



Setting the Context:

Creating Value from Sustainability Investments

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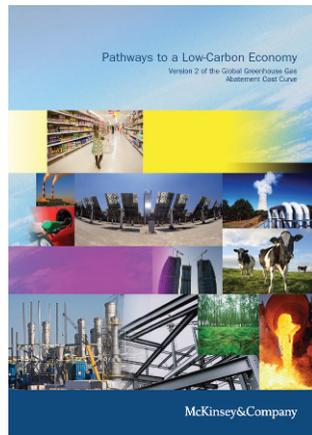
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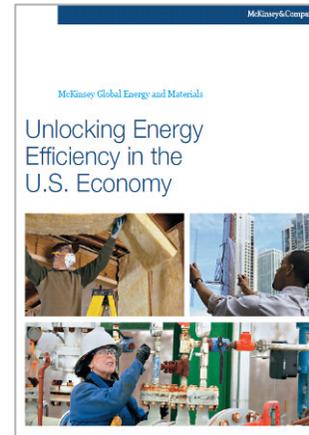
NOT EXHAUSTIVE

GHG abatement curves



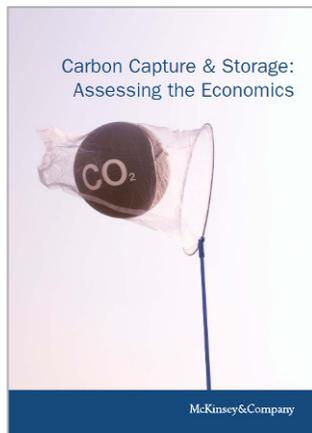
- Analysis of the Costs and GHG abatement potential worldwide
- Perspective on carbon cash flows, global technology learning rates, key enablers of GHG reduction

U.S. Energy Efficiency report



- Opportunities and barriers to efficiency in the U.S.
- Detailed breakdown by region and microsegment

Clean technology deep dives



- Future costs, market potential, barriers, and enablers for critical clean technologies
- Solar, Electric vehicles, CCS, Smartgrid, Electric storage, many others

Charting our Water Future Report



- Supply and demand for water resources globally, regional focuses on India, China, Brazil & S. Africa
- Development of a Water efficiency cost curve

Examples of recent publications on CSR

NOT EXHAUSTIVE

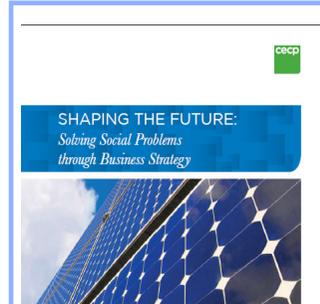


How Virtue Creates Value for Business and Society
Investigating the value of environmental, social and governance activities



How Virtue Creates Value for Business and Society

- Provides a framework to link environmental, social, and governance activities to value creation in order to help CSR practitioners identify and communicate more effectively the financial value of their work internally and externally



SHAPING THE FUTURE:
Solving Social Problems
through Business Strategy

Pathways to Sustainable Value Creation in 2020
Based on research by McKinsey & Company



Shaping the future: Solving Social Problems through Business Strategy

- Discusses game-changing trends, their impact on competition, and how business will respond
- Investigates steps companies can take to mitigate risks/seize opportunities for long term value creation



Valuing Social Responsibility Programs

- Offers perspective on how environmental, social, and governance programs can create value in ways that support growth, improve returns on capital, reduce risk, or improve management quality



How companies manage sustainability: McKinsey Global Survey results

- Explores how companies define sustainability, how they manage it, why they engage in activities related to sustainability, and how they assess/communicate this engagement

Variations exist in the definition of ‘sustainability’

“**Sustainable Development** is development that meets the needs of the present without compromising the ability of future generations to meet their own needs”



World Business Council for Sustainable Development

We look at the full range of ESG issues



Environmental

- Climate change
- Water and energy efficiency
- Waste production
- Sustainable supply chain



Social

- Labor practices
- Community Impact
- Talent markets



Governance

- Ethics
- Transparency and accountability
- Corruption



Contents

- **Increasing importance for Companies to address sustainability**
- Creating value from sustainability
- Questions for discussion

There are a number of game changing trends that are shaping the context for business...

Global forces ...

... are shaping a new world for business and society

The great rebalancing



Pricing the planet



Global grid



Productivity revolution



Market state



The rise of emerging markets

Climate change and resource scarcity (water, food, energy)

Spread and influence of information technology

Talent shortage

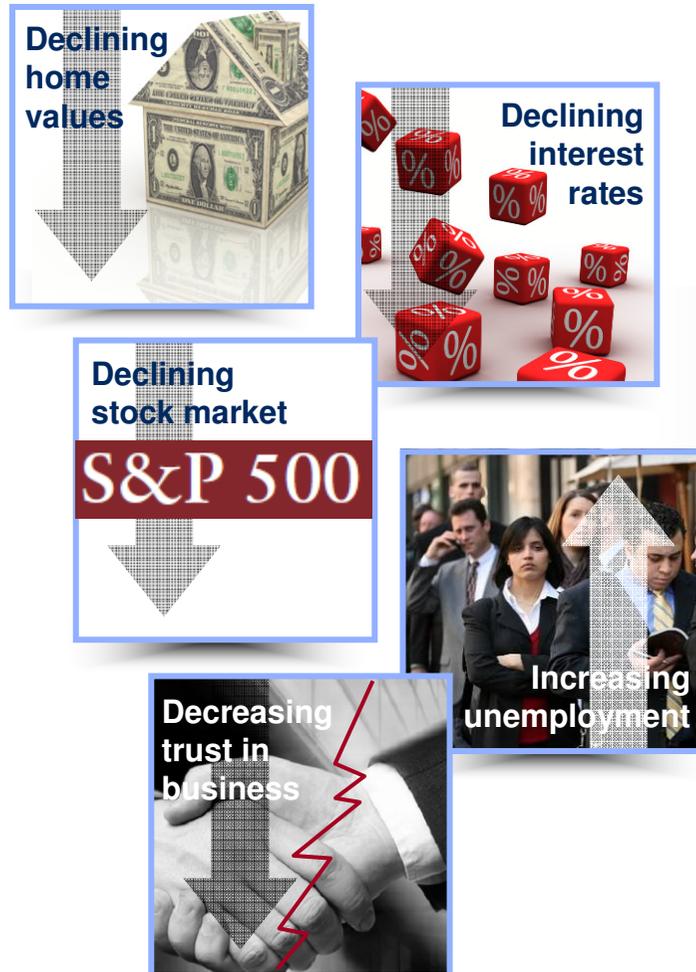
New role for governments

Towards a **fundamentally different operating environment**, where

- **Governments struggle** to find solutions
- **Trust** in business is decreasing
- **Businesses are increasingly expected to address social and environmental issues**

...which has been further accelerated by the recent financial crisis...

Financial Crisis



- Public trust in business is at an all-time low
- Public appetite for government regulation of business is growing
- Companies are under more pressure to ensure ethics and transparency
- Business is under increasing pressure to address global challenges
- At the same time, Investors are increasingly looking at sustainability as an important value driver

Resulting in drivers across the value chain that are forcing companies to develop strategies, both to mitigate risk and to capture new opportunities



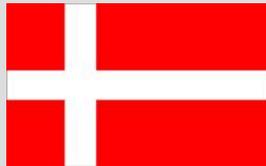
Some countries have already taken steps to regulate corporate social performance

ILLUSTRATIVE

European governments lead on regulation for social and environmental issues ...



- The OECD's ***Guidelines for Multinational Enterprises***, adopted in 1976 and revised in 2000, are a set of voluntary recommendations to multinational enterprises in all the major areas of business ethics, including human rights, environment, combating bribery, consumer interests, etc.
- Denmark recently passed the “Social Responsibility for Large Businesses” law, which **requires the country’s largest companies to include environmental, social, and governance (ESG) data in their annual reports**
- As of 2007, all state owned companies in Sweden are **required to publish annual GRI-based sustainability reports**, or explain why they could not. More than 89% of state owned companies issued reports in 2009



... and emerging markets are beginning to follow suit



- China’s Assets Supervision and Administration Commission issued a directive in 2008 that **encourages state-owned companies to report on corporate social responsibility (CSR)**
- India released a set of **voluntary guidelines on Corporate Governance and Corporate Social Responsibility** that incorporate all ten principles of the United Nations Global Compact in December 2009





Contents

- Increasing importance for Companies to address sustainability
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There are significant opportunities for companies to increase the impact of their sustainability agendas

- Investors and CFOs believe that Sustainability drives value
- There is increasing evidence of the link between sustainability and value creation

however

- There are several barriers to managing sustainability strategically and capturing value
- Even strategic companies do not communicate the value which inhibits ability to manage more strategically

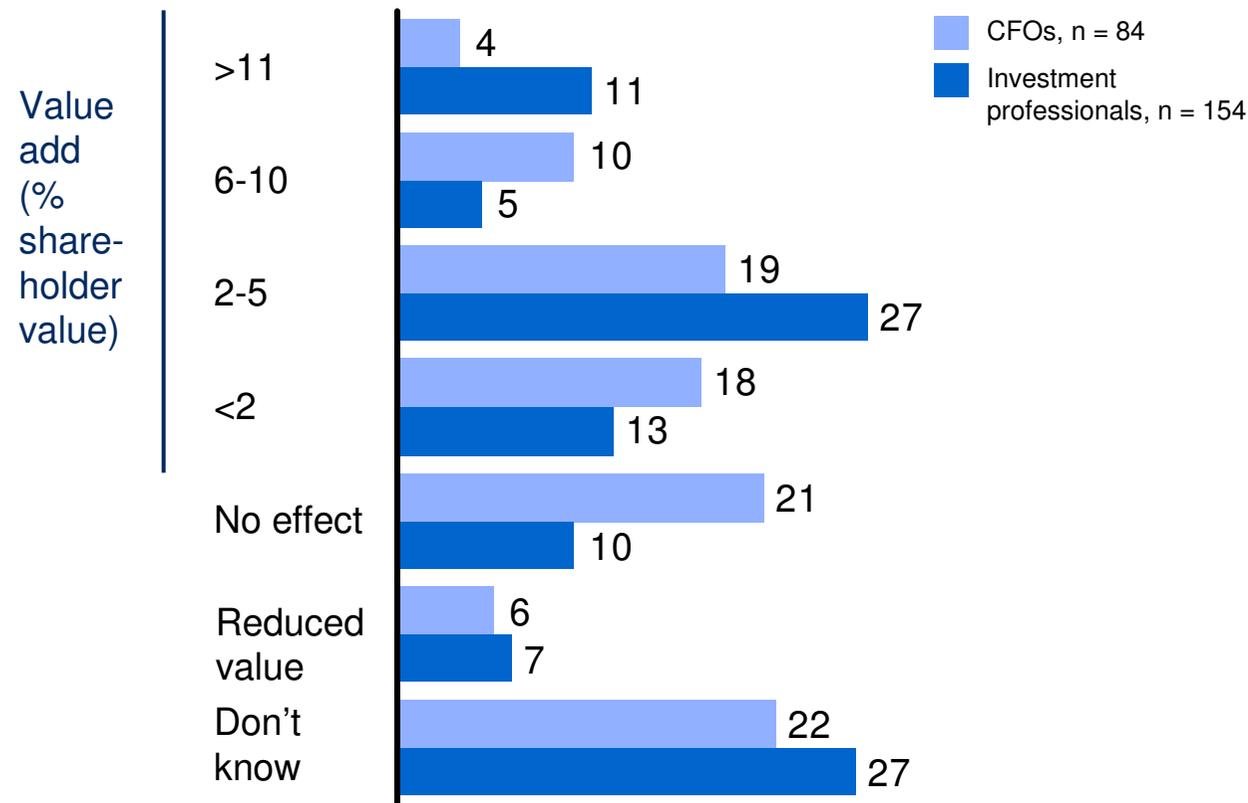
Companies need a holistic view:

- End-to-end view of opportunities and risks
- Focused portfolio of sustainability initiatives, with a tangible ability to link each initiative to value creation
- Real metrics to measure progress
- Communicate appropriately, internally and externally, to get credit

Investors and CFOs increasingly believe that sustainability drives value: half of them think that it drives more than 5% shareholder value

Effect of Sustainability programs on organization's shareholder value in typical times¹

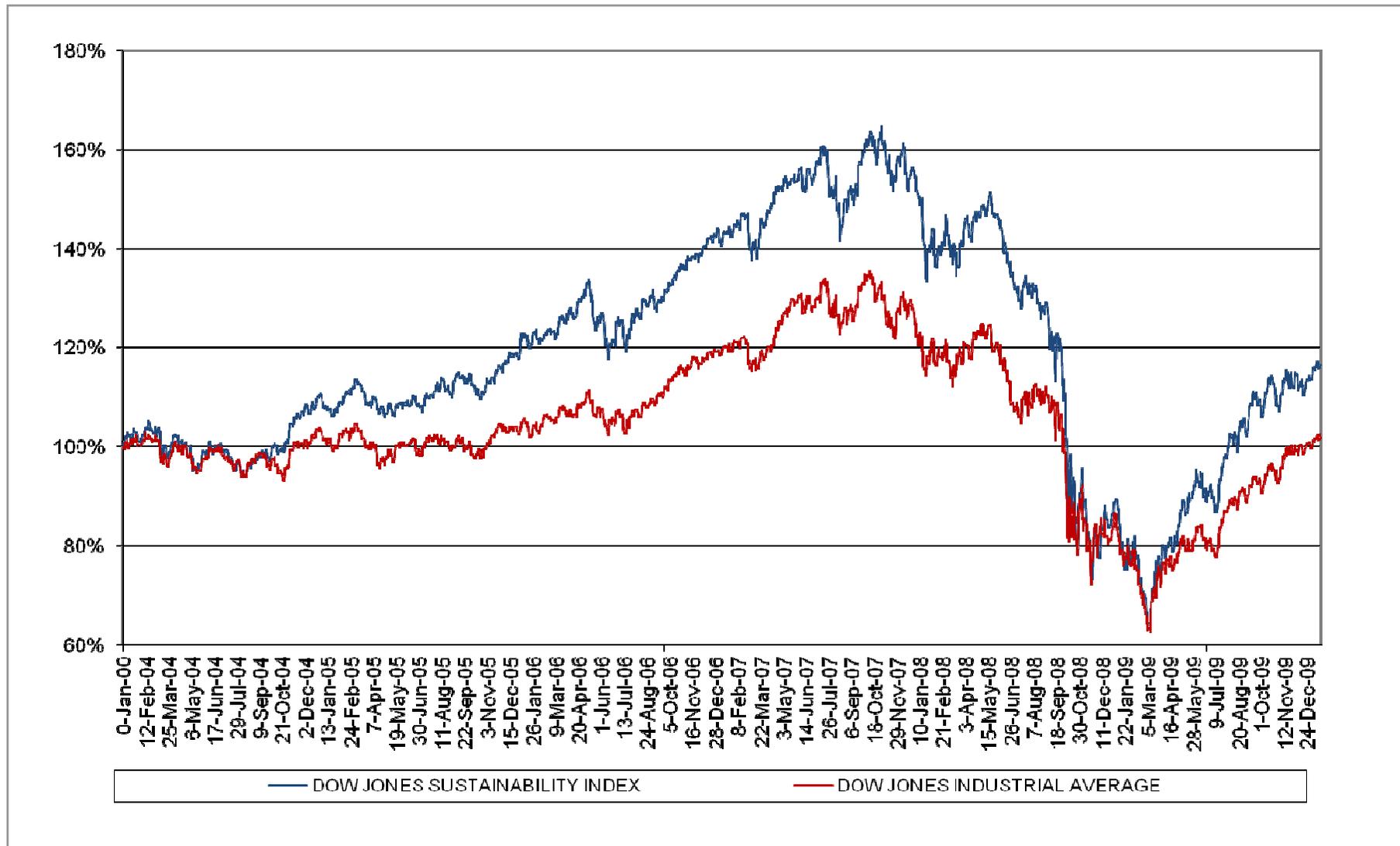
Percentage of respondents



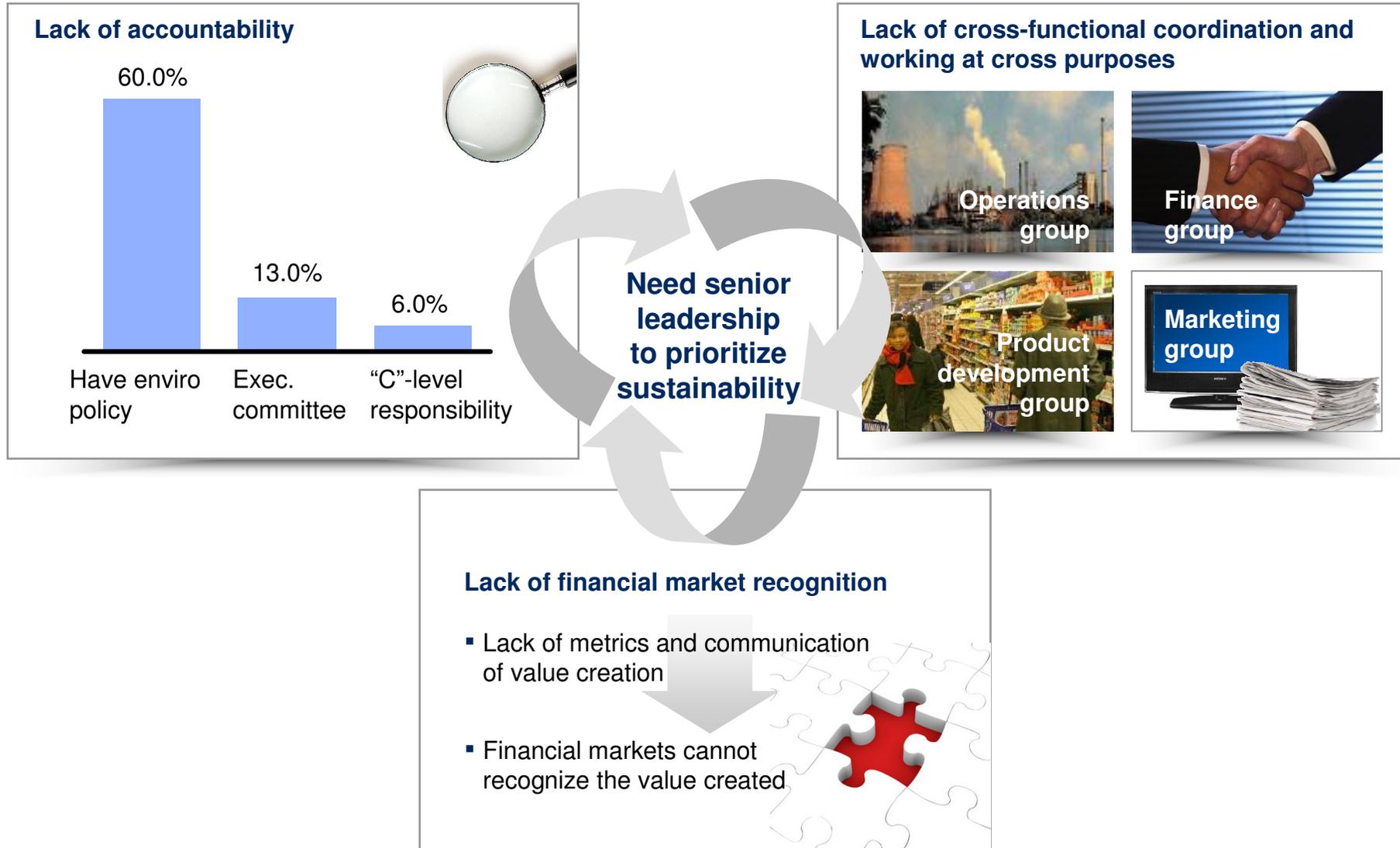
CFOs and investors believe Sustainability programs drive value, however only 22% of CFOs and 11% of investors take it fully into account in analysis of companies/ evaluation of corporate projects

¹ Excluding any changes stemming from the current economic crisis

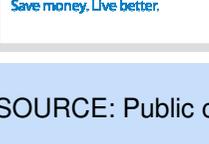
There is some evidence of a financial link between CSR/Sustainability and financial performance (DJSI)



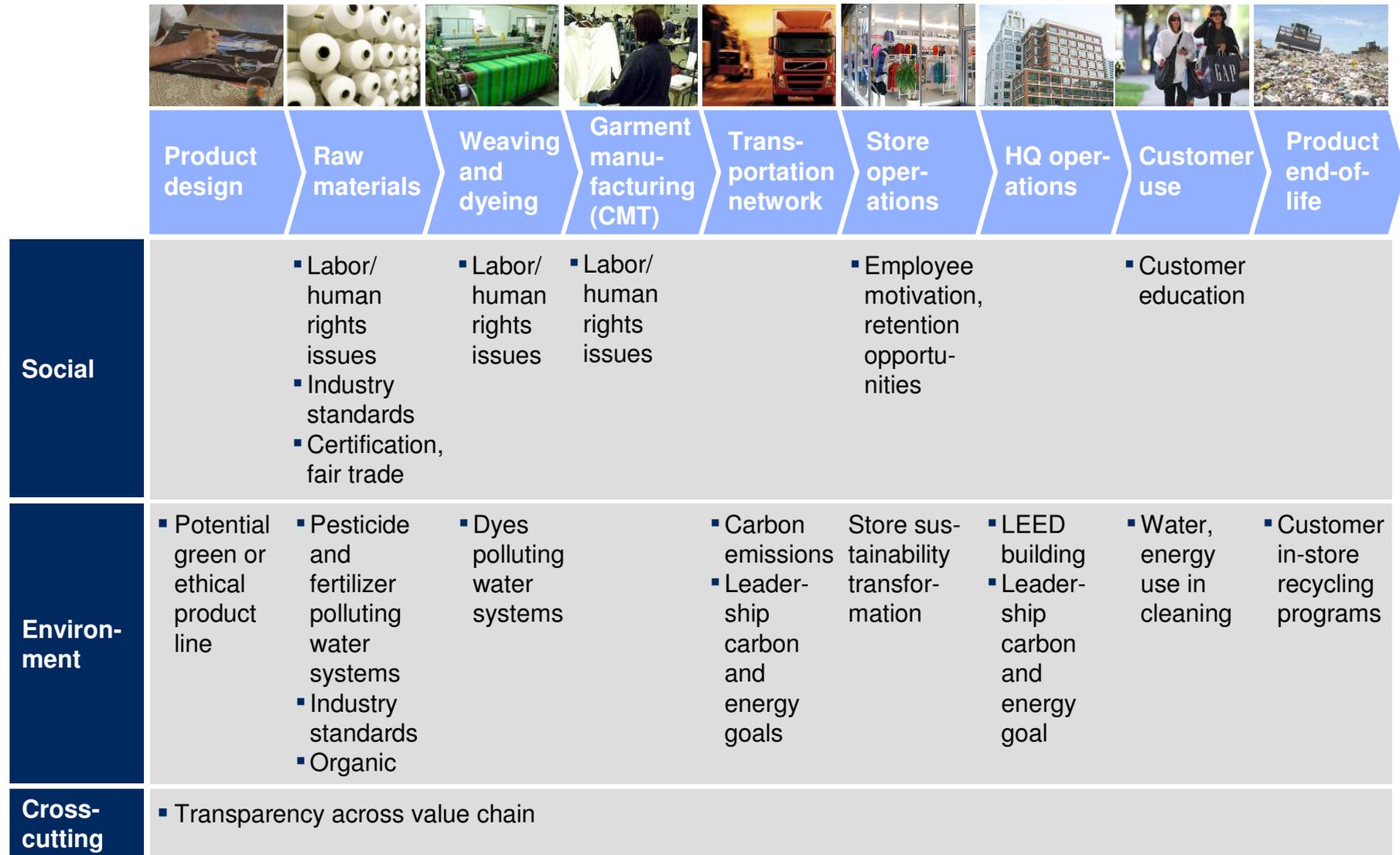
There are several common barriers to implementing a successful sustainability strategy



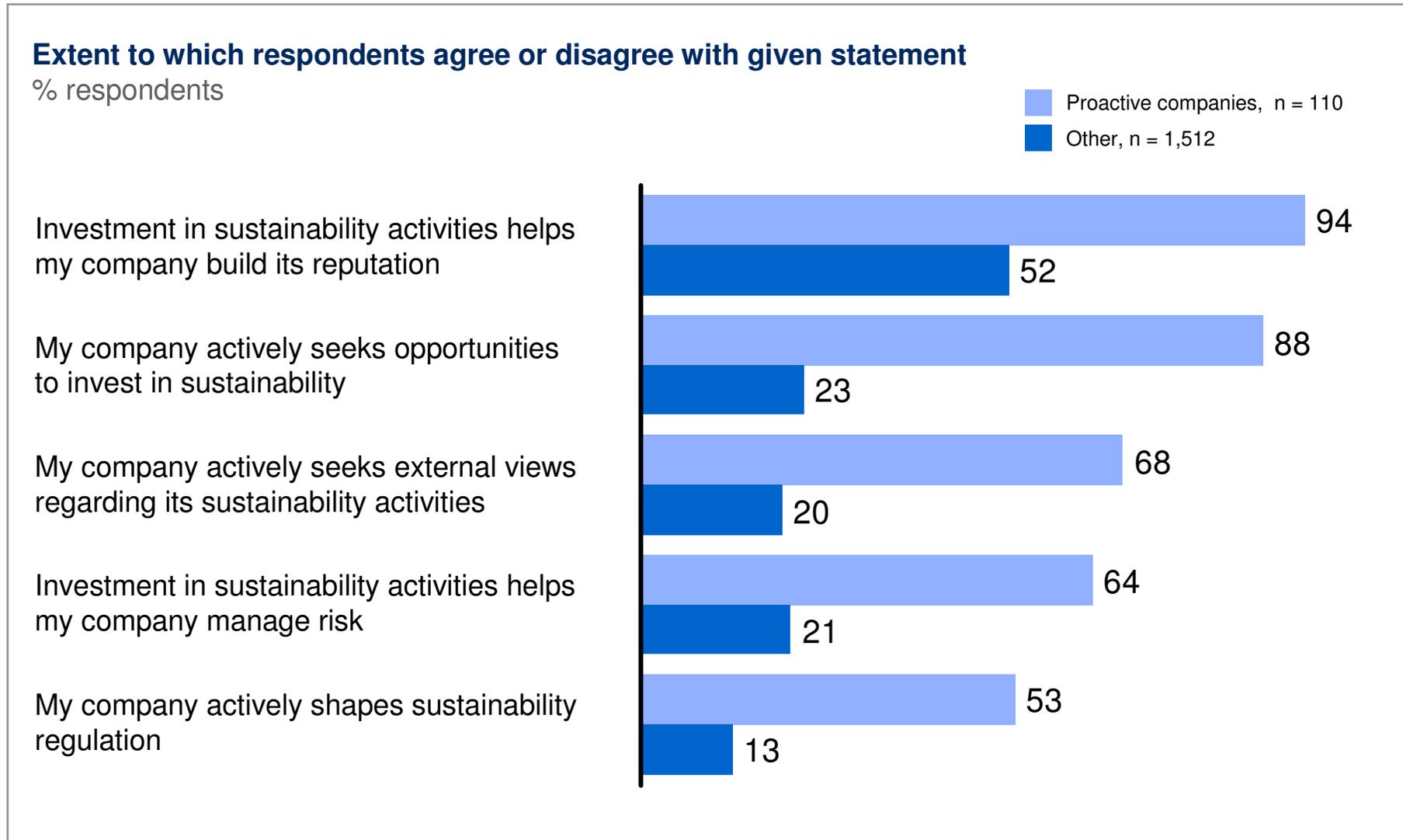
Across industries, taking an end-to-end perspective is increasingly important

Company	Industry	In-house sustainability efforts	Sustainability efforts beyond
	Steel	<ul style="list-style-type: none"> Increase environmental management certification to 79% of production sites 	<ul style="list-style-type: none"> Will exert environmental influence on suppliers through awareness and training program Is developing a 'Sustainability in Steel for Construction' brochure aimed at customers
	Retail	<ul style="list-style-type: none"> IKEA is aggressively working on emissions in its own operations and in its logistics network 	<ul style="list-style-type: none"> Require all wood sourced by suppliers to be from forests certified as responsibly managed Launch CFL returning project to evoke the energy efficiency conception in consumers
	Consumer goods	<ul style="list-style-type: none"> Continue to reduce water and PVC use in manufacturing operations per ton of production 	<ul style="list-style-type: none"> Established Sustainable Agriculture Program, indoctrinating sustainable concepts to its suppliers Partnered with retailers to promote packaging recycling scheme for shoppers
	Consumer goods	<ul style="list-style-type: none"> Continue to reduce water and PVC use in manufacturing operations per ton of production 	<ul style="list-style-type: none"> Support and encourage sustainable agricultural practices Advise consumers in a responsible and sustainable way, not encourage irresponsible consumption
	Consumer goods	<ul style="list-style-type: none"> Set standard that all its water to be discharged must be capable of supporting aquatic life 	<ul style="list-style-type: none"> Introduced Code of Business Conduct for Suppliers to clarify ethical expectations for them Lead initiatives to address obesity issues of its consumers
	Consumer goods	<ul style="list-style-type: none"> Align with OHSAS 18001:2007 to guarantee healthy and safe development of employees 	<ul style="list-style-type: none"> Extend its environmental initiatives to include franchised bottlers and agricultural partners Raise the carbon literacy of the public through carbon labeling
	Retail	<ul style="list-style-type: none"> Succeeded in the continuous efforts to make its stores more energy efficient 	<ul style="list-style-type: none"> Help suppliers make continual improvements in sustainable business practices Initiate plastic bag reduction campaigns among consumers

Companies need to have a holistic understanding of risks and opportunities across the value chain (apparel example)



...and to understand the benefits of proactively managing sustainability

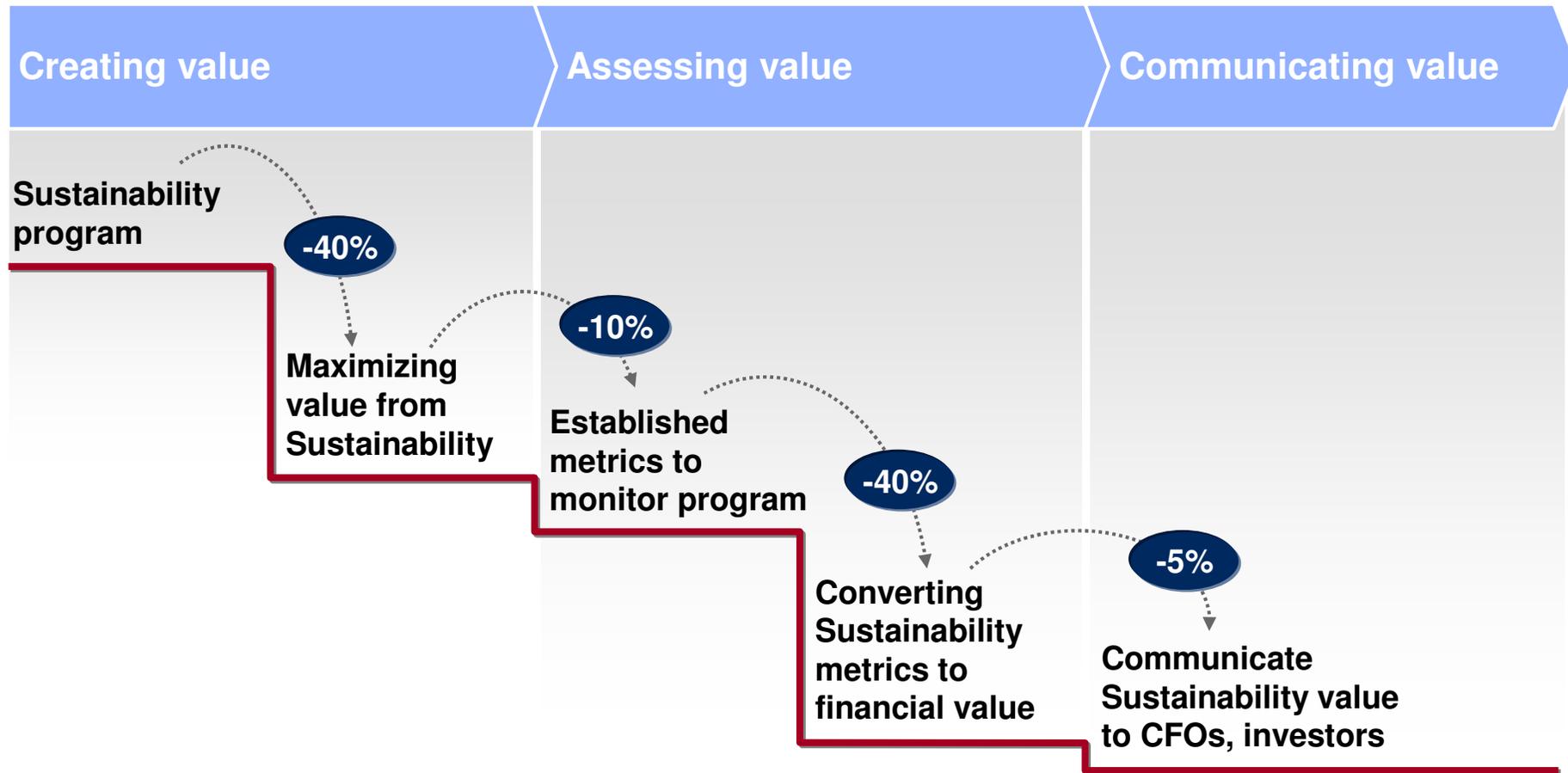


Global leaders have demonstrated that sustainability can be a major lever to drive companies' long-term financial performance

Business drivers	Sub-business drivers	Examples
Growth	<p>New customers/ market share</p>  	<ul style="list-style-type: none"> ▪ Novo Nordisk: Earned market leadership in China with market share of diabetes above 70% <ul style="list-style-type: none"> – Engaged in emerging economies like India, China, and Bangladesh to help build clinics, educate patients and healthcare professionals ▪ Verizon: Increased sales by \$6 million (e.g., 400,000 units sold, 100,000 new customers, increase by 100% from 2007 to 2008 of the wireless spending by the senior segment) <ul style="list-style-type: none"> – Launched a new product for elderly and disabled to meet social needs
Return on capital	<p>Operational efficiency</p> 	<ul style="list-style-type: none"> ▪ Dow: Invested \$1 billion over 10 years to reduce its energy consumption and improve its efficiency and has saved \$7 billion in last 5 years
Risk management	<p>Reputational risk</p> 	<ul style="list-style-type: none"> ▪ Intel: Avoided delays and fines when setting up a plant and benefited from tax incentives <ul style="list-style-type: none"> – Engaged with local stakeholders and built trust with local communities by being responsive to community needs
Management quality	<p>Leadership development</p> 	<ul style="list-style-type: none"> ▪ IBM: Improved global leadership skills, employee retention and commitment to IBM, new knowledge and skill contribution to IBM <ul style="list-style-type: none"> – Developed “Corporate Service Corps” to send emerging leaders to work pro bono in emerging markets to foster economic growth

Although many companies create value from sustainability, very few assess the financial value creation and even fewer communicate that to the markets

Subjective analysis based on company interviews

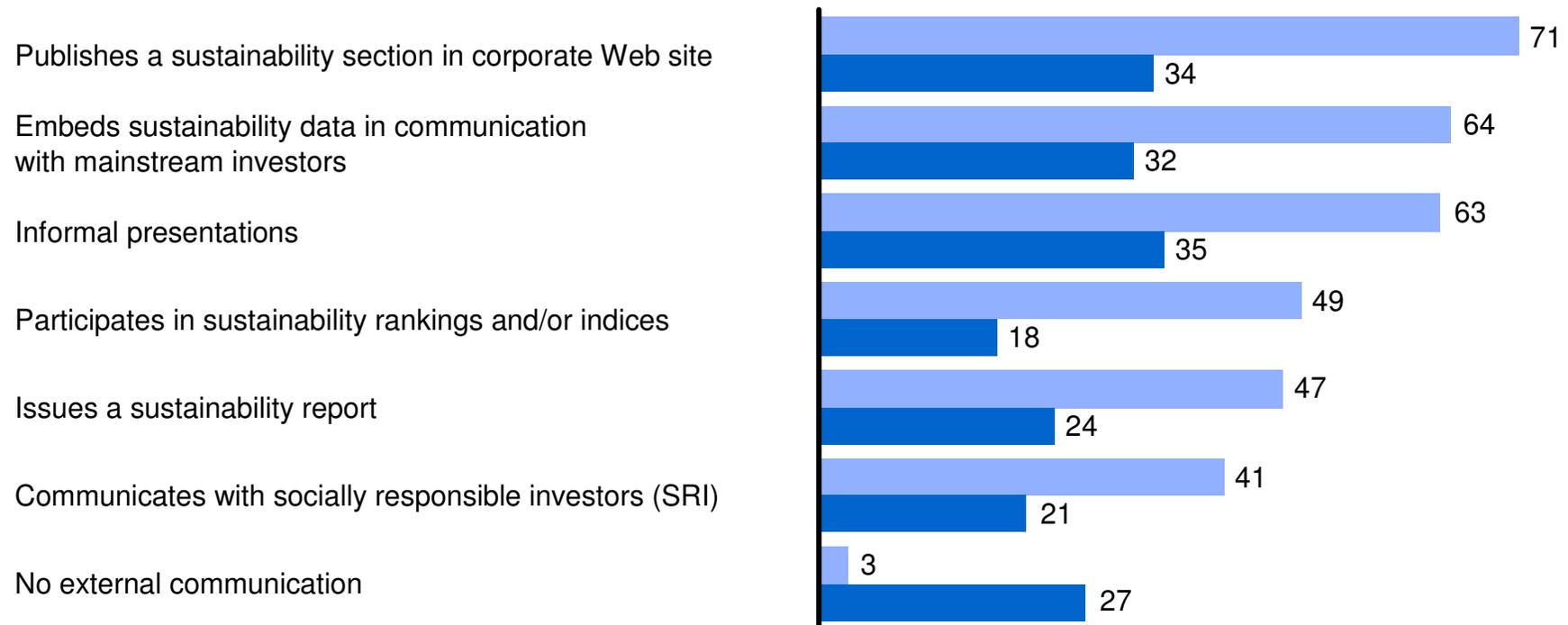


Most companies have an opportunity to communicate more about their sustainability activities

Ways in which companies communicate engagement in sustainability activities externally

Percent of respondents

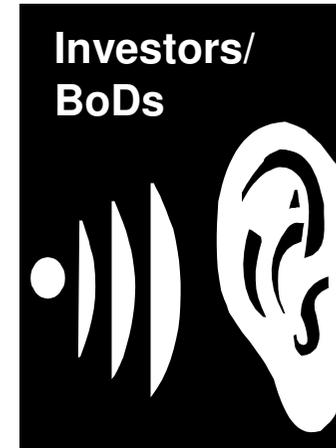
Proactive companies², n = 107
Other, n = 1,498



There is a lack of a common language between investors/BoDs and companies on sustainability...



- Companies appear to be failing **to communicate effectively to investors the financial implications of their approach on societal issues**
- Investors are struggling to build these issues into their models and BoDs do not have the information they need



- **Rapid growth** in number of firms producing sustainability reports
- Aimed at **various stakeholders**, including investors



Often seen as main audiences for sustainability reports and information

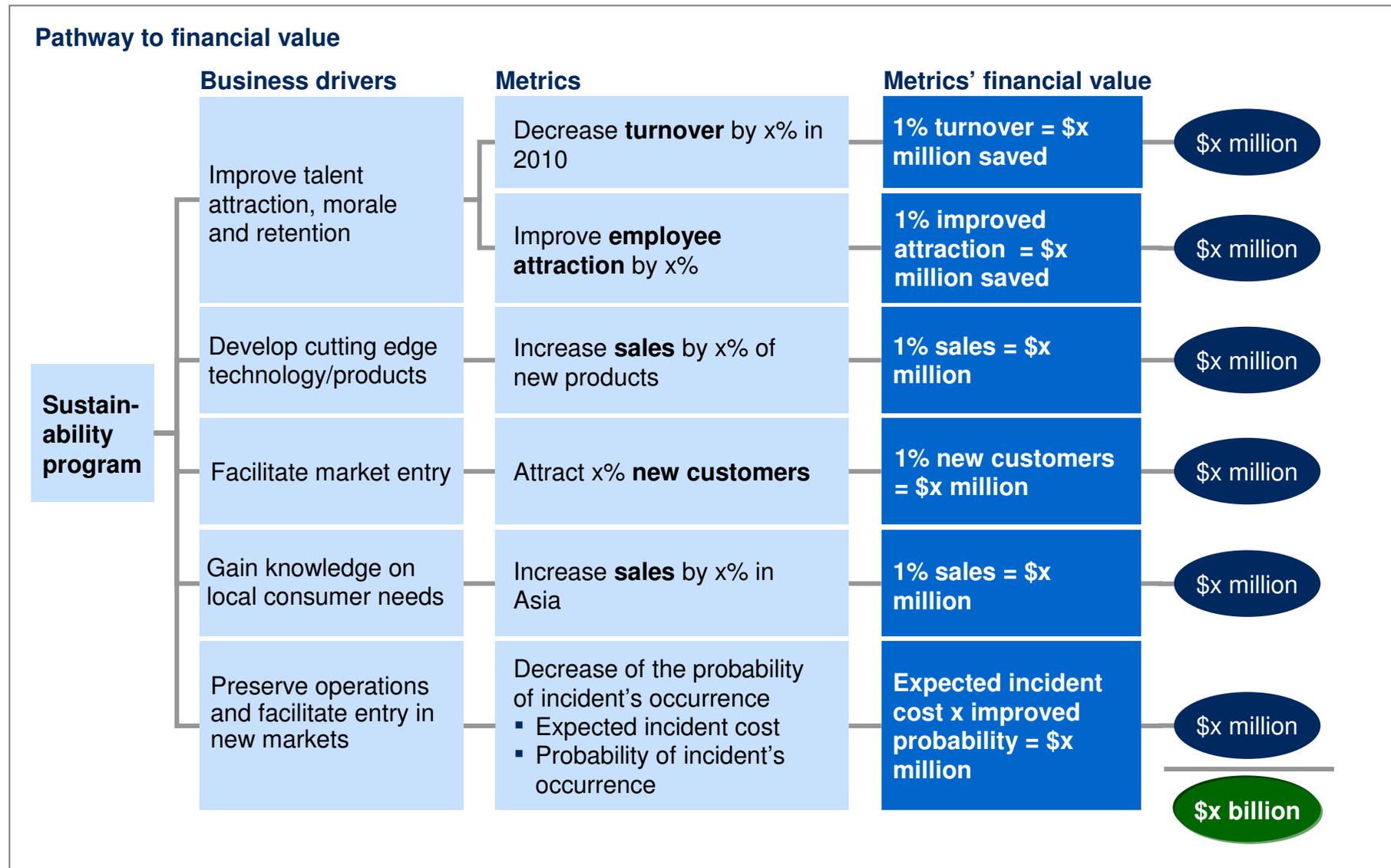
Information reaching investors and boards is often irrelevant to their needs

Communicating the value of sustainability activities with the Board will require using the language of the market

Sustainability activities create financial value along 4 business dimensions

Growth	New markets	▪ Gain access to new markets and market share through exposure from Sustainability programs
	New products	▪ Create products to meet unmet social needs and increase differentiation
	New customers/market share	▪ Use Sustainability to engage consumers and build knowledge of expectations and behaviors
	Innovation	▪ Develop cutting edge technology and innovative products and services for unmet social or environmental needs that could translate to business uses, patents, proprietary knowledge, etc.
	Reputation/differentiation	▪ Foster brand loyalty, reputation and goodwill with stakeholders by engaging with them on Sustainability programs
Return on capital	Operational efficiency	▪ Enable bottom line cost savings through environmental operations and practices (e.g., energy and water efficiency, less raw materials needed)
	Workforce efficiency	▪ Reduce costs generated by employee attraction and turnover by using Sustainability to build morale ▪ Develop employees' skills and increase productivity through participation in Sustainability activities
	Reputation/price premium	▪ Develop reputation on Sustainability that garners customers' willingness to pay price increase or premium
Risk management	Regulatory risk	▪ Mitigate risks by complying with regulatory requirements, industry standards, and NGO demands
	License to operate	▪ Facilitate uninterrupted operations and entry in new markets using local Sustainability efforts and community dialogue to engage citizens and reduce local resistance
	Supply chain/security of supply	▪ Secure consistent, long-term, and sustainable access to safe, high quality raw materials and products by engaging in community welfare and development
	Reputational risk	▪ Avoid negative publicity and boycotts by addressing Sustainability issues
Management quality	Leadership development	▪ Develop leadership skills and improve employee quality through Sustainability participation
	Adaptability	▪ Build ability to adapt to changing political and social situations by engaging local communities
	Long-term strategic view	▪ Develop long-term strategy encompassing Sustainability issues

Sustainability programs need to be assessed through real metrics to drive progress – most companies need to do more to assess financial value



Example: Financial value of “Return on Capital” business driver

ESTIMATE

Operational efficiency

Starbucks reduced its packaging materials to save \$500 million per year



Context on the original packaging

- Product was sealed in a poly-laminate bag resting in a tray and covered with a folding carton sleeve
- Tray sourced from overseas
- Shape of folding carton caused problems at carton erector

Actions

- Cross-functional team worked with folding carton supplier and co-packers to redesign package
- 9 month timeframe from kick-off to retail roll-out

Metrics

- **50 -60% less material**
Removed tray and left only the folding carton height needed to support bag
- More compact size allows for **more efficient transport**
- All materials now recyclable; carton made of 100% recycled content

\$500 million saved per year with the new packaging



Example: Financial value of “Risk Management” business driver

ESTIMATE

License to operate

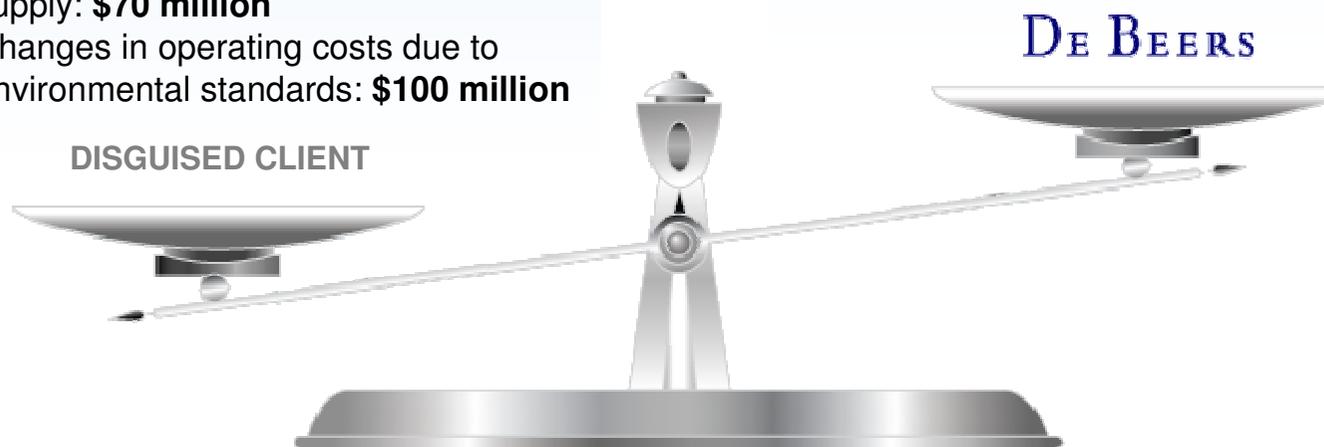
The value at stake of stakeholders management is huge: a mining company lost approx \$1.15 B in Peru, while another company’s license to operate was extended by 25 years

\$1.15 billion loss: poor community relations and environmental oversight

- **Delay to production** (3.7 million oz.): over **\$1 billion**
- **Losses due to strikes** closed the mine in 2004 and 2006, **resulting in \$14.4 million** (\$1.8 M/day x 8 days)
- **Environmental losses/costs:**
 - Environmental fines due to incidents: over **\$40 million**
 - Construction of a new dam for water supply: **\$70 million**
 - Changes in operating costs due to environmental standards: **\$100 million**

\$7 billion gain: extension license to operate a mine

- De Beers is operating a diamond mine in Botswana in joint-venture with the government through a company called Debswana
- Because of a **long-standing partnership** with Botswana government, De Beers was able to **leverage trusted relationship & reputation and be the first in line** to renegotiate **25-year lease renewal** for mine
- The De Beers’ diamond production in that mine is valued at **\$7 billion per year**

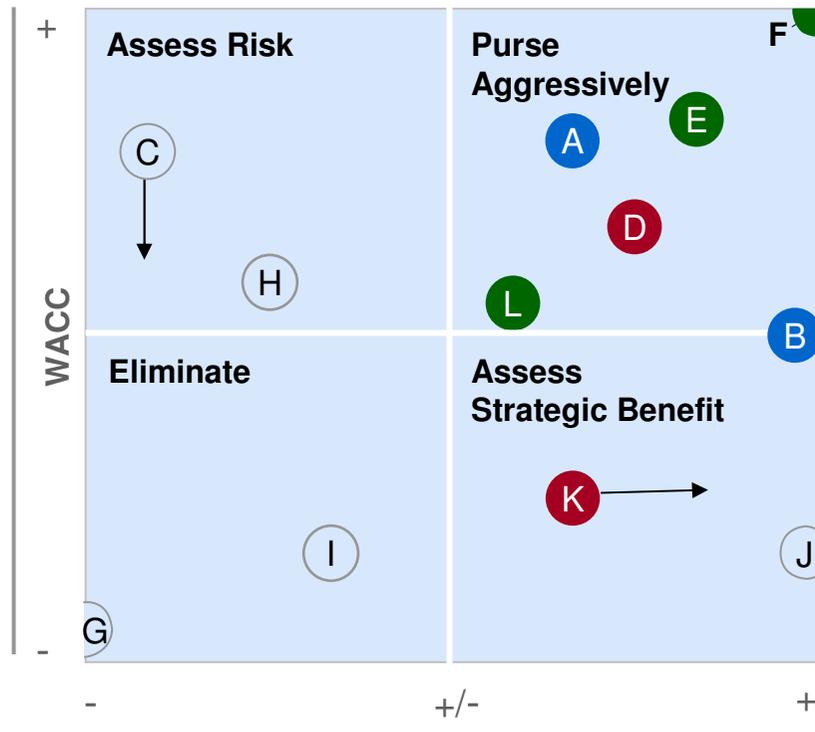


A focused portfolio of sustainability initiatives, with a tangible ability to link each initiative to value creation, is needed

ILLUSTRATIVE

Prioritization matrix

- ROI**
- Investment
 - Returns
 - Risk Adj.
 - Timing



- Must do - Regulation
- Execute ASAP
- Execute Phase 2

Sustainability/Reputation Impact

- CO2 impact
- Social impact
- Regulatory
- Brand
- 1st mover benefit

It is also important to be able to communicate the value of sustainability according to the audience and expectations

Stakeholders	Objectives	Message
Investors, analysts 	Obtain credit in the market for strategic Sustainability programs	<ul style="list-style-type: none"> ▪ Dollar figures on financial impact of Sustainability activities ▪ Contribution of Sustainability activities to value drivers for core business, that is already understood and measured ▪ Etc...
Internal management (e.g., CFOs) 	Maintain financial and strategic support for Sustainability	
Employees, NGOs, influencers 	Highlight aspects of Sustainability that will motivate stakeholders to have relationships with the company	<ul style="list-style-type: none"> ▪ Social impact and focus of Sustainability activities ▪ Stakeholder engagement ▪ Linkage to core competencies of business ▪ Compliance with standards ▪ Etc...
Socially responsible investor community 	Acknowledge social responsibility of the company and invest in company stock	<ul style="list-style-type: none"> ▪ Social impact and focus of Sustainability activities ▪ Linkage to core competencies of business ▪ Contribution of Sustainability to value drivers ▪ Compliance with regulations ▪ Etc...



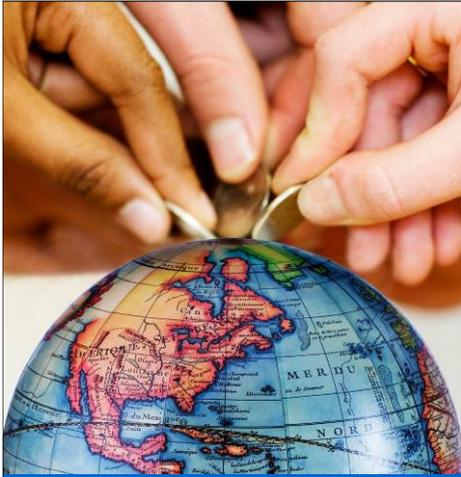
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- Creating value from sustainability
- **Questions for discussion**

Questions for discussion

- **What are the biggest barriers in your organization to proactively managing sustainability?**
- **What actions can you take to help the organization overcome these barriers?**
- **What would be the financial benefits to the company of a more proactive stance? What are the social and environmental benefits?**
- **How should you communicate value of sustainability internally and externally?**
- **How might using better financial metrics change what you do on the ground in terms of project level impact of these activities?**





Thank you