



Sustainable Business & Enterprise Roundtable

SUSTAINABLE BUILDINGS & BUSINESS

Executive Guidance on Sustainability Strategy for
Operations



Executive Summary

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Executive Summary

This *Sustainable Operations Strategy* report is part of SR Inc's year-round Sustainable Business & Enterprise Roundtable (SBER) business service. SR Inc presents this management best practices executive guidance to address the expressed and growing interest of SBER Members in moving beyond project-by-project sustainability efforts to develop and implement an enterprise-wide sustainable operations strategy.

Leading executives recognize that a comprehensive and organized commitment to corporate sustainability better aligns them with leading investors, customers, talent, and regulators. Executives find that sustainability is a better way to organize and motivate geographically dispersed, and multi-functional teams, than the traditional commitment to optimization that disregards environmental considerations beyond minimal compliance measures.

Leading executives have recognized that aggregating and pairing sustainability initiatives that have an immediate payback, with initiatives that have a longer-term payback period, can help create a successful sustainability strategy. Such a strategy helps better organize and animate the drive to high performance in a manner that gains Board, investor, and top customer recognition and support.

The management best practice executive guidance and recommendations presented in this report are and are strictly vendor- and solution-neutral, and are premised on many dozen, and years long, consultation to SR Inc Member-Clients.

Key Takeaways

Leading companies recognize that sustainability is a megatrend that presents strategic imperatives for senior executives

- A comprehensive, internally branded sustainable operations strategy is better recognized and resourced by the C-suite and the Board, as well as better rewarded by investors and supported by employees than disparate initiatives
- Leading executives overcome barriers to developing and implementing a sustainability strategy by establishing:
 - A compelling, long-term sustainability vision and building a strong business case that leverages existing continuous optimization efforts
 - Effective governance, policies, and management structures to institutionalize sustainability

- Executives can evaluate the maturity of their sustainability strategy for buildings and business, and identify improvements by using assessment tools such as the SBER Diagnostic and Assessment, a proprietary, confidential benchmarking and guidance tool developed by SR Inc
- The SBER Assessment reveals that leading companies in multiple sectors and industries invest broadly in five common components of a sustainable operations strategy, including:
 - Vision & Governance
 - Strategy
 - Guidance
 - Implementation
 - Reporting Results

Section 1 Section 1 of this report discusses how corporate sustainability provides a strategic approach to innovation and optimization in a world of rising resource constraints. An enterprise-wide sustainable operations strategy provides an under-explored opportunity for executives to align with, and extend, a conventional commitment to continuous optimization and innovation.

SBER Member-Clients have found an embrace of corporate sustainability both:

1. Imbues a traditional commitment to excellence in business with the strategic intelligence of social and environmental relevance
2. Enables them to better engage and align with leading investors, customers and employees while reducing risks and encouraging innovations of growing importance in a changing world

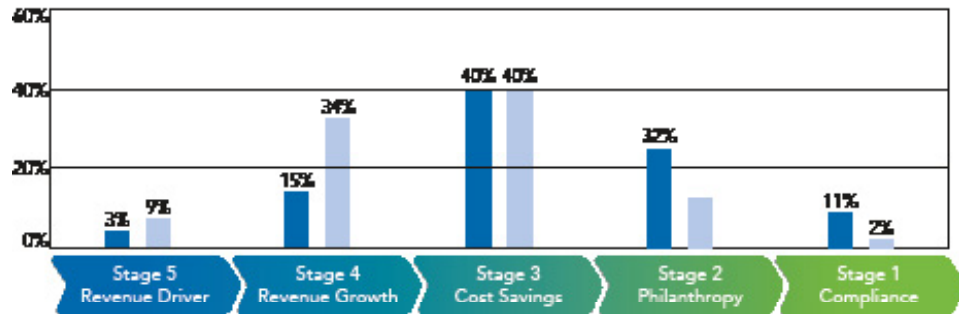
This section identifies the key drivers to implementing and enhancing a sustainability strategy. Based on insights from SBER Member-Clients and ongoing discussions with leading executives (see Sections 2 and 3 below), SR Inc has identified five key components of a sustainable operations strategy, which are described in detail in this section. These five components are: Vision & Governance, Strategy, Guidance, Implementation, and Reporting Results. Finally, the section discusses the major barriers to the adoption of a sustainability strategy, as well as strategies to overcome them.

In the figure below, stages 1 through 5 represent the different levels of engagement corporations may enter throughout the lifespan of a sustainable operations strategy. It should be taken into consideration that even despite the financial crisis beginning in 2008, and without a reasonable promise of pricing carbon pollution in the U.S., Stage 5/Revenue Drive increased 3 times,

and Stage 4/Revenue Growth grew 19% -- showing both a continuing focus on and increasing value of corporate sustainability in the face of budget cuts and impending regulations. Please note that this figure is distinct from the SBER diagnostic assessment.

Engagement in Corporate Sustainability and Progress from Bottom-Line to Top-Line 2006-2012.

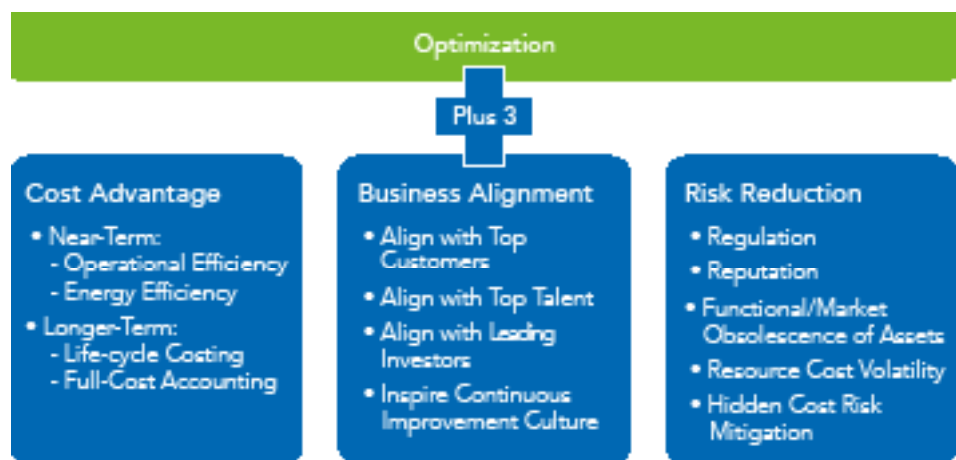
Source: Siemens & McGraw Hill Construction, A Path to Achieving Higher Building Performance, 2012



A growing number of companies are moving away from project-by-project sustainability efforts and are looking to develop and implement an enterprise wide sustainability strategy. Sustainable business is about better aligning your enterprise with market drivers to reduce risks, build talent, drive innovation, and consistently increase margins. Continuous optimization is an important part of corporate sustainability -- yet a sustainable operations strategy delivers more than what a conventional commitment to optimization provides. The above figure highlights the "Optimization plus Three" approach to a sustainable operations strategy, comprised of cost advantage, business alignment, and risk reduction -- what a sustainability strategy offers beyond a conventional commitment to continuous optimization.

The Advantage of Corporate Sustainability Over Conventional Optimization – "Optimization Plus 3"

SR Inc research

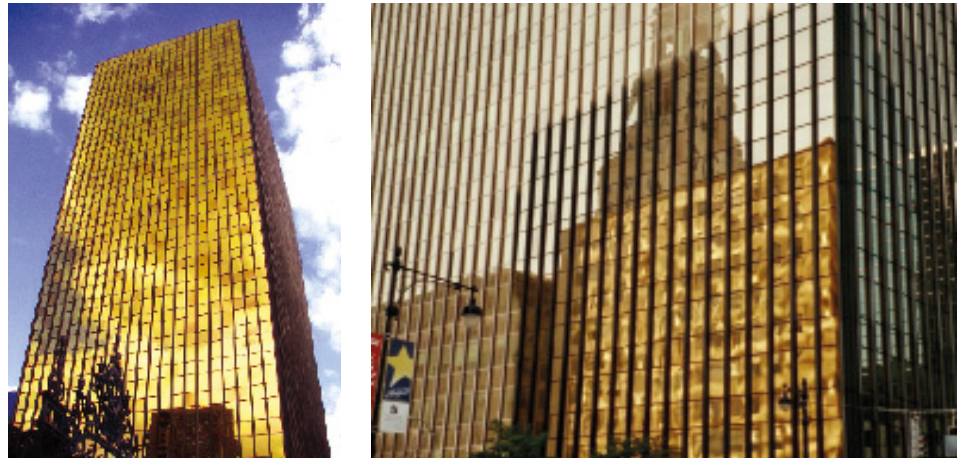


Section 2

Section 2 includes three case studies to illustrate why and how leading companies have moved toward enterprise-wide sustainability strategies for operations.

One Financial Plaza in Hartford, CT.

Source: New England Real Estate Journal; panoramio.



The Hartford Financial, one of the largest investment and insurance companies in the United States, has issued a Statement on Climate Change. The company sets specific GHG emission reduction targets and is in the process of spending over \$20 million for sustainability programs.

Lend Lease's mixed-use building in Singapore.

Source: Lend Lease.



Lend Lease, an international leader in project management and construction, owns and operates a diverse range of businesses in more than 30 countries. The company has chartered their own Sustainability Committee, identified over 25

sustainability “aspirations” to strive to meet, in addition to establishing an Environmental Policy, Green Office Action Plan, Responsible Investment Property Policy, and Corporate Metrics Reporting Guidelines.

Swiss Re tower buildings
in London City.

Source: thedarrenhughes.com



Swiss Re, one of the world’s largest reinsurers and a leader in risk securitization and trading, uses sustainability as a key guiding principle to create long-term shareholder value. Its vision for sustainability is to be completely carbon neutral, a commitment it made publicly in 2003.

Section 3 Section 3 of the report features two SBER Member-Client case studies which provide in-depth insights and lessons learned from executive leaders who are successfully advancing sustainability strategies for operations.

SAP Campus: Bangalore, India.

SAP Campus: Newtown Square, PA
(LEED Platinum).

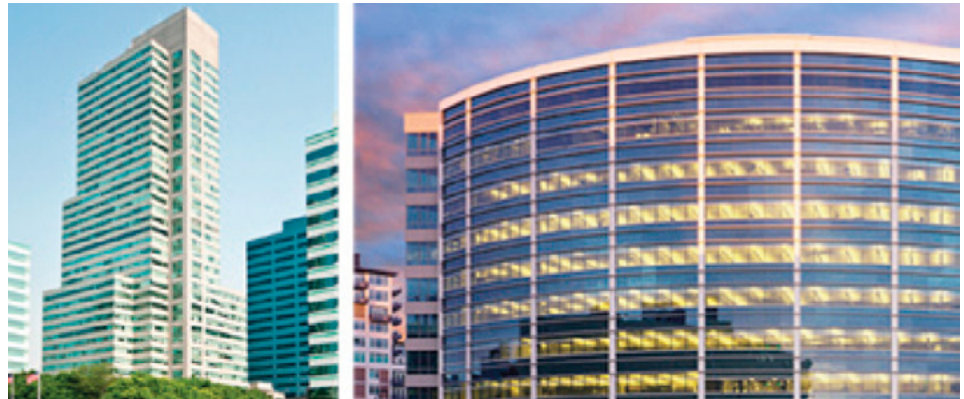
Sources: SAP & inhabit.com.



Member-Client SAP is a leading provider of enterprise software applications. SAP has incorporated sustainability in its business strategy and goals. The company has developed a roadmap for implementing its sustainability strategy and is one of the first companies to utilize the carbon abatement cost curve methodology for identifying and prioritizing sustainability projects.

Bentall Kennedy's Newport Tower in Jersey City, NJ (left) and Gates Plaza in Denver, CO (left).

Source: Bentall Kennedy 2013 Corporate Responsibility Summary..

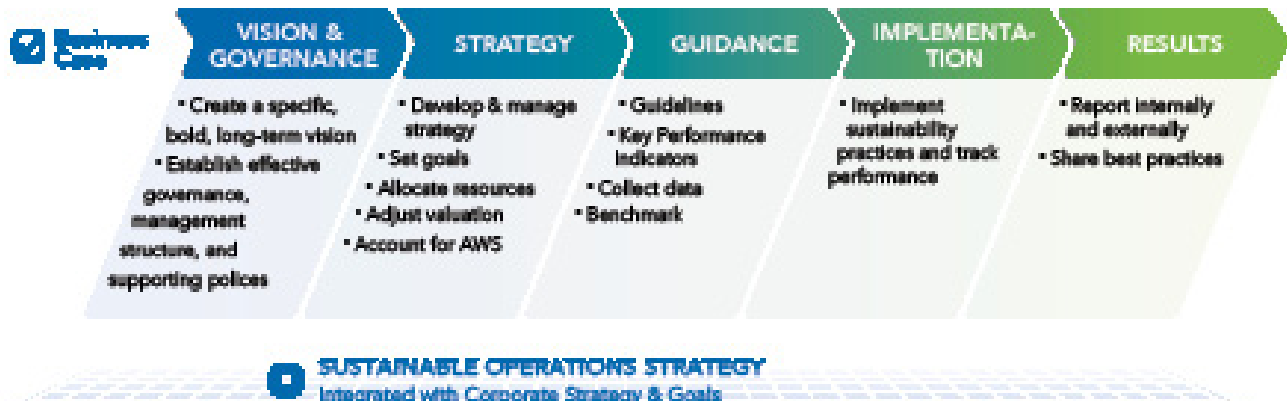


Member-Client Bentall Kennedy takes a business case approach to sustainability focused on enhancing long-term value for its investors. The company has a three-year strategy in place, and is currently garnering executive support for a longer-term sustainability vision that includes goals such as energy cost reductions portfolio-wide, and improving tenant well-being.

Section 4 Section 4 of the report provides a management framework for more sustainable buildings and business supported by sector-specific examples based on the five key components of a sustainable operations strategy presented in Section 1. It explains that leaders in sustainable operations establish:

- A compelling, long-term vision supported by effective governance, policies, and management structures to institutionalize sustainability
- A comprehensive set of qualitative short-, medium- and long-term goals and develop a strategy to achieve them
- Sufficient resource allocation (financial, human, and technical) to implement the strategy effectively
- Comprehensive guidance, sustainability KPIs, and benchmarking, to create a robust context for quantitative target setting
- Stringent internal and external reporting on sustainability results

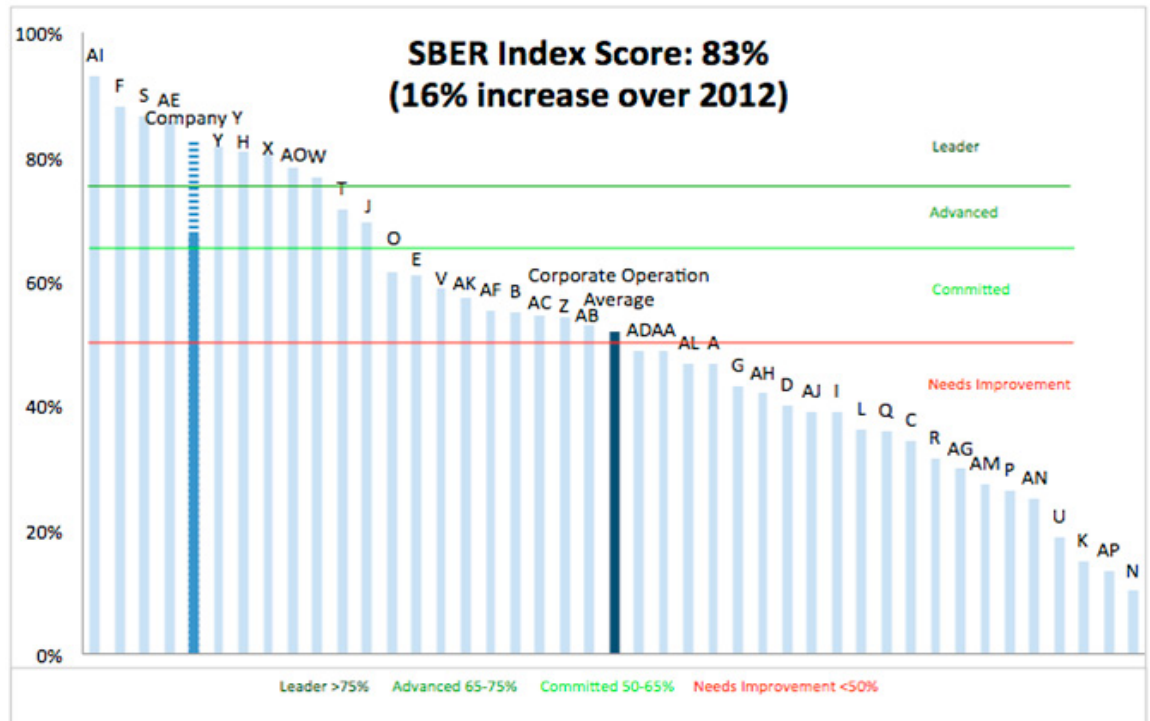
Components of a Sustainable Operations Strategy.
Source: SR Inc research.



Executives evaluate the maturity of their strategy and identify improvements to accelerate progress by using evaluation frameworks such as SR Inc’s framework presented in this report and reflected in SR Inc’s SBER Assessment.

SBER Member-Clients are evaluated in five components—Vision and Governance, Strategy, Guidance, Implementation, and Reporting Results—over the past two calendar years. Each component constitutes a weighted portion of the SBER Index score show in the figure below. Companies that have been SBER Member-Clients for more than 1 year are able to track their progress on a year-over-year (YOY) basis, which allows for a richer analysis of their multi-year sustainability strategies. The YOY trend is represented by the hatched line in the below figure.

Members Assessed on Sustainability Best Practices in Real Estate and Operations
SR Inc research.

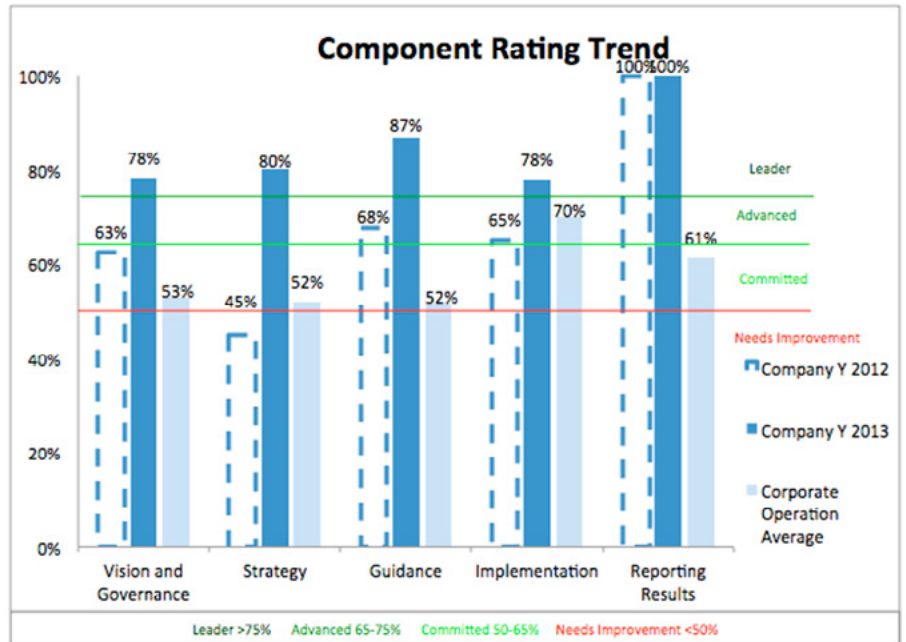
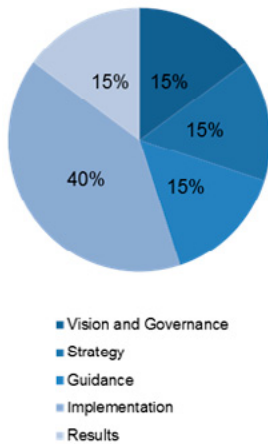


Cohort Members are qualitatively benchmarked by their quartile of performance in each of the five component areas (see figure below), based on the methodology described in the SBER Assessment. Each SBER Component Rating compares the company and the cohort against the averages for all Member companies for the current calendar year and any previous calendar years.

Member Assessment
Score by Component

SR Inc research.

Component Weighting:



The below graph shows detailed scoring and performance of the Operations & Maintenance section of the implementation component of the SBER Assessment. In order to improve their implementation scores, companies use this graph to prioritize areas of additional improvement, particularly ones that fall into the “Needs Improvement” category.

Member Assessment
Key Operations and
Maintenance Practices

SR Inc research.

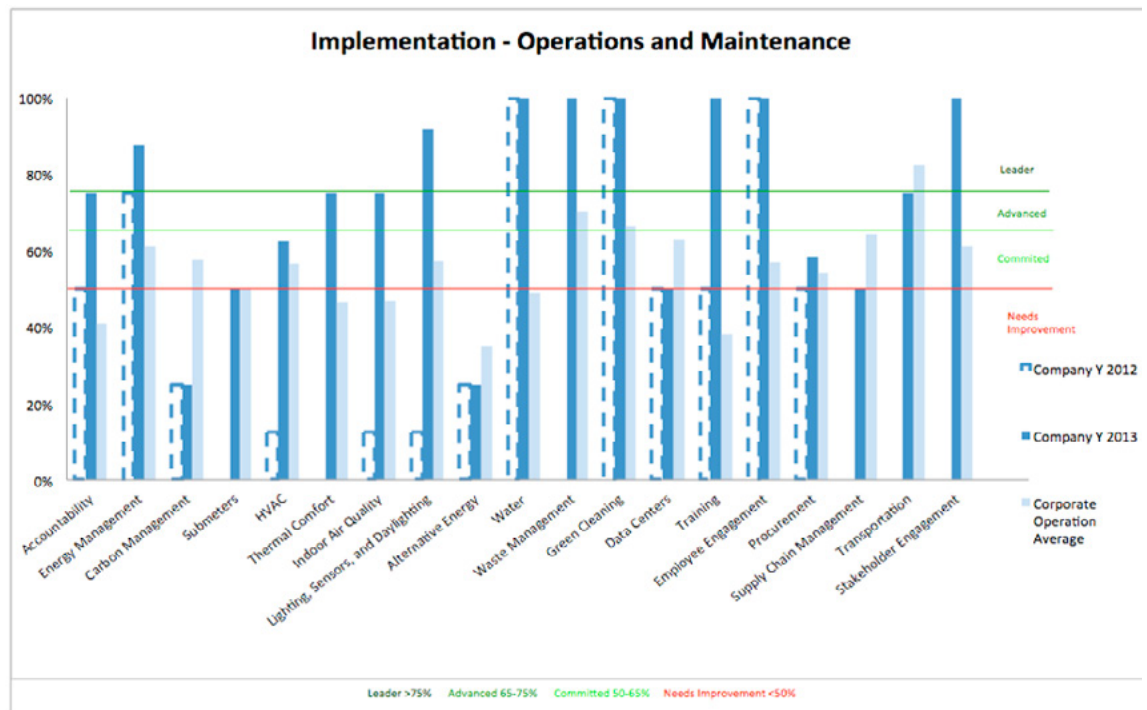


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SR Inc published this report in December 2013.

Member-Clients should contact SR Inc with any questions or comments. Member-Clients who have best practices in sustainable operations strategies that they wish to share with other Member-Clients are encouraged to do so for inclusion in future updates of this report.

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