

THE VALUE DRIVER MODEL:

# **A TOOL FOR COMMUNICATING THE BUSINESS VALUE OF SUSTAINABILITY**

A PRI-UN Global Compact LEAD collaboration on creating long-term value

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The work presented here is part of the ESG Investor Briefing Project, a collaboration between Global Compact LEAD and the UN-supported Principles for Responsible Investment (PRI) to support companies in enhancing their communication of how ESG strategies and performance translate into financial value. The content for this communication is based on a Value Driver Model, which encourages companies to communicate the financial impact of their sustainability strategies. These presentation slides are part of a toolkit that includes a report and a series case examples. The toolkit draws primarily upon publicly available information.

Not all companies featured participate in LEAD. However, their examples serve as illustrative cases for all companies. Utilising the Value Driver Model as a tool, companies are invited to join the ESG Investor Briefing Project and create a tailored method for communicating their own ESG value drivers, internally and with investors.

#### About Global Compact LEAD

Launched in January 2011 to drive innovation and quality among participants of the UN Global Compact, Global Compact LEAD recognizes the critical need for supporting UN Global Compact participants to achieve higher levels of corporate sustainability performance – as outlined in the Global Compact’s Blueprint for Corporate Sustainability Leadership. LEAD Participants share a commitment to implement the Blueprint and a willingness to lead the Global Compact with strong engagement at the local and global levels. LEAD currently has 56 participants representing all regions of the world.

#### About the Principles for Responsible Investment

The United Nations-supported Principles for Responsible Investment (PRI) Initiative is a network of international investors working together to put the six Principles for Responsible Investment into practice. The Principles were devised by the investment community and reflect the view that environmental, social and governance (ESG) issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfill their fiduciary (or equivalent) duty. In implementing the Principles, signatories contribute to the development of a more sustainable global financial system. Launched in 2006 by UNEP Finance Initiative and the UN Global Compact, the Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices and so better align their objectives with those of society at large.

These presentation slides are part of a larger toolkit, which includes a report and case examples.

- The purpose of the report is to advance the Value Driver Model as a useful *starting point* for companies to enhance their communication of the financial value of their sustainable business strategies.
- The cases provide examples of companies that apply and report key aspects of the Value Driver Model to their shareholders and other interested parties.

# Objectives

1. **Inform** your firm on how companies with sustainable business strategies are communicating business value to investors and stakeholders
2. **Demonstrate** a model for capturing and communicating the business value of sustainability to investors and analysts
3. **Determine** if your firm is positioned to gain advantage from improved communication of the business value of sustainability
4. **Assess** your firm's capacity to plan, execute and report on sustainability as a value driver
5. **Move forward** in enhancing investor communication regarding the business value of sustainability

# Agenda

## 1. Inform

- Perspectives
- Closing the gap between companies and investors

## 2. Demonstrate

## 3. Determine

## 4. Assess

## 5. Move forward

# Key Findings from 2013 UN Global Compact/Accenture CEO Survey

1. 49% of CEOs said potential for revenue/growth and cost-savings were among their top three drivers for taking action on sustainability
2. 47% of CEOs said customer demand drove them (up from 39% in 2010)
3. Only 38% said they could quantify business value
4. 69% thought investor interest would be increasingly important
5. Only 12% reported investor interest today
6. 93% thought sustainability would be important or very important to the future success of their business

Source: The UN Global Compact-Accenture CEO Study on Sustainability © 2013

# What is Sustainability?

## One Existing Investor Perspective

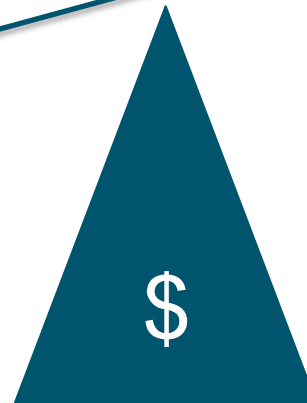
Good risk management,  
but no clear connection  
to upside opportunity

Opportunity =  
Big Growth &  
Productivity

Obligation or  
Compliance =  
> Costs

Earnings Premium

Earnings Drag



# What is Sustainability?

## Emerging Corporate Consensus

Obligation or  
Compliance =  
> Costs



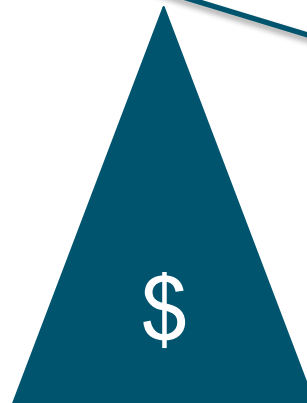
Earnings Drag

Sustainability drives  
innovation, which  
drives results

Opportunity =  
Big Growth  
& Productivity



Earnings Premium





# From the Corporate Perspective, the Balance has Shifted

- 2013 UN Global Compact/Accenture CEO Survey Reports that 80%+ of respondents
  - Pursue sustainability as a source of revenue growth and innovation
  - Expect to derive competitive advantage from sustainability strategies
- Findings supported by studies from McKinsey, Boston Consulting Group, IBM, PwC and others
  - Companies are differentiating themselves via sustainability as a value driver for their businesses
  - Studies suggest that 10-20% of publicly held firms are now harvesting meaningful financial gains from sustainability

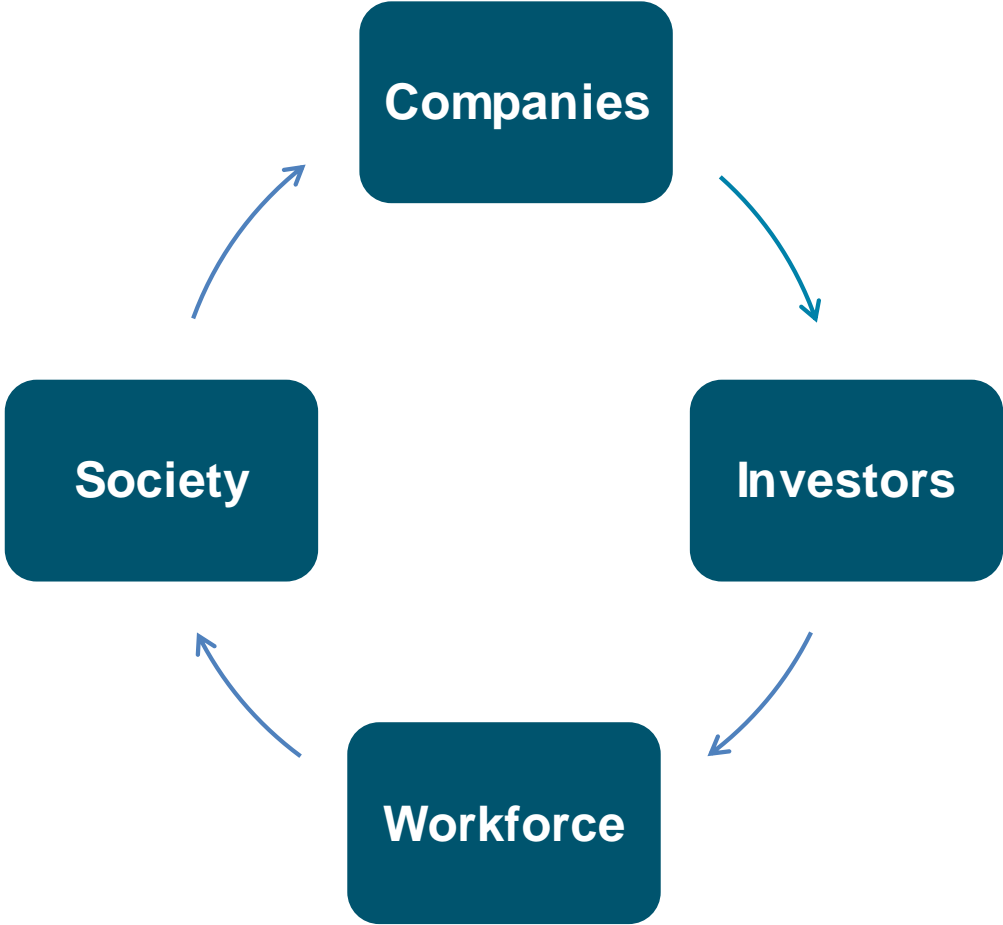
**As sustainability has evolved, the gap with some investors has grown**

# The Disconnect on Sustainability

- **Problematic** because sometimes lack of perceived investor interest limits management's willingness to commit— according the 2013 Accenture-Global Compact survey only 12% of CEOs report pressure from investors as a factor in taking on sustainability issues
- **Understandable** because the current models for sustainability reporting were not intended to highlight financial upside and do not easily align with analysts' financial models
- **Addressable** because what is required from companies is simplicity in communicating the value already being realized

Source: The UN Global Compact-Accenture CEO Study on Sustainability © 2013

# Who Benefits from Closing the Gap?



# Agenda

## 1. Inform

## 2. Demonstrate

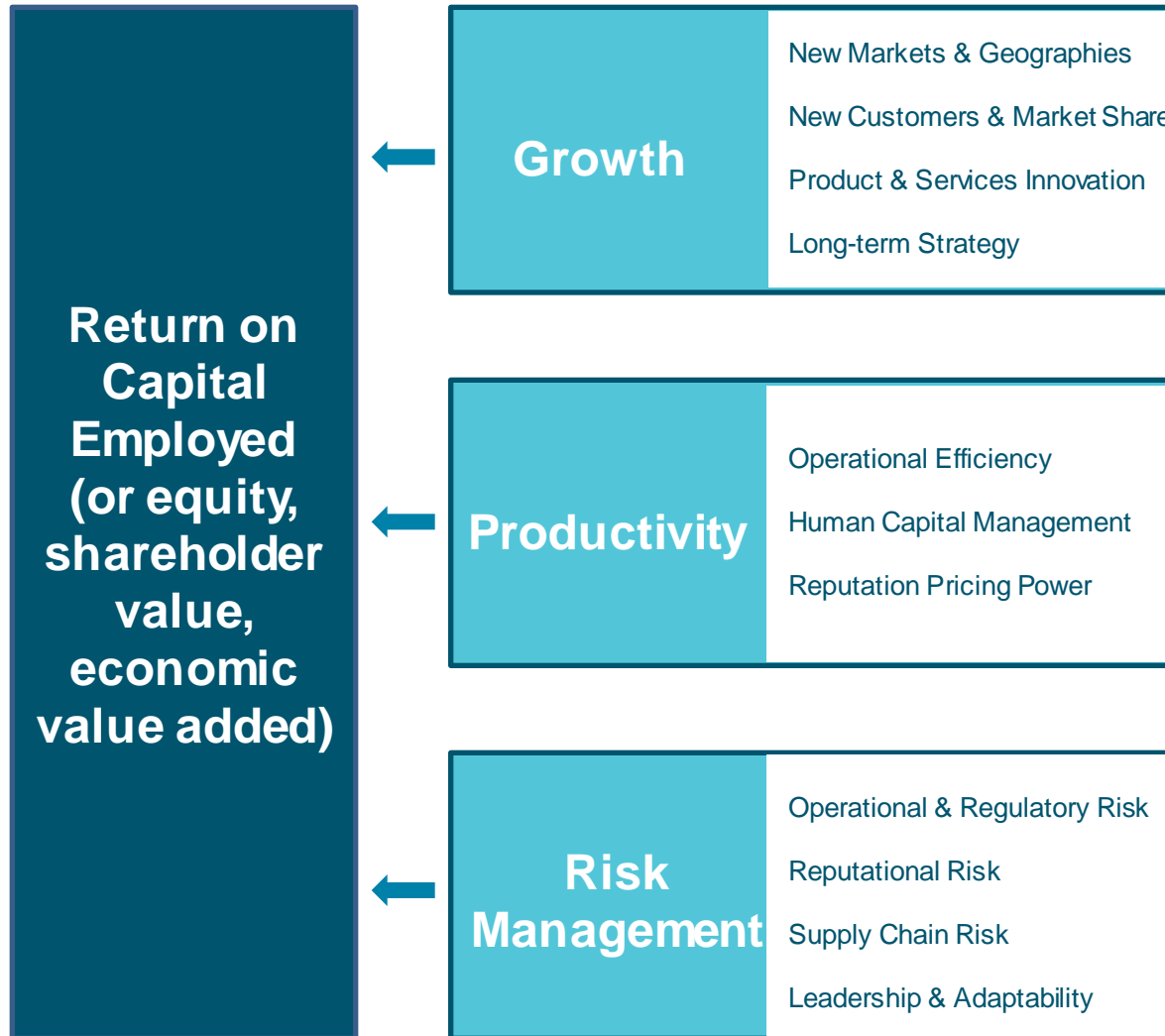
- Introducing the Value Driver Model
- Operationalizing the Value Driver Model
- Sustainability/Growth-Productivity-Risk (S/GPR)
- Case studies: Pirelli and DuPont

## 3. Determine

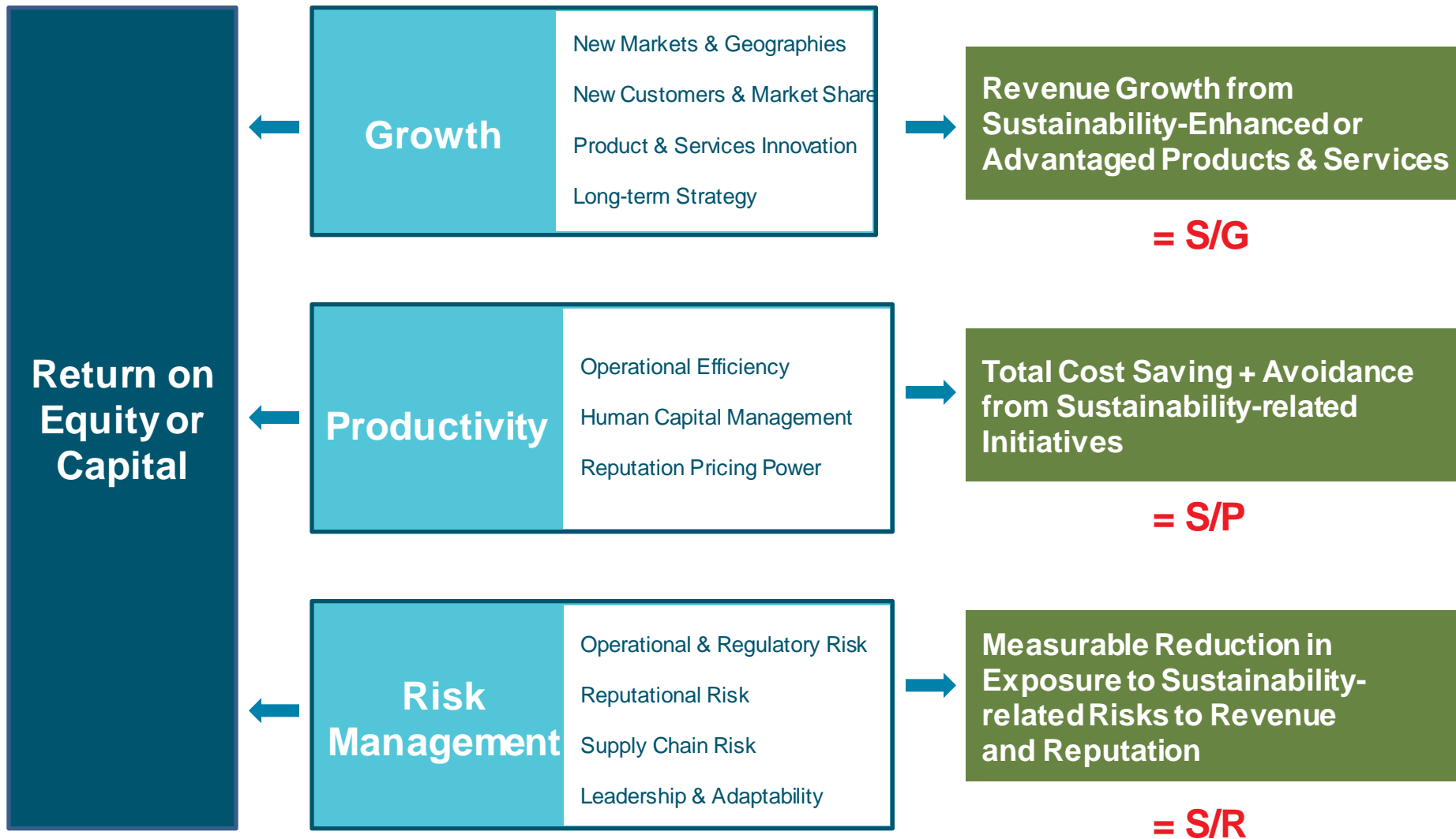
## 4. Assess

## 5. Move forward

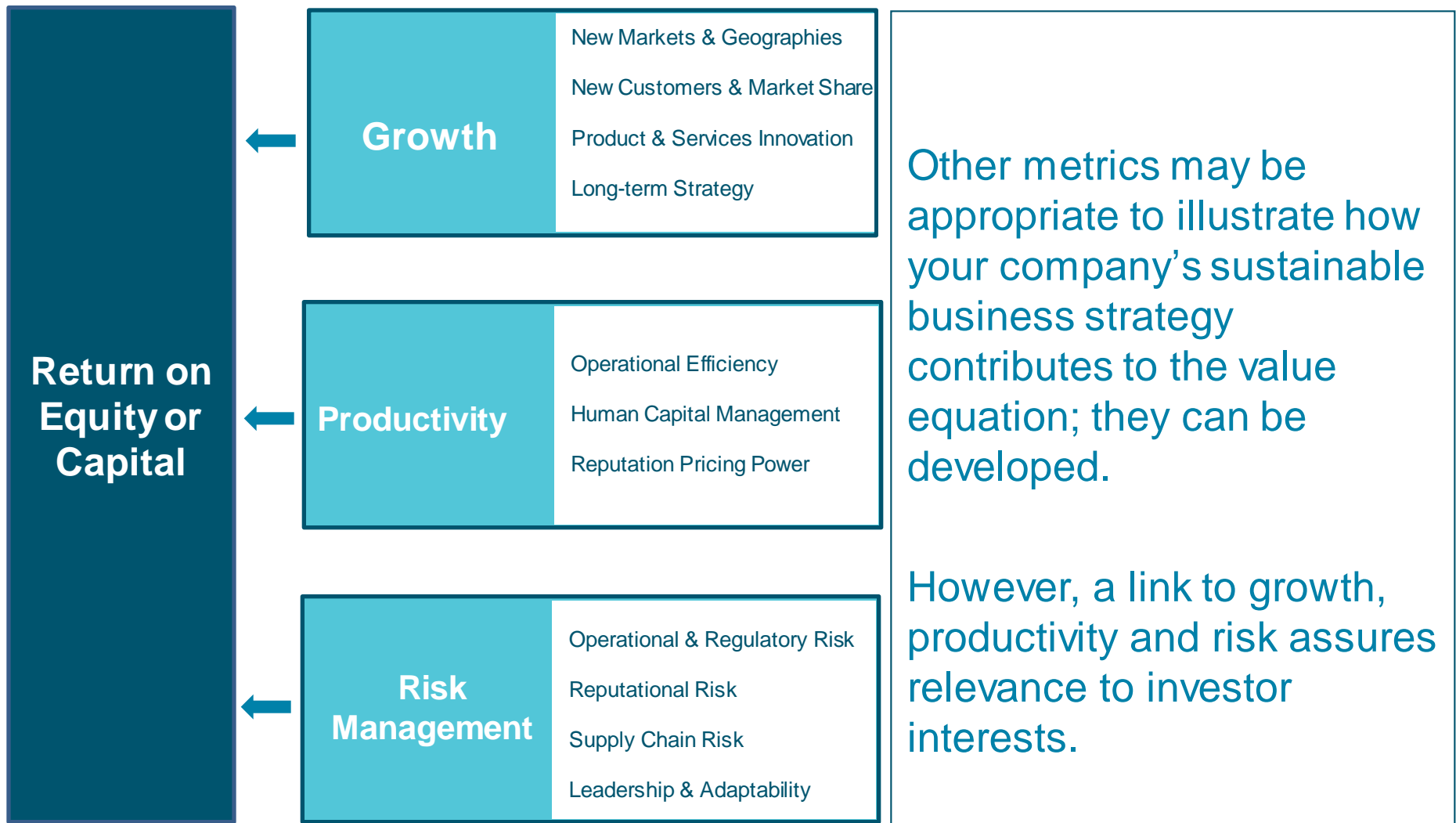
# The Value Driver Model: A Tool for Establishing the Relevance of Sustainability to Existing Key Business Metrics



# Initial Approach to Operationalizing the Value Driver Model



# Initial Approach to Operationalizing the Value Driver Model



# S/GPR: How to Operationalise the Value Drivers

S/Growth (S/G)

Key Challenge: Categorization

*Is it meaningful to categorize revenues in your company?*

**Why measure this?** Companies are investing significantly in building new sustainability-advantaged products, but it can be difficult for investors to assess how these new products impact revenue growth or what percentage they are of total revenue.

- Sustainability Quality of Revenue = Sustainability-advantaged revenue as a % of total revenue in the period
- *Is it material to the business? That is, are sustainability-advantaged revenues an important component of the business mix?*
- Relative Growth Rate of Sustainability-advantaged revenue to Overall Revenue = Sustainability-advantaged Revenue Growth % / Total Revenue Growth %
- Messaging regarding S/G
  - *Is it currently a material or significant component of the revenue mix?*
  - *Is it strategic to the company's future? That is, are sustainability-advantaged revenues growing significantly faster than the business overall, thereby likely to grow in importance over time?*



# S/GPR: How to Operationalise the Value Drivers

S/Productivity (S/P)

Key Challenge: Aggregation

*Is it possible to count the total dollars saved or cost avoided?*

**Why measure this?** While some investors appreciate anecdotal evidence of meaningful gains from improved resource productivity, aggregating and communicating the total value of savings in the reporting period can help engage them on sustainability.

- Contribution to operating income from all sustainability-related initiatives in the period = Aggregated resource efficiencies (human and natural) as a percent of operating income (e.g., dollars saved / total operating income)
- Messaging regarding S/P
  - *Is it currently material/significant? That is, given the business segment and earnings history, do sustainability-related initiatives taken as a group produce meaningful cost savings?*
  - *Is it strategic? That is, in the context of business operations, is it anticipated that sustainability-related initiatives will drive cost structure advantages over time?*

# S/GPR: How to Operationalise the Value Drivers

S/Risk (S/R)

Key Challenge: Focus

*Is it possible to identify a few key risks to revenue and reputation and report on them over time?*

***Why measure this?*** It is sometimes difficult for investors to zero in on what the company, often in consultation with external advisors and stakeholders, regards as its key sustainability-related risks. Identifying and reporting on them over time gives investors insight into this potential source of revenue and earning volatility.

- Measureable reduction in potential risk to revenue and reputation from sustainability-related initiatives and procedures
  - *Is it material? That is, are the identified risks a potential source of meaningful revenue and/or earnings volatility?*
  - *Is it strategic? That is, does superior management of these risks position the company to reduce volatility?*

# Pirelli's Sustainable Business Strategy

## 2009 – Chairman Marco Tronchetti Provera Launches “Green Performance Strategy”

- EU mandates tire rating by 2013 (A-G)
  - Fuel Efficiency
  - Stopping Power
  - Environmental Impact
- Pirelli aims to lead the high-tech and superior performance segment
  - Growth opportunity
  - R&D Breakthrough – Efficiency and Safety
    - Rice husk silica replaces “dirty” materials
    - Savings of €1000/ton

# Pirelli's Sustainable Business Strategy

2009-12 Results: Sustainable business strategy drives value

1. Sales of “green performance tires” increased

S/G = ~ 3 times at 45% (€2.84B of €6.3B) of total revenue

2. New green manufacturing process proven in Latin America, ready for global expansion

S/P = Estimated >3% contribution to operating income. Significant upside as rice husk silica use expands.

3. Sustainability-related risks declined

S/R = Reduced by > 72%

# Pirelli's Sustainable Business Strategy

According to Pirelli Investor Relations, between 2009 and 2013

- Number of sell-side analysts covering Pirelli increased from 12 to 25
- % of shares held by international institutional investors increased from 33 to 74%
- % of ownership by investors Pirelli classifies as growth-oriented increased from 37 to 71%

# DuPont's Sustainable Business Strategy

CEO Ellen Kullman's strategic vision is tied to addressing three key challenges:

- Food
- Energy Security
- Protection

# DuPont: Sustainability's Links to Results 2007-2011

- $S/G = 5.5x$  at 30% of Revenue
  - Revenue from products that reduce greenhouse gas (GHG) emissions rose from USD 63 million in 2007 to USD 1.9 billion in 2011 or an increase of nearly 3100%
  - Revenue from products based on non depletable resources doubled from USD 5 to USD 10 billion on a revenue base of USD 33.6 billion in 2011 or an increase of 100%
- $S/P = 10\%$  or ~ USD 300M of USD 3.3B 2010 operating income
  - Using 10 year aggregate data – estimating annual \$'s
- $S/R =$  Decrease by 38% using company data on:
  - Stressed Water Revenue Intensity
  - Air Carcinogen Intensity of Revenue
  - Environmental Risk Intensity of Manufacturing Facilities

# DuPont: A Hypothetical Value Statement Conveying Business Impact

In 2012, DuPont's Sustainability Strategy continued to add significantly to the company's performance. Sales of sustainability-advantaged products reached approximately 30% of total revenue or USD 10B, and grew at a rate of 5.5x revenue overall. Savings and cost-avoidance from all sustainability-related initiatives were again in excess of USD 300M or nearly 10% of operating income. The company continued to make significant progress reducing exposure to sustainability-related environmental and health risks in accordance with its strategic plan.

...in less than 75 words



# Agenda

1. Inform
2. Demonstrate
3. Determine
  - Strengthen your value proposition
  - Analysis of S/GPR
4. Assess & Improve
5. Move forward

# ***Determine if the Value Driver Model can strengthen your investor value proposition***

- Is your company pursuing a value-oriented, sustainable business strategy?
- Does your sustainable business strategy drive revenue growth, productivity gains and risk management?

# Determine – S/G

1. Does your company's business strategy link clearly to sustainability-related factors, including products or services that:
  - Deliver the intended value to customer, but at significantly lower environmental or social impacts than other available solutions
  - Fall under the broad definition of sustainability-advantaged
2. Does your company seek enhanced brand value that impacts growth through strategies in sustainability-related areas (e.g. sourcing and human rights)?
3. Does your company measure or have an interest in measuring these factors as a component of overall growth?

**If yes, the Value Driver Model may be useful to your company**

# Determine – S/P

- Does your company have initiatives to improve sustainability-related operating productivity, including:
  - Measureable and meaningful cost reductions from:
    - Human and natural resource efficiency gains
    - Reduced emissions or wastes, including toxics
    - Sustainability-related supply chain improvement
  - Measureable & meaningful improvements in operating margins from:
    - Pricing (or volume) improvements for sustainability-advantaged products

**If yes, the Value Driver Model may be useful to your company**

# Determine – S/R

- Has your company developed a focused list of the key sustainability-related risks to revenue and reputation?
- Have you measured the performance of these key sustainability-related risks on some periodic basis to track progress?

**If yes, the Value Driver Model may be useful to your company**

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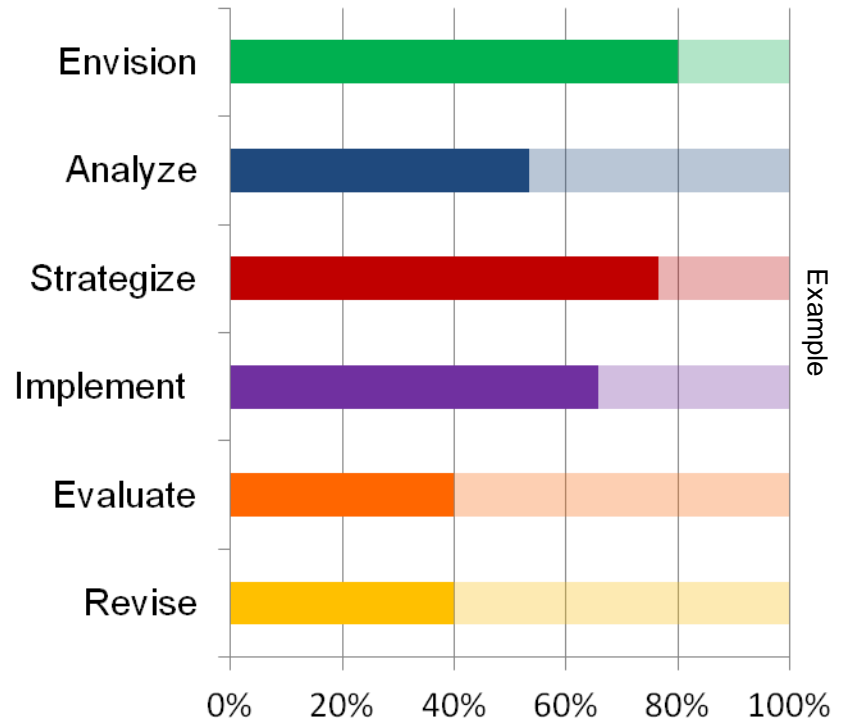
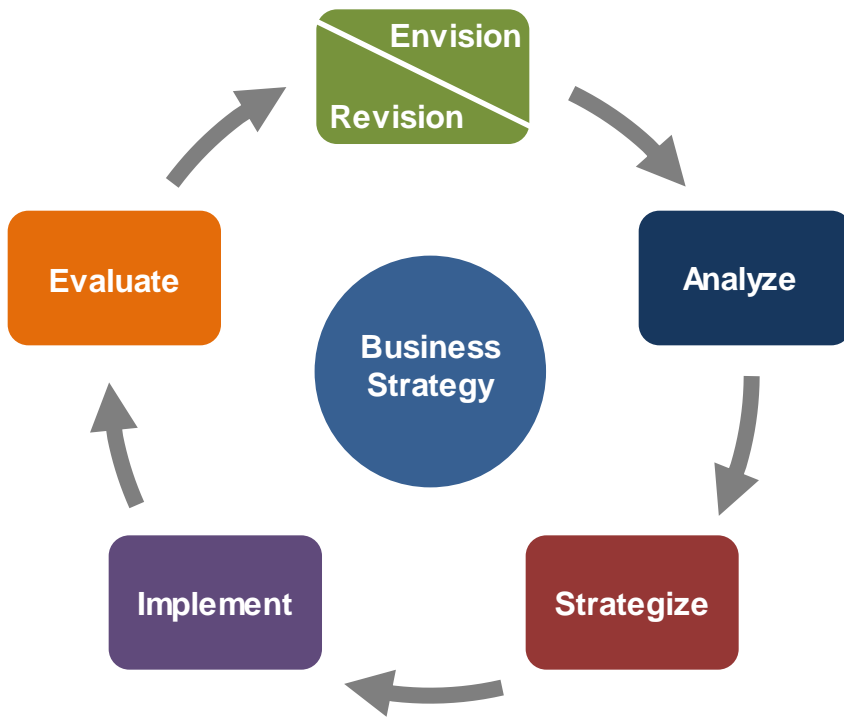
1. Inform
2. Demonstrate
3. Determine
4. Assess
  - Assessing Readiness
  - Analysis of S/GPR
5. Move forward

# 4. Assess

- Assess your company's readiness to use the Value Driver Model to enhance investor communications
- Building on the results of your assessment, the Model can be used to improve your ability to describe your company's sustainable business strategy and achieve results

# Assess Your Organization's Readiness to Employ the Value Driver Model

**Execution Capabilities:** Self-assess your company's ability to translate sustainable business strategy and policy into business value through structured processes, tools and systems



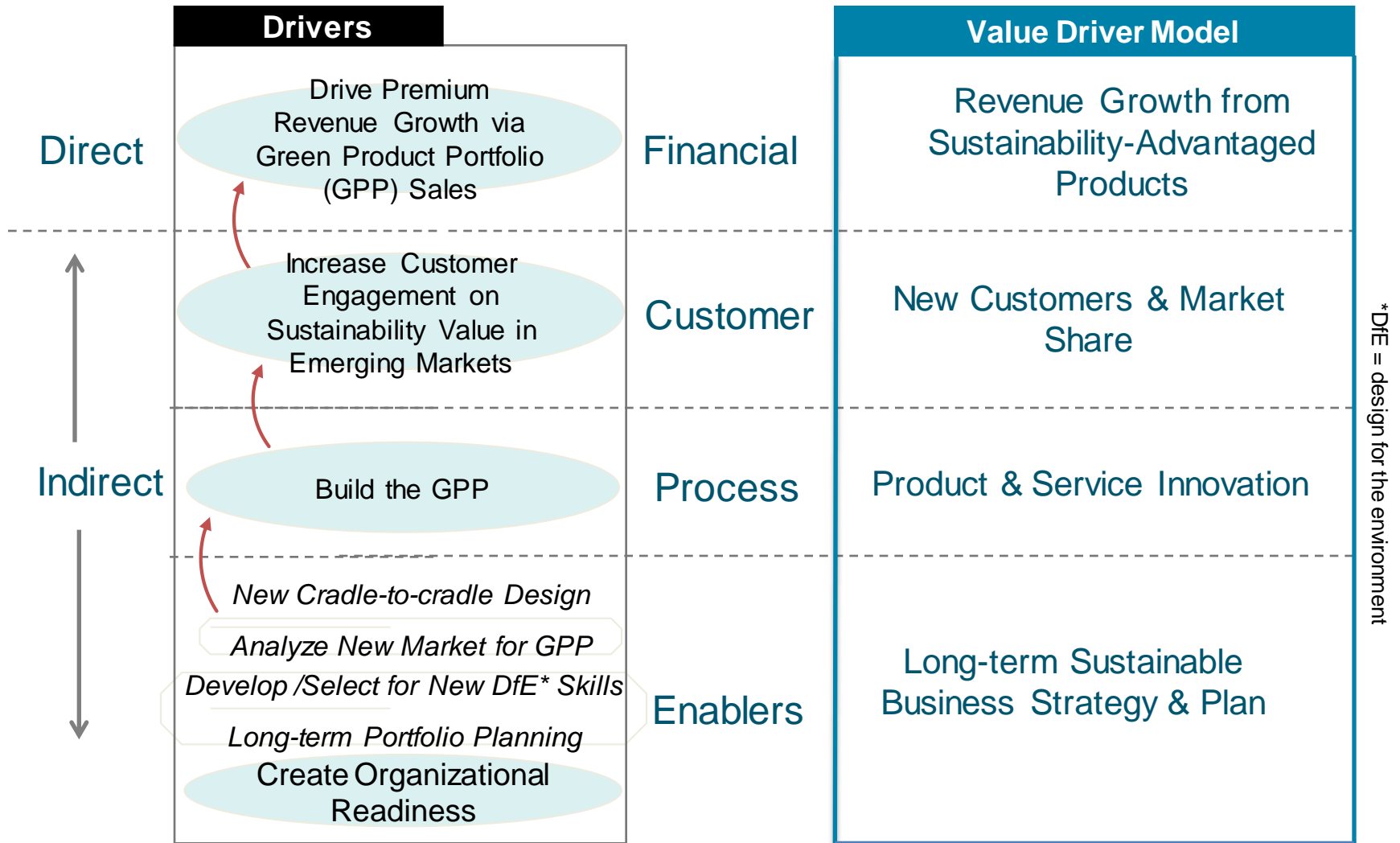


# Example Value Driver Analysis: Assess What Drives S/G



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# Story Behind Each Driver: Example Analysis of S/G



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# Story Behind Each Driver: Example Analysis of S/G

Bottom-up success gets results on top

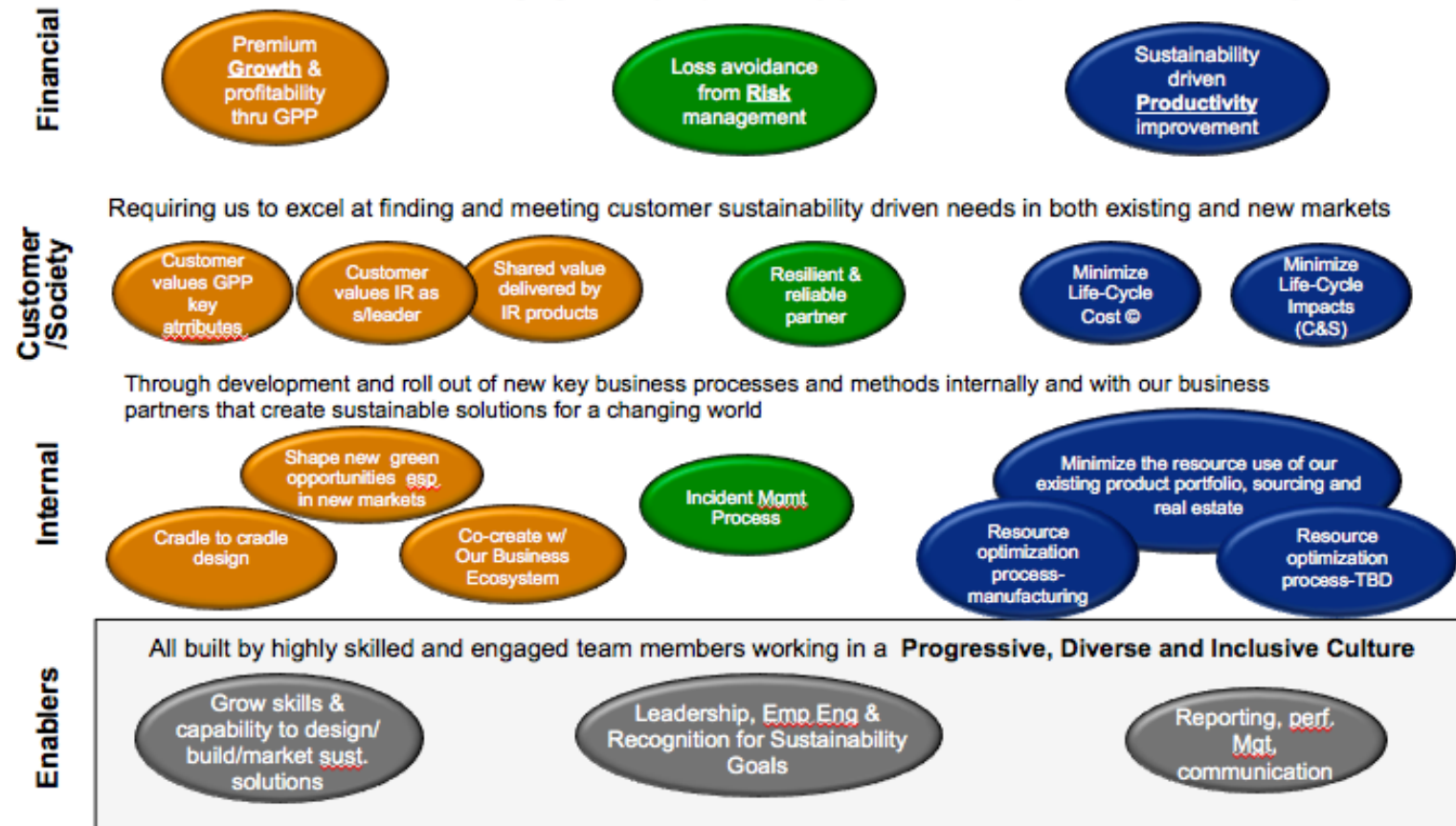
Drivers		Sustainability Scorecard	
		Measure	Target
TIER 1	Drive Premium Revenue Growth via GPP Sales	S/G	3 x
		Total Sustainability-advantaged Revenues	+20%
TIER 2	Increase Customer Engagement on Sustainability Value in Emerging Markets	Share of Sustainability Segment	25%
		Customer Awareness of Sustainability Value Proposition	50%
		Reputation as Sustainability Leader	90%
	Build the GPP	GPP Win/Loss Ratio	2.5
		New Product Development Process for GPP	Ph 2
		# Customer GPP Briefings	1hr/Q
	New Cradle-to-cradle Design	Design of Environmental Readiness	100%
Analyze New Market for GPP	GPP Leadership	100%	
Develop /Select for New DfE Skills	Long-term Sustainability Vision & Goals	100%	
Long-term Portfolio Planning			
Create Organizational Readiness			

Funding, responsibilities, & initiatives are linked to each element of the chain

# Ingersoll Rand: Example of Using the Value Driver Model to link sustainability to business results

Our Sustainability Strategy will support Ingersoll Rand Becoming a Premier Performing Company

By Driving Superior Revenue and Margin Contribution through **Customer-driven innovation and Emerging Markets Growth**.....And contributing significantly to productivity gains and our **Operational Excellence** goals



# Agenda

1. Inform
2. Demonstrate
3. Determine
4. Assess
5. Move forward

## 5. Move Forward – Using the Value Driver Model

1. Adapt the Value Driver Model to your company context.
2. Integrate the metrics from your company's Model into mainstream investor communications
  - e.g., host an ESG Investor Briefing
3. Track your efforts and investor reactions

*Share your progress and feedback with the Global Compact-PRI team.*

**For more information please contact**

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