Integrated Performance Management

Better decisions today, better impact tomorrow

High performance. Delivered.

Foreword

The UN Global Compact-Accenture CEO Study on Sustainability 2013 showed that the corporate sustainability movement is broadening, with a deeper awareness and commitment evident globally. In a sample of over 1000 CEOs, 76% believe that embedding sustainability into core business will drive revenue growth and new opportunities[1], and 78% of investors see sustainability as a differentiator in determining industry leaders[2].

Yet, we see a gap between this common awareness and current practice. Many business leaders express doubts about the pace of change and the scale of their impact. They cite difficulties in embedding the right knowledge and skills, and challenges in identifying material issues, which are preventing investors and companies alike from taking full account of sustainability issues in company assessment and valuation.

In Reporting Matters 2013 – A baseline report[3], the World Business Council for Sustainable Development (WBCSD) found that whilst the majority of its members report on their sustainability performance, and invest significant resources in producing relevant data, the connection between sustainability performance and value creation was not explicit. To improve the flow of information for better decision making, the WBCSD has initiated the 'Redefining Value' program, and channelled the efforts of the 2014 Future Leaders Program towards "Bridging the Capitals – Accounting for Natural and Social Capital in Business Decision Making".

Building on these efforts, the WBCSD Future Leaders Program and Accenture have partnered to provide a new perspective on the way companies integrate sustainability in their performance management. Together we introduce a new concept: "Integrated Performance Management". Through an in-depth analysis of current practice at major corporates, we explore different methods for capturing environmental and social capitals in a business context, the challenges faced, and the actions companies are taking to improve integration. Moving to a wider concept of performance in this way enables companies to sharpen strategic decision making and deliver long-term sustainable value.

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1. United Nations Global Compact and Accenture (2013): The UN Global Compact-Accenture CEO Study on Sustainability 2013. New York, September 2013.
2. United Nations Global Compact and Accenture (2014): The Investor Study: Insights from PRI Signatories. New York, June 2014.
3. WBCSD (2013): Reporting Matters. Improving the effectiveness of reporting. Geneva, Switzerland. November 2013.

The WBCSD Future Leaders Program (FLP)

The WBCSD Future Leaders Program (FLP) was established to identify the skills needed by future leaders of member companies, and to provide a unique platform for them to develop and test these skills in a real-world setting.

The FLP is a unique professional and leadership development opportunity aiming to provide future business leaders with an in-depth understanding of sustainability challenges that will feed into their strategic decision-making. It is designed to help future leaders in their dealings with the often complex interdisciplinary topics, issues and concepts that will influence their future, as well as the future of their organizations. In addition to opportunities for face-to-face interaction, the program creates a global network of dynamic business leaders, capable of acting as sustainable development ambassadors both within their companies and in society.

This report reflects the findings of the 2014 FLP participants through individual reports, a group project, and extensive discussions with company representatives, experts, and peers on this year's topic: "Bridging the Capitals – Accounting for Natural & Social Capital in Business Decision Making".

Executive Summary

As sustainability rises on the political agenda, the business community has been reformulating its role in contributing to addressing global sustainability challenges. Companies clearly recognize the mutual influence between their business and the natural and social environment in which they operate, with 93% of CEOs saying that sustainability is key to their organization's success.[4]

Despite this shared motivation, only 38% of CEOs report that they are able to accurately quantify the business value of their company's sustainability initiatives. This clearly indicates that the definition of company performance must evolve beyond traditional financial metrics to take into account social and environmental aspects.

Integrated Performance Management (IPM), a term introduced here for the first time, allows us to envision company performance management which addresses all three aspects of sustainability – financial, social, and environmental. Building on the four standard performance management cycles: plan-do-check-act, Accenture has developed a framework to investigate how far companies have come in integrating sustainability into their strategy, key performance indicators, and performance monitoring, and how they are using the results to adjust their business strategy and to inform decision making.

Companies are moving from strategy to execution

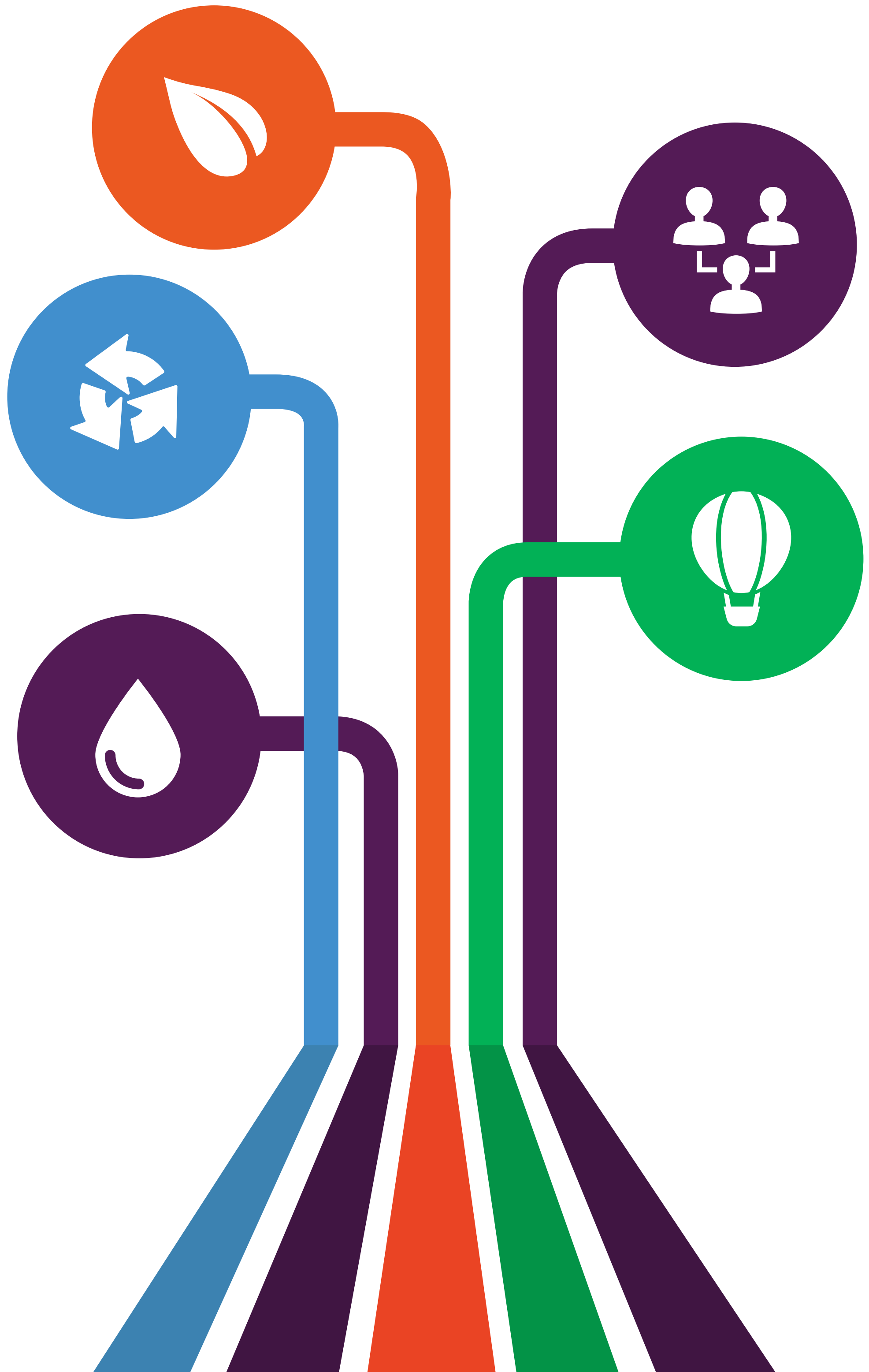
Based on application of the Accenture analysis by 16 WBCSD companies participating in the 2014 Future Leaders Program, it is clear that the majority of organizations have a robust process in place for creating a sustainability strategy, involving a range of internal and external stakeholders to help them identify material issues. However, they face three common challenges in implementing the IPM required to deploy these strategies.

The first challenge concerns metrics and measurement, especially how to select the right indicators, ensure consistent data quality, and create an efficient process for data collection. Data automation and careful selection of metrics with the input of experts can go a long way to addressing this problem. Second, how to engage employees is not always obvious. WBCSD members have found the deep involvement of corporate leadership to be essential. Engaging in a two-way dialogue with employees that leaves room for local initiative and offers incentives has been highlighted as an effective approach. Third, companies are still exploring how to link results from IPM to business value. Monetization is one potential solution being piloted by organizations, with the potential to express social and environmental risks and opportunities in the currency used by business, and therefore better integrate these into financially driven systems and processes.

The greatest opportunity lies in driving future performance

Most organizations analyzed currently measure the sustainability impact of current operations, and target incremental improvement on existing impact. However, discussions with participants clearly show that the greatest opportunity lies in using IPM to ground strategic decision making in the realities of business performance. By incorporating environmental and social value into risk management, investment selection and product development, companies will have the information they need to make the transition to a more sustainable business.

4. United Nations Global Compact and Accenture (2013): The UN Global Compact-Accenture CEO Study on Sustainability 2013. New York, September 2013.



Introducing Integrated Performance Management

A broader definition of business performance

Business is facing increasing expectations from investors, consumers, stakeholders and communities to bear responsibility for its impacts on society and the environment. Business leaders are getting the message: in the UN Global Compact-Accenture CEO study on Sustainability, surveying over 1,000 business executives, 93% of CEOs regard sustainability as key to success. In addition, 76% believe that embedding sustainability into core business will drive revenue growth and new opportunities, and 63% even expect sustainability to transform their industries within five years[5].

In recognizing the significant mutual influence between their business and the natural and social environments in which they operate, companies are coming to the realization that their definition of performance must move beyond traditional financial metrics.

This report introduces the concept of Integrated Performance Management (IPM), to describe organizational performance management which addresses all three aspects of sustainability equally – financial, social, and environmental. This encompasses how environmental and social considerations can be integrated into the process of developing a strategy, implementing it through a set of Key Performance Indicators (KPIs), monitoring performance, and using the results to fine tune plans, and to inform wider decision making.

As with traditional performance management, the IPM process follows four steps in a plan-do-check-act management cycle[6] (Figure 1).

Figure 1 The plan-do-check-act management cycle

1. Plan

Determining the strategic focus

An organization identifies its environmental and social material issues, elaborates its strategy to address these, sets targets, and communicates them internally and to external stakeholders.

- Define material issues
- Define organizational strategy
- Set objectives and targets

2. Do

Implementing the KPI framework

An organization develops corporate strategy into a framework to be applied in daily operations, which includes selecting performance indicators, specifying processes and defining roles and responsibilities.

- Define KPIs
- Align with existing processes
- Engage employees

3. Check

Monitoring progress

An organization collects KPI data and other information on performance, and compiles it in a format that allows for regular assessment of progress against targets across the organization.

- Measure performance
- Integrate in existing systems
- Automate data collection

4. Act

Turning results into opportunities

An organization uses the results from the performance evaluation to identify opportunities for improving existing activities, informing future decisions, including addressing risks, investing, and developing new products.

- Use in challenging strategy
- Use for optimizing operations
- Use for strategic decisions

Why companies are moving to integrated performance management

Every business will have a different reason for adopting IPM, depending on the nature of its operations and the conditions under which it operates, but there are five broad themes that are driving the move towards IPM.

Regulation and reporting: Several countries now require a company to disclose non-financial information. Most recently, South Africa moved to Integrated Reporting on a "comply or explain" basis. In April 2014, the European Parliament amended the legislation on the annual account of limited liability companies[7], requiring major businesses report on social, environmental and human rights impacts. Similarly, in France, Article 225 of the Grenelle II Act requires all listed companies in the country to publish information on the social and environmental impact of their activities, and detail their commitment to sustainable development. Furthermore, several international initiatives describe how to integrate environmental and social factors into global and long-term analysis of corporate financial results: among which the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC), the Sustainability Accounting Standards Board (SASB) and the OECD Principles of Corporate Governance (2004).

> "Publishing our social and environmental indicators helps us make sure our intentions are turned into reality. We also include several indicators in our Group management dashboard so we keep a global focus on this critical responsibility."
>
> Marc Henry,
> Chief Financial Officer and member of the Executive Council, Michelin

Risk management: All companies manage risks, whether financial or operational, to ensure their long term success. IPM can help a company to quantify and manage its environmental and social risks, preventing financial losses.

Investor demand: More and more, investors are asking for sustainability information on companies. IPM attracts investors and strengthens investor relations. Indices such as the Dow Jones Sustainability Index (DJSI), the FTSE4Good, the Carbon Disclosure Project (CDP) and Ethibel provide large companies with a platform from which to communicate their sustainability credentials and to burnish their corporate image. Many investors now expect companies to join these indices, and as membership in these indices rises, so too, does the importance of effective performance monitoring.

Employee attraction and retention: Sustainability performance is increasingly used as a recruitment tool in the war for talent. Strong IPM can create a comparative advantage, helping to attract top talent who share the companies vision on sustainability.

Methodology

This report is based on joint analysis by the WBCSD Future Leader Program (FLP) 2014 and Accenture, in which participants of the WBCSD Future Leaders Program applied Accenture's performance management maturity model. Each participant interviewed key stakeholders company-wide about management performance on environmental and social values, and used their findings to fill out a questionnaire based on the evaluation framework. Participants discussed their results with experts at Accenture and the WBCSD, wrote individual reports on their findings, and discussed the challenges and opportunities of applying IPM.

The process yielded a rich body of information about the frameworks, systems and processes used in IPM. The report covers 16 multinational companies in a range of sectors, including banking, chemicals, consulting, consumer products, engineering, material processing, retail, energy and technology.

5. United Nations Global Compact and Accenture (2013): The UN Global Compact-Accenture CEO Study on Sustainability 2013. New York, September 2013.
6. This cycle was originally described by Demming, and is also called the Demming Cycle (Hervani, A. a., Helms, M. M., & Sarkis, J. (2005): Performance measurement for green supply chain management. Benchmarking: An International Journal, 12(4), 330–353). It is also used in the ISO 14031 guidelines for environmental performance evaluation
7. Council Directives 78/660/EEC and 83/349/EEC.
8. WBCSD Future Leader Program (2014): Unravelling the Business Value Landscape
9. International Integrated Reporting Council. December 2013. International Integrated Reporting Framework, p. 10.
10. International Accounting Standards Board. September 2010. The Conceptual Framework for Financial Reporting.
11. Modified from International Integrated Reporting Framework, p. 18. International Integrated Reporting Council. December 2013.
12. WBCSD Future Leader Program (2014): The journey to Materiality

New definitions for integrated performance management

Business Value

Companies are accustomed to measuring the performance and the value of their business activities. But how does a company capture value?

A traditional accounting view of value is a measurement of the extent to which an entity generates financial wealth. In this context value is often narrowly defined as shareholder returns, through dividends and capital gains. This leads companies to define success through the maximizing of shareholder wealth.

Increasingly companies are recognizing the importance of their actions in the context of both financial and non-financial stakeholders. The values of employees, customers, suppliers, and society at large, among others, can also be created and destroyed by company operations.

In this context the more holistic definitions of value can aligned to the 'triple bottom line', incorporating social and environmental factors in the definition of business value[8].

The International Integrated Reporting Framework identifies the concept of business value beyond financial returns. The IIRC states that value has two interrelated aspects – created for (1) the organization itself, which enables financial returns to the providers of financial capital, and (2) for others (stakeholders and society at large)[9]. Often financial reporting does not capture these other values, because a company may not always see a direct correlation between these values and financial results and shareholder returns. However non-financial values are crucial to the long-term success of a business.

Materiality

IPM requires a new definition of materiality, because it covers a different set of issues than conventional financial performance management. But what exactly should be measured, since there are many gauges of non-financial performance? What are the material issues? How do we determine materiality?

While the definition of materiality has many versions in sustainability reporting, the classical definition comes from financial reporting. Under the Conceptual Framework for Financial Reporting of International Financial Reporting Standards, "information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity"[10]. Materiality in this sense is often expressed in monetary terms.

The International Integrated Reporting Framework takes another approach to materiality that encompasses non-financial criteria like environmental, social and governance issues[11]:

1. Identifying relevant matters based on their ability to influence management in making business decisions
2. Evaluating the importance of relevant matters by their known or potential influence on decision making
3. Prioritizing matters on relative importance

A recent report by WBCSD FLP delegates takes this approach further and defines material issues as those that "threaten a company's ability to operate its business model and execute its strategy"[12].

Accenture's maturity model

Based on the plan-do-check-act management cycle, Accenture has developed an evaluation framework that provides a holistic approach designed to systematically assess an organization's integrated performance management capabilities and identify opportunities for improvement. Respondents assessed themselves against the criteria within this model, on a rating from 1 to 5, where 1 is 'basic', 3 is 'competitive', and 5 is 'leading'. Recurring themes include the level of integration across the organization, consistency between phases, and involvement of different parts of the business. Within each step, the tool distinguishes high-level concepts which are assessed through secondary parameters.

Plan

Sustainability is a complex concept, so the first phase of the model focuses on the process of defining this concept in the business context and stakeholder environment. The underlying parameters are (1) determining material issues, (2) aligning strategies and goals, and (3) establishing a robust KPI selection process.

Do

The implementation of IPM in daily practice consists of defining the activities for collecting data, turning this into useful information, and distributing it through the organization. The model covers this step through three parameters: (1) data collection process, (2) approach for analyzing and converting data, and (3) reporting and communicating information.

Check

For the check-phase, the maturity model zooms in on the organization of the data collection process itself. The secondary parameters are (1) defining roles and responsibilities, (2) automation, and (3) integration in the existing business controlling process.

Act

The results from IPM can be used in two ways, firstly, to evaluate the IPM process itself, and secondly, to inform decision-making. The tool assesses both areas, with parameters covering (1) refining metrics and processes, (2) evaluating progress against targets and peers, (3) challenging strategic assumptions, and (4) using results in decision making.

Figure 2: IPM maturity model, and evaluation parameters

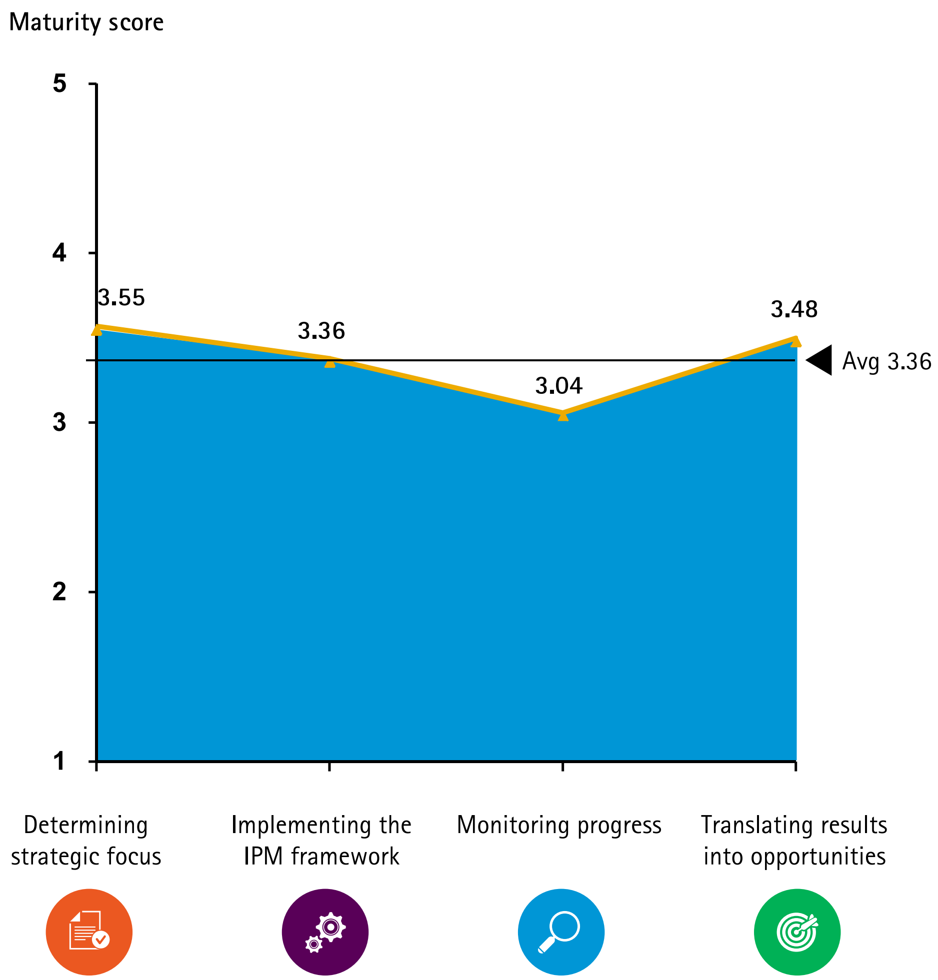
Integrated Performance Management

Evaluation parameters	Plan	Do	Check	Act
	Determining material issues	Data collection process	Defining roles and responsibilities	Refining metrics and processes
	Aligning strategies and goals	Approach for analyzing and converting data	Automation	Evaluating progress against targets and peers
	Establishing a robust KPI selection process	Reporting and communicating information	Integration in the existing business controlling process	Challenging strategic assumptions
				Using results in decision making

The state of integrated performance management among major corporates

The study shows maturity varies across the steps of the plan-do-check-act cycle. In many cases, executives are driving the initiative to measure environmental and social performance alongside financial performance, because they want to gain insight into the progress being made towards corporate sustainability goals. As a result, the strategic focus is clear from the outset, but the challenge lies in translating strategy into a meaningful and practical framework for the organization. The process of determining the strategic focus is therefore the most mature step in the plan-do-check-act cycle (Figure 3).

Figure 3: IPM is relatively mature in strategy, less so in operations



With sustainability strategies in place, companies are now shifting their focus to their environmental and social impacts within their operations. They are exploring methods for measuring environmental and social impacts, possibilities for making the link with business value, and ways for integrating the insights into existing processes, systems, and most of all, into decision making.

Despite growing attention, monitoring progress was the least mature category. This resonates with the 2013 Accenture-UNDP CEO Study on Sustainability, where only 38% of CEOs report that they are able to accurately quantify the business value of their company's sustainability initiatives.

Clearly, putting a sustainability strategy in place does not guarantee effective implementation, and companies are grappling with the challenges of embedding IPM throughout their operations. In the following sections, we address each step of the plan-do-check-act management cycle.

Plan
Understanding the bigger picture

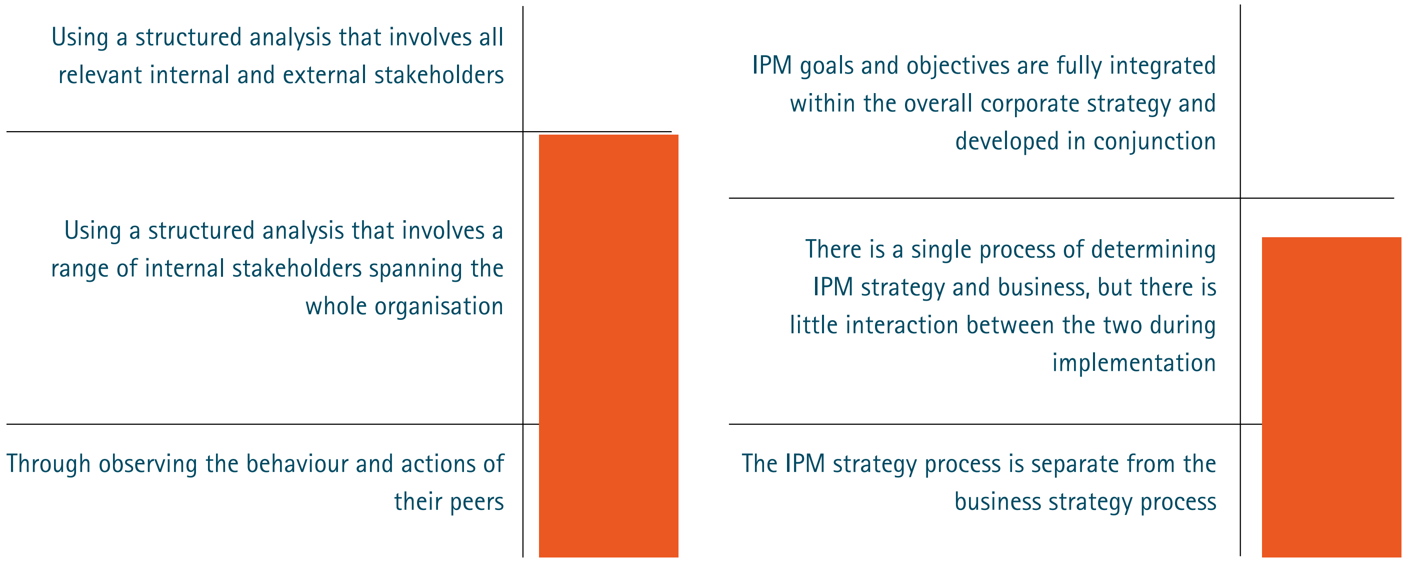
Integrating environmental and social aspects into corporate strategy

Companies typically conduct sustainability materiality assessments as part of their strategic planning, so the process is relatively mature and well-established. Many respondents indicate that they determine material issues using a structured analysis that involves a wide range of stakeholders (Figure 4). This process is fairly well integrated into overall corporate strategy.

Input from independent experts: Mitsubishi Corporation

Mitsubishi Corporation has a CSR & Environmental Affairs Advisory Committee, consisting of external experts on sustainability. This Advisory Committee reviews performance twice-yearly to discuss the company's sustainability initiatives. Additionally, each year they visit a specific business project to assess how sustainability is embedded at the operational level. The company's Executive Vice President in charge of CSR & Environmental Affairs chairs the Advisory Committee, and recommendations from the Committee are conveyed to the Executive Committee. Their expert opinions are highly valuable in developing new approaches for addressing sustainability issues, for instance through new initiatives and refinement of KPIs. Their input is also integrated into annual reporting at Mitsubishi Corporation to communicate this to the wider stakeholder community.

Figure 4: Respondents involve a range of stakeholders in materiality assessment and are beginning to integrate environmental and social targets into overall corporate strategy



Do
Creating a common approach with room for individual initiative

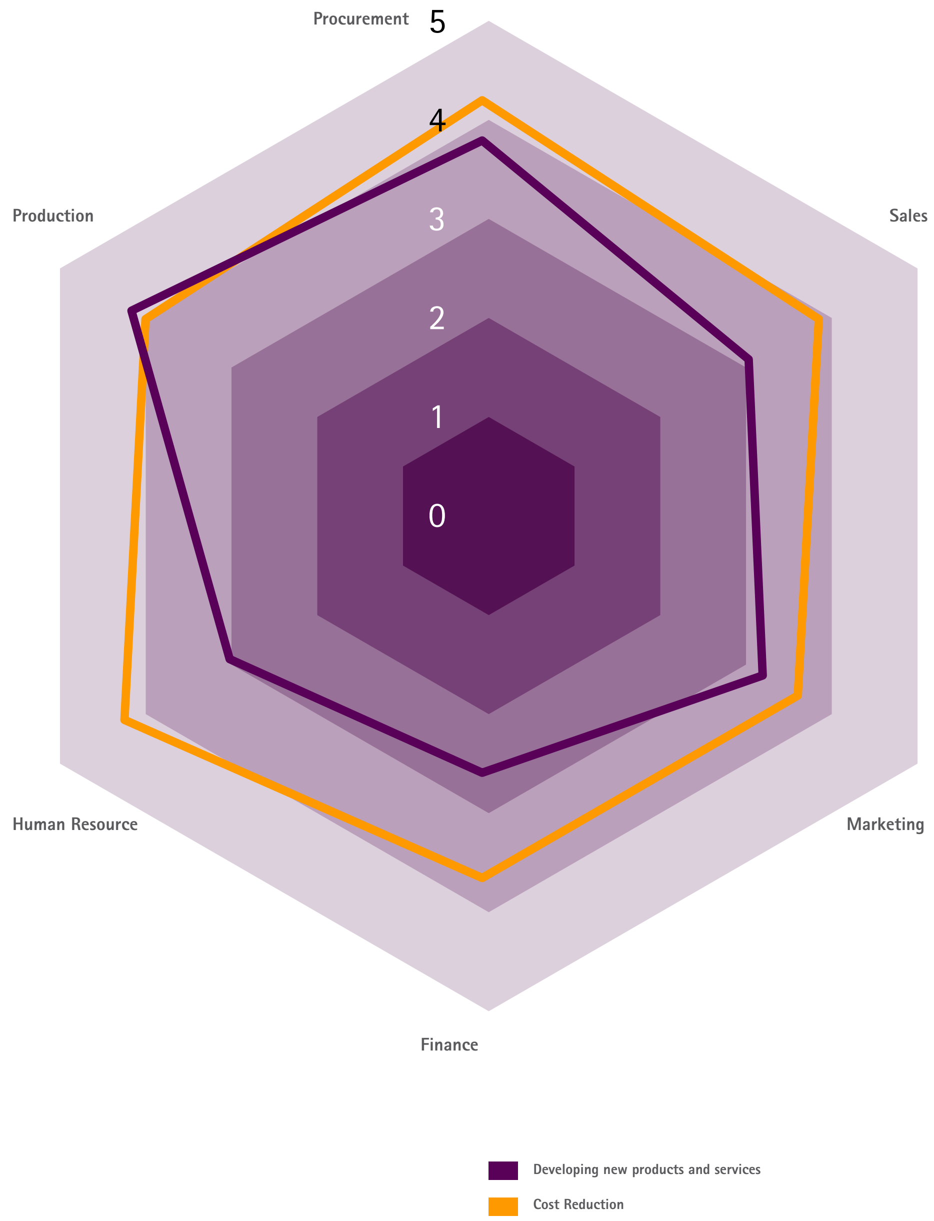
Involving the whole organisation

For a company to perform well, all business areas must work effectively in a structured way. This is no different when environmental and social aspects are included. How involved a business area is in IPM varies widely (Figure 5). Amongst respondents, procurement and production are the most involved, while financial departments are the least. Engagement is broadest when costs reduction is the main driver. Developing new sustainability-related products and services is usually a narrowly-defined responsibility, and the finance department is least involved in this undertaking.

Balancing shared vision with local differentiation

When putting an integrated strategy into action, global corporations need to account for differences between geographies and business units. Most respondents have adopted an approach of differentiation bound by a common agenda. Within an overarching strategic framework, business units are charged with defining how they will contribute to corporate targets.

Figure 5: Levels of engagement and drivers of value vary by department

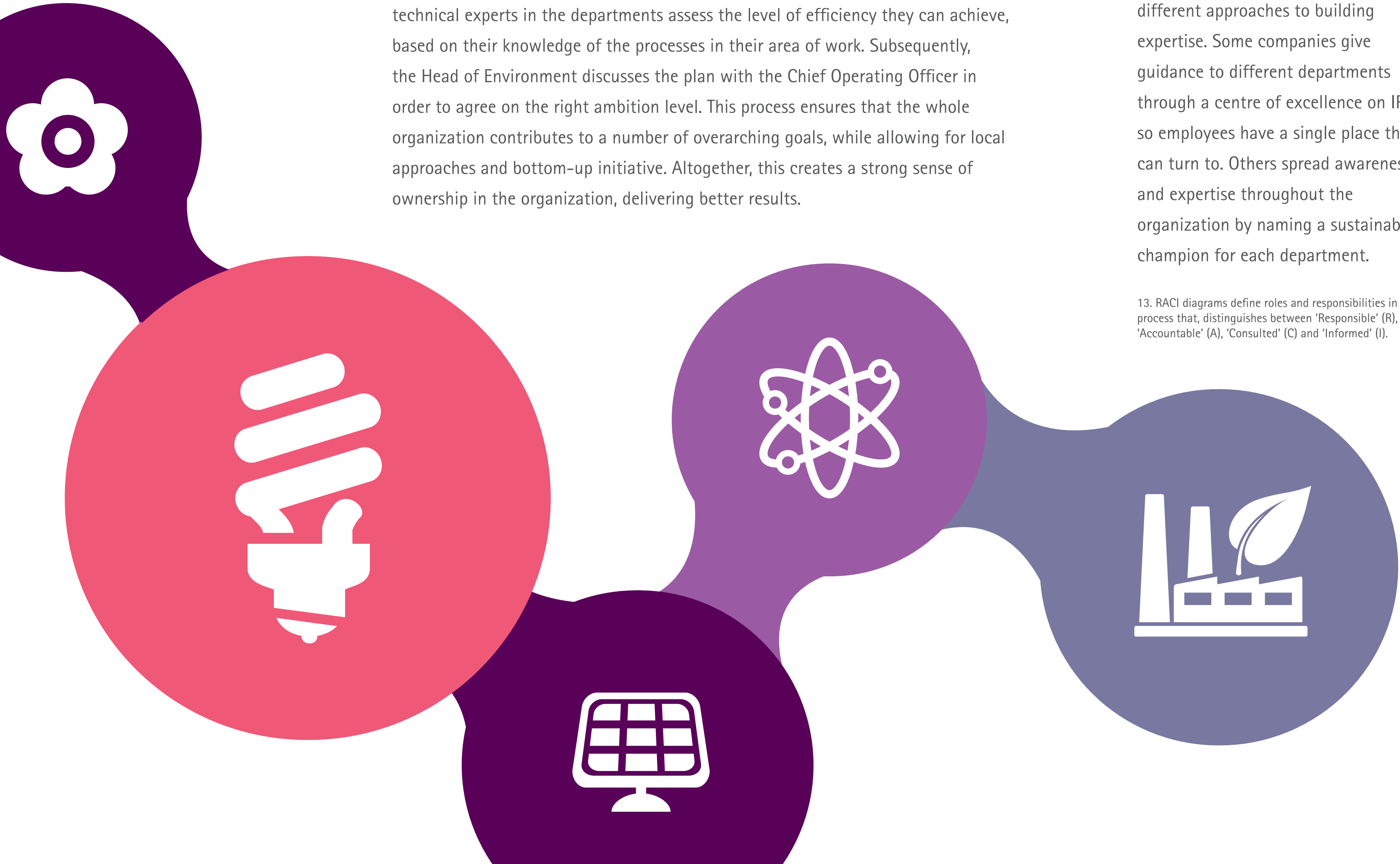


Sustainability KPIs from the bottom up: Sonae

At Sonae's food retail business unit, every department at every level has to contribute to doing sustainable business on a daily basis, having dedicated sustainability KPIs.

These KPIs and targets are not imposed top-down. The company's leadership creates an environment in which the awareness that the potential negative business impact must be reduced and that there must be a constant effort towards sustainability becomes part of corporate culture, and each department is involved in defining its own contribution.

When considering Sonae's ambition to increase water efficiency, for example, the technical experts in the departments assess the level of efficiency they can achieve, based on their knowledge of the processes in their area of work. Subsequently, the Head of Environment discusses the plan with the Chief Operating Officer in order to agree on the right ambition level. This process ensures that the whole organization contributes to a number of overarching goals, while allowing for local approaches and bottom-up initiative. Altogether, this creates a strong sense of ownership in the organization, delivering better results.

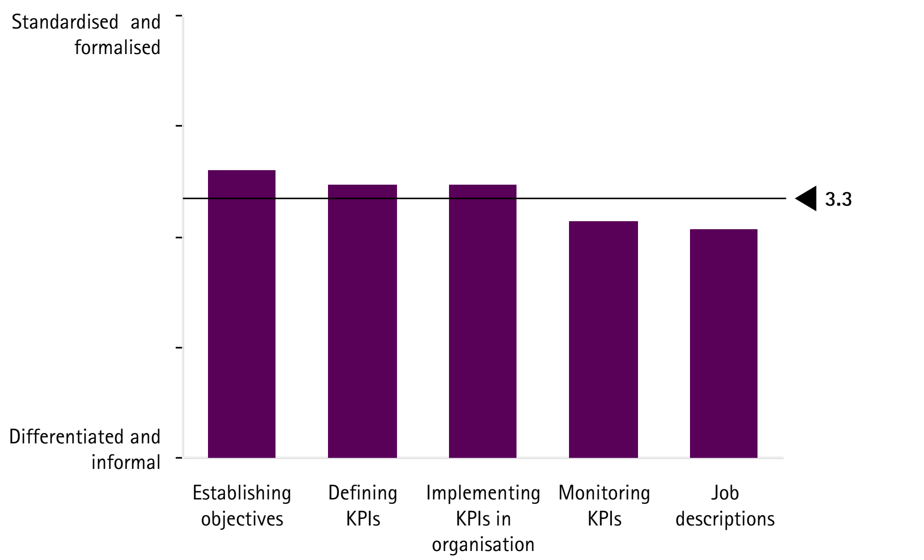


Many respondent organizations support bottom-up initiatives by providing guidance for processes and roles, but few have fully defined and documented these (Figure 6). Defining and documenting jobs at operational level is less mature than for other steps, even though a clear understanding of the task on the ground is essential for seeing through any strategy.

The respondent companies take different approaches to building expertise. Some companies give guidance to different departments through a centre of excellence on IPM, so employees have a single place they can turn to. Others spread awareness and expertise throughout the organization by naming a sustainability champion for each department.

13. RACI diagrams define roles and responsibilities in a process that, distinguishes between 'Responsible' (R), 'Accountable' (A), 'Consulted' (C) and 'Informed' (I).

Figure 6: Maturity of standardization and formalization of roles and processes



Focusing on businesses and manufacturing: Dow Chemical

Effective integration of sustainability in business processes often requires a conscious move on the part of leadership. The Dow Chemical Company aims to move away from a centralized and siloed sustainability function: its goal is to have sustainability ingrained in the businesses and manufacturing sites.

Dow has dedicated resources working to integrate sustainability metrics into the businesses and at its sites, and there is a formalized process for translating sustainability goals into actions at all levels. As a goal is determined in the strategy-setting process, an executive sponsor, reporting directly to the CEO, and an implementation leader are identified. While both are responsible for the goal, the implementation leader is ultimately accountable for the goal's attainment. This leader has typically been involved in the development of the goal, and thus will understand the strategy and means of achieving the goal. Beyond the implementation leader, full RACI diagrams[15] are completed for each sustainability goal, defining participants across levels of the organization.

The team assigned to design each goal must go through a rigorous process to determine how the goal will be met and define its feasibility, cost, timeline, and benefits. A document, referred to as a "white book," is created that lays out the framework for reaching each goal and the positions accountable for and involved in the goal implementation.

As employees work toward achieving specific goals, they regularly share stories and best practices driving the business in a more sustainable direction.

Engaging employees through strong leadership

Bringing employees on board with sustainability is an essential element of effective IPM. While most respondents have robust ways of communicating environmental and social value and performance to employees, that effort does not automatically translate into greater employee understanding (Figure 7).

The research shows that strong leadership is the best way to engage employees. Board-level commitment and dedicated people can significantly boost the awareness of sustainability ambitions. The most mature steps towards integrated performance are those in which people at strategic level are involved (Figure 8).

Figure 7: Employee engagement on environmental and social performance

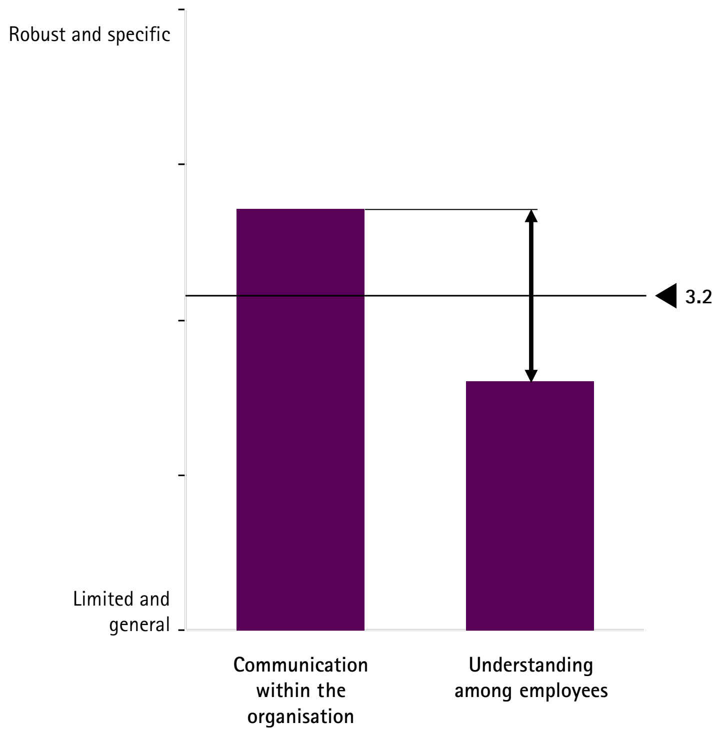
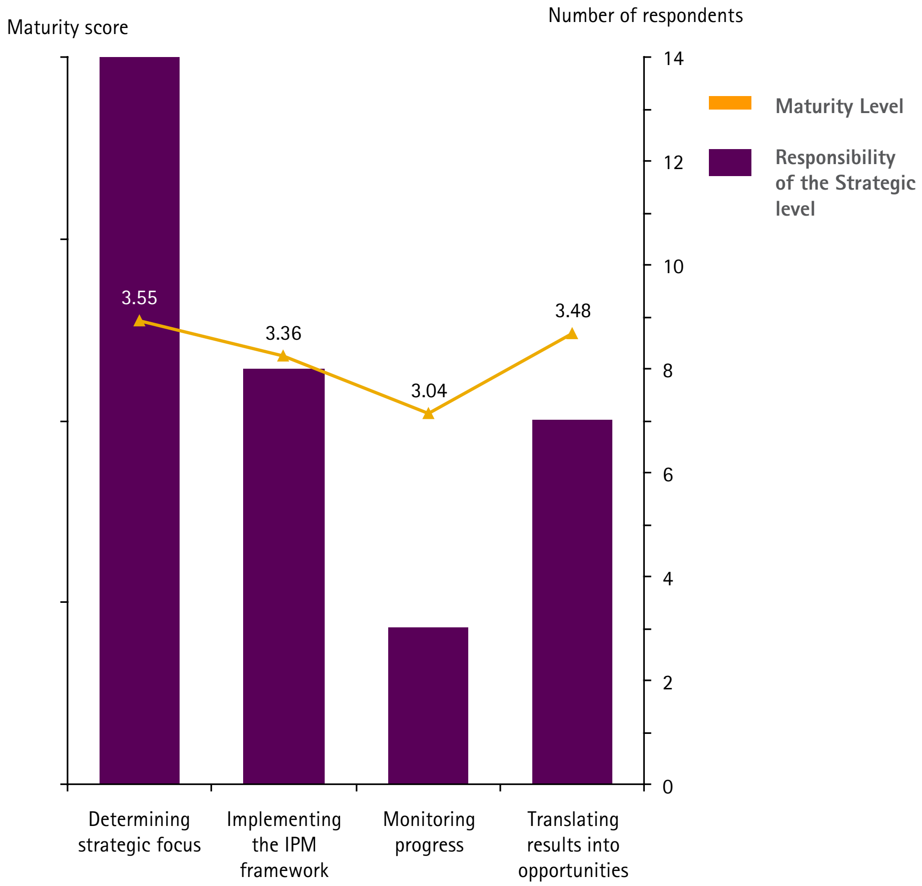


Figure 8: Employee engagement strongest when executives are involved at strategic level



Incentivizing sustainability in individuals and teams

Incentives can motivate employees to act on sustainability-related business impacts, but only if employees can directly influence the related performance indicators in their work. Various companies assign accountability to individuals for sustainability performance, often at board level, making sustainability targets part of employee compensation. Because reaping environmental and social benefits often takes joint effort, many organizations create incentives for the whole team. Especially at field-level, setting pay-related sustainability targets for individuals is less common.

Creating a common culture of responsibility: the Solvay Way

In 2013, Solvay group launched the "Solvay Way", a sustainable development policy that provides a framework to guide and measure company's success at meeting its objective.
Through the Solvay Way, the company has been able to increase the awareness on non-financial capitals within the teams, from corporate-level to plant-level. The Solvay Way provides a framework of commitments that enables all Group entities to self-assess their sustainable development progress on the basis of 49 practices. This allows Group entities to develop action plans, which are reviewed every year for all locations, scored and audited. Each business unit has a Solvay Way champion, who helps the local teams in the process of applying the framework. Progress on the Solvay Way is one of the KPIs in the evaluation of the performance of management. This way, 10% of bonuses of the company's 7,500 managers are linked to sustainable development indicators.

Reward for Green: KBC

Within its Belgium Business Unit, KBC has introduced a 'Reward for Green' initiative that rewards employees driving sustainability-related improvements. The company aims to reduce annual paper use and electricity consumption by 5%. Three years into the programme and the 'easy wins' have been achieved, which means that meeting the target is becoming more challenging every year. To stimulate creative ideas, employees may receive rewards for suggesting ways to continue reducing the impact on the environment.

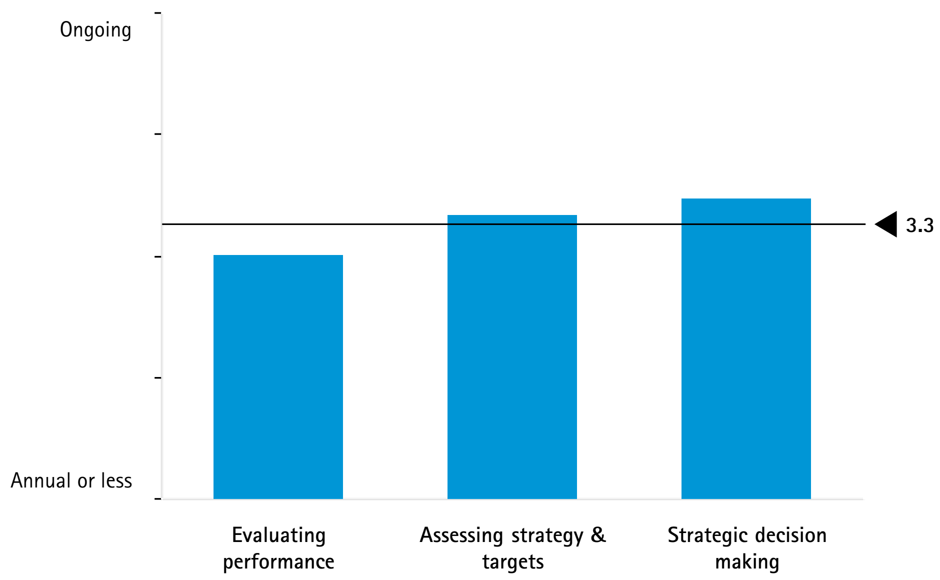
Check
Developing the ability to measure performance

Measuring to manage

Being able to measure and monitor sustainability performance is vital, and it can be very difficult if a business cannot easily obtain up-to-date information on environmental and social metrics.

Companies typically have a process to continually monitor financial performance, but they usually only assess environmental and social performance once or a few times a year (Figure 9). While they make decisions taking environmental and social factors into consideration more frequently, these decisions cannot be grounded in up-to-date insights if performance data is not readily available.

Figure 9 Environmental and social performance evaluated a few times a year at most



Introducing more effective and standardized data collection is a key step towards IPM, but the lack of data quality and unwieldy data collection are often barriers. Poor data quality often results when standard metrics and data format are absent, meaning information on the environmental and social aspects of business performance is not homogenous across an organization. Data collection also acts as a barrier when done manually, or when sustainability-related KPIs are gathered in a separate system, which must then be aligned with financial management processes.

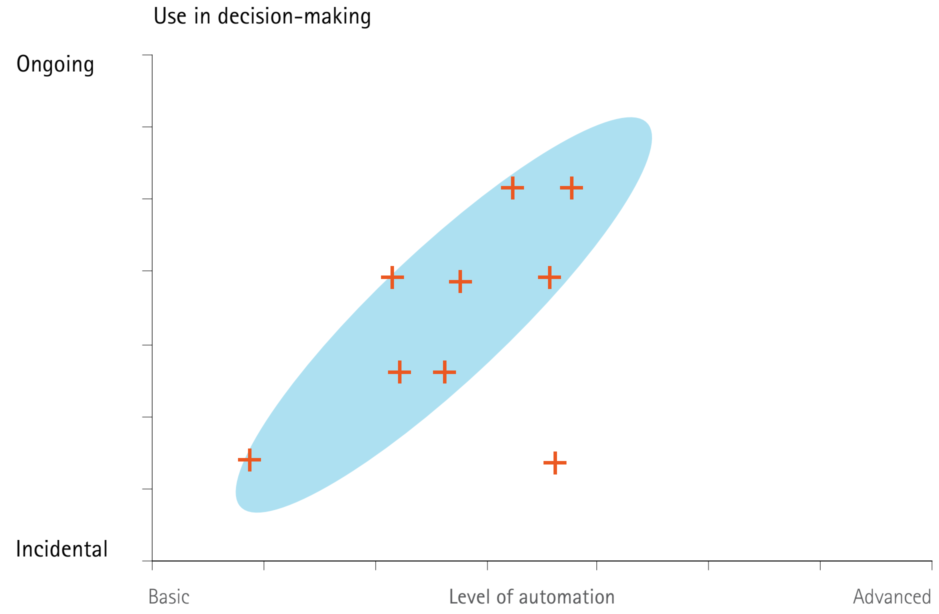
Standardizing data

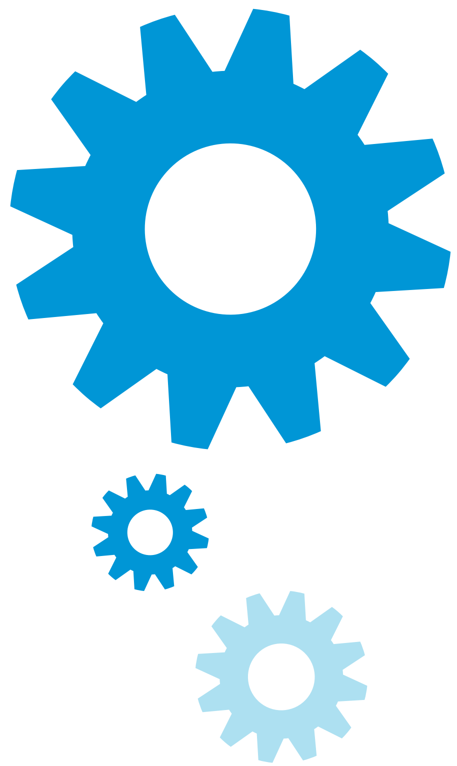
Improving data quality starts with sound metrics. KPIs need to be quantified in a meaningful way, and data selected that can be monitored practically. Data also need to be normalized so companies can draw comparisons between parts of the business, and choose the right frequency for measuring. To ensure KPIs are robust, many companies call upon independent experts to audit environmental and social performance.

Automating data collection

Automation facilitates regular data collection, and putting the right system in place to streamline and automate the process is an important step for monitoring progress efficiently. Many respondents have a measurement system, but few have fully integrated environmental and social metrics into their automated business control systems. Dashboards for monitoring performance are relatively common, and respondents highlight that they give a clear overview of progress to operators and management. The survey shows companies with regular automated data collection use environmental and social metrics more often in decision making (Figure 10).

Figure 10: Information used more frequently when data collection is automated





CSR screening of investment funds: KBC Asset Management

At KBC Asset Management, a member of the KBC group, Socially Responsible Investment (SRI) funds have been introduced that encompass specific sustainable themes or target sustainability leaders within each industry group. Within these funds, CSR-related KPIs play a determining factor in screening the eligibility of the issuer of equity, as well as in screening countries and companies for SRI funds. The screening of SRI funds is overseen by an external board of experts in the field of human rights, the environment and business ethics. This board determines the reliability, completeness and transparency of the screening results and advises about the extent to which SRI complies with KBC's policy on CSR.

Integrating sustainability parameters into financial systems: Eskom

Eskom has developed integrated existing non-financial modules into its financial system for managing business performance. Getting this in place required dedication and time to tailor some of the features of the system to the organization, and to incorporate the additional data and data parameters and requirements. Even at an early stage of implementation of the non-financial aspects of the system, benefits were being experienced given that data is readily accessible centrally and a common data set exists for the whole organization – this is essential for the sustainability assurance process.

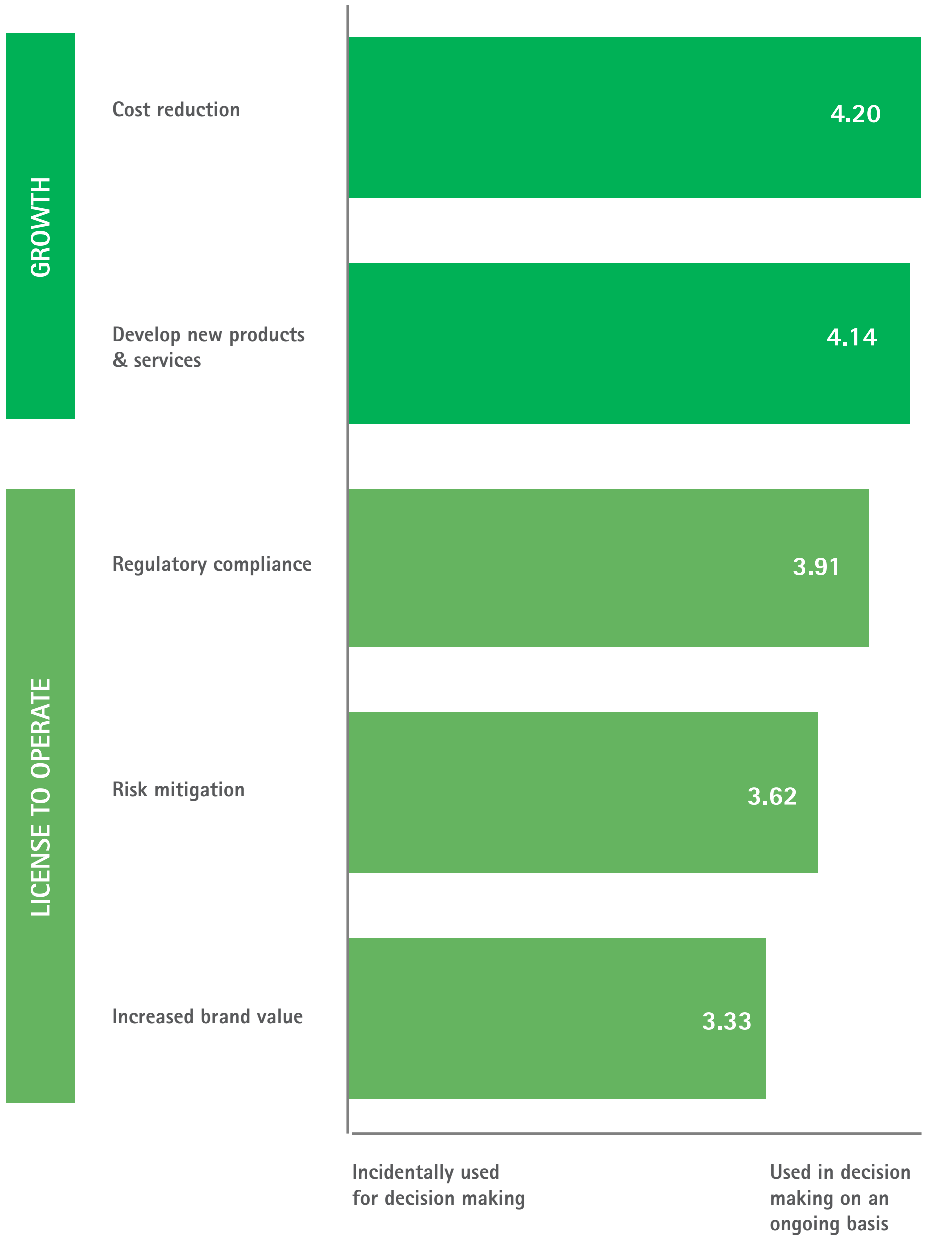
Act
Linking decision making to business value

From a better today to a better tomorrow

While IPM helps companies monitor and improve current activities, the benefits of using IPM for the future should not be overlooked. By integrating IPM into decisions on new investments and new product strategies, a company can identify and mitigate risks, and seize new market opportunities. In this way, IPM informs the transition to a more sustainable business.

In practice, companies focus primarily on the present, and more commonly use environmental and social indicators for operational decision making than for strategy. The research shows integrating environmental, social and financial performance is most common when costs reduction is the main driver (Figure 11).

Figure 11 Environmental and social performance data used most for cost reduction



Integrated Performance Management

A direct link between sustainability impacts and financial value can be made in operational decisions most easily. In manufacturing, for example, environmental metrics such as energy use or water consumption are closely interwoven with the production process, directly tying sustainability with financial performance. Employees managing these processes are involved daily in integrating performance management, although they may not explicitly recognize it is part of their job.

On long-term strategy, companies use the results from IPM most for product development. Evaluating the sustainability performance of existing products and services helps a company identify opportunities for creating new markets and better, cheaper and more sustainable products.

Screening investments by sustainability impact: Mitsubishi Corporation

At Mitsubishi Corporation, all major investment proposals are screened by the CSR & Environmental Affairs Department on social and environmental issues before getting approval by the Board. This approach is not without its challenges. For example, it is difficult to establish a harmonized set of metrics for measuring social and environmental impacts across the company's diverse business portfolio, as the relevant aspects will differ, and conditions will vary by geography. Overall, however, the company has made good progress in embedding social and environmental issues into financial decision-making. The screening framework helps the company to mitigate its investment risks, whilst also creating a strong engagement platform to raise awareness of sustainability issues throughout the organization

Moving towards sustainable products through a clear vision and concrete targets: CLP Group

Back in the early 1990s, CLP was a Hong Kong based power business with coal as its main source of fuel. Today CLP has developed into a regional energy business with a considerable portfolio of renewables. Since launching its first renewable energy target (of 5% by 2010) in 2004, CLP continues to keep track of its renewable energy and carbon intensity targets as manifested in its "Climate Vision 2050" published in 2007. These targets have driven CLP to invest in renewable energy – from a small hydro project investment in China in 1997 of less than 100MW to a renewable portfolio of over 2.5GW at the end of 2013, which now includes wind, solar and hydro projects spanning across China, India, Thailand and Australia.

Win-win by reducing Packaging: Unilever

In 2013, Unilever launched new packaging of three of its top-selling deodorants in the UK. The new spraying cans only use half the propellant, approximately 25% less aluminum and one third less road transport because of their compressed size. Not only has this decreased Unilever's carbon footprint, but it has also positively impacted sales and customer satisfaction of the three deodorants. This approach is now being implemented in other brands within the Unilever holding.

Lessons learned from FLP delegates

Challenges for Integrated Performance Management

Many companies have robust sustainability strategies and understand the mutual effect between their business operations and the natural and social environment. They understand that IPM is crucial to deliver on their sustainability ambitions. But getting there is not always easy. Through the course of this research, the FLP delegates have encountered a set of challenges that will need to be overcome to scale up the practice of IPM. In parallel, they have established the clear opportunities that are motivating their organisations to continue on this journey.

Companies need to shift from producing KPIs to taking the actions that flow from the analysis of KPIs. The main challenge in this, FLP delegates agree, is how to make IPM more efficient and coherent, and how to translate data into information for decision making. FLP delegates also highlight three other challenges: data, organizational culture, and monetization.

Data quality and consistency

To support sustainability goals requires a wide gamut of non-financial KPIs on environmental and social metrics, which poses challenges for the quality, consistency, and collection of data to measure and monitor these metrics. Some FLP participants see a lack of alignment of data as a major problem for data quality and consistency: measures used at corporate level are often disconnected from KPIs used at operational level. What is more, companies typically evaluate performance as change versus a previous internal benchmark. Benchmarking against external companies would contribute to faster uptake of best practice and ultimately speed progress, but is impeded by a lack of ability to compare KPIs and limited data in the public domain. Data collection of KPIs is often manual and time consuming, so many companies collect data only once a year. As a result these KPIs do not figure into the periodic reporting and performance management cycles for review of financial and operational metrics. Even though more companies are investing in custom software to help automate the process, these metrics are often separate from the existing systems for business control.

A sustainability culture

Organizational awareness of sustainability strategy is another important challenge. A safety culture is well established in many FLP companies, but while social and environmental aims at these firms are often articulated at the corporate level, they are not well understood by employees in local units. Employees therefore find it hard to translate high-level objectives into actions they can take in their daily work. What is more, few companies provide financial incentives for achieving environmental or social objectives.

Monetizing impact

Companies invest in IPM to mitigate risk and unlock future business value, yet few companies monetize the value derived from these efforts. This is primarily because established frameworks for monetization are missing, and assigning value to environmental and social impacts is an inherently uncertain undertaking. But without this framework, it is hard to evaluate competing projects and translate sustainability investments into business value.

The road ahead: opportunities of integrated performance management

Throughout the research, FLP companies have agreed that the move towards IPM gives organizations a better handle on their everyday business in three major ways.

Better measurement and management

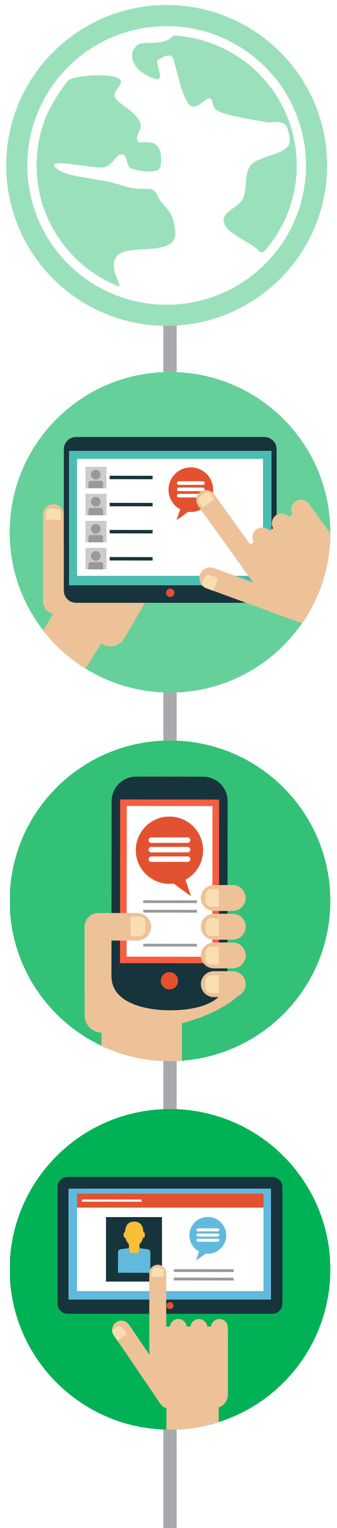
Integrating environmental and social metrics provides greater insight for managing performance, a better handle on internal controls, and sharper management focus. IPM offers companies a way to automate and streamline measurement systems for environmental and social performance, and integrate them into their financial systems. Set-up costs for an integrated system may be high, but the cost savings and benefits usually out-weigh the initial outlay. Metrics should be selected carefully, so only the most relevant KPIs are monitored, which leads to lower data collection costs and more relevant reporting.

Better engagement in new dialogues

Companies with well-anchored sustainability goals and a mature IPM framework are able to engage more effectively with their external stakeholders. They can work with investors, and access new funding by issuing green bonds. They strengthen relationships with suppliers through sustainable procurement. By seeking partnerships with customers and consumer groups, these companies open new markets for products that meet social and environmental criteria. Community programs set up at manufacturing sites give local units a way to engage in a close dialogue with the local community to improve the lives of residents and foster closer ties with the company.

Better long-term performance

The greatest value of IPM is to create future business prospects. Monitoring performance helps companies identify and mitigate environmental and social risks, and to spot and seize on emerging sustainability trends and market opportunities. By shifting from the process of IPM itself, to reaping the benefits that accrue from it, companies can take advantage of new market opportunities and drive the transition to a more sustainable business.



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The World Business Council for Sustainable Development (WBCSD), a CEO-led organization of some 200 forward-thinking global companies, is committed to galvanizing the global business community to create a sustainable future for business, society and the environment. Together with its members, the council applies its respected thought leadership and effective advocacy to generate constructive solutions and take shared action. Leveraging its strong relationships with stakeholders as the leading advocate for business, the council helps drive debate and policy change in favor of sustainable development solutions.
The WBCSD provides a forum for its member companies – who represent all business sectors, all continents and a combined revenue of more than $8.5 trillion, 19 million employees – to share best practices on sustainable development issues and to develop innovative tools that change the status quo. The council also benefits from a network of 70 national and regional business councils and partner organizations, a majority of which are based in developing countries.

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About the Future Leaders Program

The WBCSD Future Leaders Program (FLP) is a unique professional and leadership development opportunity aiming to provide future business leaders with an in-depth understanding of sustainability challenges that will feed into their strategic decision-making. It is designed to help future leaders in their dealings with the often complex interdisciplinary topics, issues and concepts that will influence their future, as well as the future of their organizations. In addition to opportunities for face-to-face interaction, the program creates a global network of dynamic business leaders, capable of acting as sustainable development ambassadors both within their companies and in society.