharmacy business rose 3.1%, or a half billion dollars
- A 4.8% increase in pharmacy sales offset a 4.5% decline in front store same store sales. Operating profit increased by 4.3%
- Share price has increased by over 27%, adding \$25 billion to its market capitalization.

Case Study – Supporting Share Price

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>

Case study – Integrating CR into Risk Reduction

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



Case Study – Supporting HR

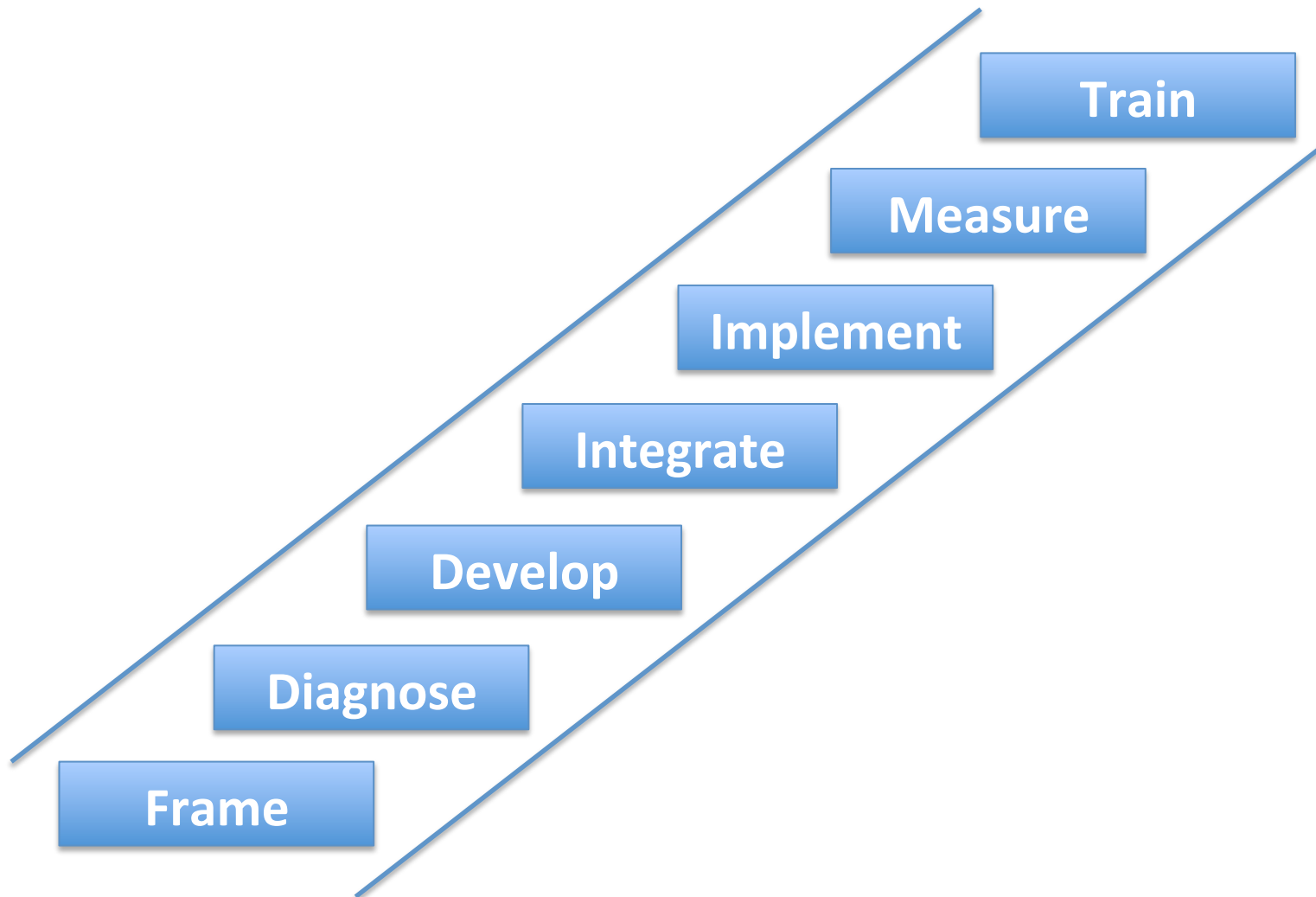


Corporate Service Corps benefits:

- Talent attraction – the program is the third most influential factor for talent seeking work at IBM after money and location;
- Skills and competency development; and
- New market creation.
- The company states the program produces a \$600 million return on a \$200 million investment.
- The regular staff turnover rate is around 12 percent per year, the rate for employees in the Corporate Service Corps is less than 1 percent.



How IO and the Project ROI team are working with companies





Next steps

- Design your CR and sustainability programs to achieve value
- Demonstrate the value to your executives
- Measure and improve
- Get involved with the Project ROI Research and Management Institute

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Thank you

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