

WHITE PAPER

The Bottom Line on Sustainability

Long gone are the days when companies could simply dismiss sustainability as little more than a "touchy-feely" tactic with little-to-no ROI. A new global paradigm all but mandates sustainability efforts be integrated in every facet of business—and project management is no exception.

Smart organizations have long understood the business benefits of disciplined project management practices: lower costs, greater efficiencies, improved customer and stakeholder satisfaction, and greater competitive advantage. By making sustainability a required and measured part of that process, companies also deliver environmental, social and financial benefits to the business.

"Sustainability has become a component of business success, and project management is one of the ways to get there," says Joel Makower, the Oakland, California, USA-based author of *Strategies for the Green Economy*. "If it's going to be part of the way a company operates, it has to be integrated into the way projects are managed."

Of course, economic realities often make it tempting to cut corners in sustainable practices. But succumbing to that instinct ignores the tangible benefits of a sustainability-driven organizational strategy. Instead, many companies are discovering that embedding sustainability into their project, program and portfolio management practices delivers direct and impressive positive impact on the bottom line.

"Companies don't approach sustainability because it's nice to do," says Gregory Githens, PMP, consultant and trainer at Catalyst Management Consulting, Findlay, Ohio, USA. "It's about making more money and identifying opportunities to do things better."

Yet only when sustainability is recognized as an organizational goal at the very top layers of management and driven down through every project and program across the portfolio will companies reap true rewards.

"That's when sustainability starts to reflect in the bottom line," says Erik Van Lennep, CEO of Tepui Ltd., a sustainability project management consultancy in Dublin, Ireland.

By integrating sustainability goals and measures into their project management process, companies see increased market share and improved profits, while meeting growing client and government

demands for more socially responsible business practices.

Those organizations not following suit will soon find themselves struggling to remain competitive. A 2010 survey by Accenture found that a full 93 percent of CEOs said successfully addressing sustainability issues will be critical to the future success of their businesses.

For sustainability to truly take root across an organization, project management executives and their teams must define environmental and societal targets—just as they set traditional quality, cost and time goals.

"The only way sustainability can be embedded in an organization is to make it the criteria against which all decisions are measured," says Mr. Van Lennep.

It's not enough for a company to declare it will "go green." Sustainability must be integrated into every aspect of project and program decision-making—from how materials are procured and risks are identified, to how oversight is conducted and milestones are reviewed, he says.

"Project management provides companies with the tools they

need to achieve their sustainability goals," Mr. Githens says.

Sustainability In Action
The Company: Group L'Oréal,
Paris, France
The Industry: Cosmetics
The ROI: Integrating biodiversity
at the procurement stage fuels
sustainability throughout the life
cycle of new product develop-

For global cosmetics company L'Oréal, green is more than a hot shade of eye shadow. It's a key ingredient behind all of its new product development projects.

ment projects.

"We look at sustainability across the entire life cycle of the product," says Francis Quinn, director of sustainability at Group L'Oréal. That includes assessing the impact of the ingredients, manufacturing, distribution, consumer use and end-of-life disposal.

Core to L'Oréal's approach is a structured project management framework for procuring raw materials. As part of the process, the company examines the ingredient across five areas:

- Consumer and employee health
- Environmental protection
- Protection of biodiversity
- Fair trade
- Respect for human rights

Before a raw material is incorporated into a new product-development project, it's reviewed against 25 criteria, including whether it's endangered and how it's harvested.

Today at L'Oréal, 40 percent of ingredients come from renewable resources and 400 ingredients are produced through

organic agriculture. The company is also actively investing in green chemistry projects to find molecules and products that require no solvents or high-temperature processing and are 100 percent biodegradable.

"Sustainability is part of our design process," says Mr. Quinn. "Environmental considerations apply across the board, and there are sustainability measures and milestones at every stage of the project."

For one of its new product projects, for example, the development team had been looking at an extract from the *Orchis mascula* (also known as the early purple orchid) as a primary ingredient. But the team discovered the flower was on an endangered species list. Rather than simply walking away from the plant, the L'Oréal team decided to develop it in the company's biotechnology center.

"By growing the flower, we promote the species and are able to use it in the product without harming the environment," says Mr. Quinn.

Although he won't disclose what the company spends to produce the flower, he argues that cost is irrelevant.

"I've had people ask me if we'd be willing to pay extra for ingredients that meet our environmental criteria," he says. "I tell them that it's the wrong question to ask. We won't buy an ingredient that doesn't meet our environmental criteria. Whatever the price, we walk away."

L'Oréal prides itself on being a company that consistently focuses on reducing its environmental impact and supporting the communities in which it works. To do that,

sustainability standards must be enforced across the project portfolio.

"We currently sell products in 130 markets around the world. As we progress our ambition to double our consumer base in the next 10 years, a sustainable approach becomes even more essential," Mr. Quinn says. "Our capacity to grow responsibly and sustainably depends on meeting societal challenges as well as raising the bar on environmental performance. At L'Oréal, sustainable development is a driver for responsible growth and a source of inspiration for our brands. Our project teams understand that the values of our company are not negotiable."

From Strategy to Projects That Transform

Ninety-one percent of respondents in the Accenture study reported their companies plan to launch projects to directly address sustainability issues over the next five years. Those efforts include installing renewable energy systems, improving energy efficiency at existing facilities and implementing advanced communication technologies.

Along with investing in projects specifically designed to address environmental or societal needs. forward-thinking leaders are embedding sustainability goals and measures into their core project management processes. Whether building a skyscraper, creating a new shampoo or designing a new data center, sustainability ranks as a top priority when plans are developed and throughout the ensuing project life cycle. According to the Accenture survey, 81% of CEOs said their companies have fully

integrated sustainability in their company-wide strategies and operations, compared to just 50 percent in 2007.

"CEOs believe that we are moving toward an era in which businesses will no longer focus purely on profit and loss as the primary means of valuation," the Accenture report states. "Rather, [they will] take into account also the positive and negative impacts on society and the environment."

Such decision-making cannot happen without executive support for big-picture change that spans the project portfolio. When project managers are encouraged to make sustainability part of the project management process, and are trained in implementing sustainability strategies and benchmarking, they become powerful champions of the sustainability transformation, says Mr. Van Lennep.

That power becomes even greater with the right project talent that can align the organization's strategic goals with its sustainability efforts. "People with the Project Management Professional (PMP)® credential already have an instinct on how to [watch out for] problems, and they are skilled at managing the inflow and outflow of resources," he says. "When they see the systemic relationship between sustainability and the project goals, they begin to measure every decision against a set of sustainability criteria."

By embedding sustainability into the very culture of an organization, organizations can effectively translate strategy into projects and programs that deliver on sustainability goals. Sustainability In Action The Company: Fujitsu,

Tokyo, Japan
The Industry: IT
The ROI: Establishing
sustainability goals at the start
helps ensure projects are
strategically aligned—and deliver

For Fujitsu, sustainability can't be something project teams try to tack on at the end.

results.

"When we start any project, we look at it holistically," says Alison O'Flynn, Fujitsu's executive director of sustainability for Australia and New Zealand and a leader of the IT giant's global sustainability community based in Melbourne, Australia.

"As part of the criteria for moving forward, we consider all of the resources that will be used, the environmental impact, and the carbon footprint upfront as part of the project plan. These are metrics that have become part of the Fujitsu project management practice."

Part of that project management practice means tapping into the right knowledge and talent base.

"Project Management Professional (PMP)[®] certification holders and *A Guide to the Project Management Body of Knowledge (PMBOK[®] Guide) are critical to successful sustainable project management," says Ms. O'Flynn. "The framework and discipline support the holistic view and breadth that sustainability in project management requires."*

Fujitsu's sustainability framework is aimed squarely at reducing greenhouse gas emissions, lowering energy use and producing less waste. And the project management office (PMO) plays a critical

role in identifying ways for weaving those goals into project plans—and making sure those plans deliver the desired results.

"The PMO makes sure the value case of every project aligns back to the corporate sustainability values and we have the processes in place to track those goals," she says.

For example, the possibility of future taxes on carbon emissions can help the PMO make the case for choosing carbon-neutral projects. "The United Kingdom has very advanced carbon-reduction commitments, and Australia is moving in that direction," she notes. "So we can see direct financial implications of these choices."

The company also regularly guides clients on how to create sustainability goals and metrics for their projects. For example, Fujitsu worked with Toyota in Australia to develop eco-friendly IT strategies at its three main Victoria sites to ensure those facilities meet Toyota's energy-efficiency goals.

As a first step, the Fujitsu team conducted in-depth interviews and assessments to define the environmental impact of the Toyota IT facilities. "We helped them understand their true energy consumption and how by reducing it, they would also reduce costs," says Ms. O'Flynn.

She explains that Toyota's IT group didn't understand its energy consumption or costs because they weren't paying those bills. "Doing an up-front analysis lets you see where there are opportunities for savings and helps you create metrics to track progress."

Fujitsu then helped Toyota formulate a sustainable IT strategy linked to the company's 2010 goals, outlining a number of projects and programs to achieve those goals, including system consolidation, disposal of assets and power-management initiatives for conferencing systems. The projects slashed electricity consumption by as much as 43 percent at the three sites, which not only led to reduced greenhouse gas emissions but substantial cost savings outcomes made possible by the company adhering to an organization-wide sustainable project management strategy.

Along with identifying projects that could help it meet its goals, the company established program management processes and procedures to help teams define, implement and measure sustainability.

Leaders and Followers

Those companies just beginning to make sustainability part of their project and program management practices can pick up plenty of knowledge from those who have been doing it for years.

Those cutting-edge companies have learned valuable lessons about how to create the culture and infrastructure necessary to reap the benefits of sustainable project management. They've created sustainability roadmaps, set environmental criteria for projects, and made it abundantly clear to employees, suppliers and clients that making socially responsible choices is a requirement of doing business with them.

And the more disciplined an organization's project management process and team, the more able

they are to meet their sustainability goals. "PMP certification holders and the *PMBOK® Guide* give companies a standard language, increase the confidence of stakeholders and better align their sustainability goals with their corporate strategy," Mr. Githens says.

Still, this kind of change doesn't come easily. Organizations can spend years creating the culture, value system and infrastructure that addresses environmental and community issues across the life cycle of their projects and programs.

"Sustainability is not about installing solar panels or using alternative energy. It's about connectivity, and thinking project plans through in terms of environmental impact, and the fundamental relationships between the decisions we make today so we are not compromising ourselves down the road," says Mr. Van Lennep.

"Project managers today need to be aware of the full impact of every project decision and what those decisions will mean to the business and the community," he says.

Organizations that create a project management culture focused on sustainability aren't just avoiding risks, they're also laying the groundwork for new market opportunities, says Mr. Van Lennep. "Sustainably traded goods and services is one of the fastest growing markets in the world, and one of the few to remain healthy through the recession."

A June 2010 survey showed that more than 60 percent of consumers in all countries want to buy from environmentally responsible companies.ⁱⁱ

In many cases, sustainability goals and measures act as a powerful risk-management strategy for organizations. By addressing the environmental impact of initiatives as part of the program management process, companies can reduce the risks of impending regulatory changes, such as more stringent requirements for water and energy use that might otherwise require costly facility retrofits.

The Long View

Pursuing sustainability does not mean sacrificing profitability. In fact, the opposite is often true.

Companies that invest in developing sustainability talent on their project teams reap impressive benefits. According to a study by MIT Sloan Management Review and The Boston Consulting Group, 68 percent of business leaders cited improved financial returns as a benefit of their organization's investments in socially responsible practices.iii

The research also indicated that once companies begin to pursue sustainability initiatives in earnest, they tend to unearth more opportunities to reduce costs, create new revenue streams and develop innovative business models.

"The world has reached a tipping point now," Steve Fludder, vice president of ecomagination at General Electric, says in the report. "We're beyond the debates over whether addressing sustainability is something that needs to be done or not—it's now mostly about how we do it."

For project-oriented organizations, that means making sustainability a part of their project management best practices.

Organizations just beginning down this path must understand, however, that incorporating sustainability measures into project management practices takes a lot of work—and a fair amount of trial and error, says Alan Brent, PhD, a professor in the department of engineering and technology management at the University of Pretoria, Pretoria, South Africa.

"It's a messy process," he says.
"You either have to translate
environmental issues into costs or
bring them into the risk-analysis
process of project development."

In other words, companies must balance the cost of making sustainability a requirement of up-front project decisions—even if it means spending more in the short term—against the possible risks associated with not making that choice.

In South Africa, for example, many projects involve extracting raw materials, including coal and oil, from the land. "If the project plan doesn't take into account the impact to the community and their response to the initiative, it can cause a negative impact to the opportunity," he says. He notes that some mining companies in the Pretoria region have gone bankrupt after being forced by the government to rehabilitate land that was polluted as a result of their mining projects.

"The cost of these risks is not easy to quantify, but they must be measured and tracked, or companies run the risk of going under," Dr. Brent says.

The turning point for many organizations comes when they start to view sustainability as an opportunity rather than a risk, he says. That's a shift that many struggle to make, though.

"In coal mining and oil industries, companies are realizing that no one wants to use their products anymore," he says. "They could look at clean energy as an opportunity to increase their market share, but many still consider it a risk to the business."

It's a shortsighted approach that could damage their long-term prospects.

"Fifty years from now, you are not going to be in business if you keep managing projects in the same way," Dr. Brent says. "It's not a matter of if you need to change your approach, it's when."

Sustainability In Action
The Company: Herman Miller
The Industry: Furniture
manufacturing
The ROI: An eco-friendly
program management strategy
inspires "market-disrupting"
projects.

At Herman Miller, if a project doesn't meet sustainability goals, it's over.

Every new product project is based on the company's Design for the Environment (DfE) program management criteria, all of which align directly with the company's overall 2020 corporate sustainability goals:

- Zero landfill
- Zero hazardous waste generation
- Zero air emissions
- Zero process water use
- 100 percent green electrical energy use
- Minimum LEED silver certification for all company building construction
- 100 percent of sales from DfE-approved products

Project management is at the core of helping the company achieve those strategic objectives. "Our team leaders are responsible for ensuring that our products meet our quality goals and DfE criteria," says Gabe Wing, DfE manager. "They are the ones who engage the value chain to find innovative solutions, and that's how we create disruptive innovation in the marketplace."

Project teams have a DfE playbook that guides decision-making and frequent stage-gate reviews to assess progress, explains Mr. Wing. "If the DfE criteria aren't met, the project doesn't move forward without the approval of the project team sponsors. Any unmet criteria will be addressed in order to meet the 2020 goals."

Mr. Wing credits company founder, D.J. DePree, and current executive leadership for the unerring commitment to promoting the values of sustainability across the organization. "When you have a key visionary at the heart of an organization, it's easy to embed sustainability in your product development process."

Even with leadership support, it has been a long and complicated journey. Although the company always tried to be a good environmental steward, it didn't always have the knowledge or rigor in its project and program management practices that it does today.

"It's been an evolution," Mr. Wing says. "As we learn more about what we can accomplish, we incorporate new criteria into our design practice, products, processes and facilities."

In 1989, the company created the Environmental Quality Action

Team, a cross-functional steering committee that sets environmental direction and priorities and measures results. The team began with a set of general guidelines and earth-friendly principles, such as using recycled material and sustainable wood whenever possible and reducing waste to landfills. Then, as the development teams learned more about material chemistry and what they could accomplish, the criteria became more rigorous.

The team also discovered the need to assess risk while still trying to meet sustainability goals. For example, the company's first DfE product, the iconic Aeron chair, used 50 recycled 2-liter soda bottles in the seat and back frames. This choice helped the team meet the recycled material goal, but they later discovered that the bottles contained trace amounts of antimony, a toxic metal. By using bottles in the product, the company inadvertently extended the life and the potential reach of antimony in the environment.

Rather than chalk it up as a failure, the team saw an opportunity to improve its procurement process, and began looking at the larger value chain when selecting and evaluating materials for the program.

"Based on that project, we saw opportunities to move beyond recycled material, and we started looking more closely at all of the design impacts throughout our value chain," Mr. Wing says.

In 1997, Herman Miller began following Cradle to Cradle (C2C) design, a sustainable design methodology and certification program covering 19 criteria to ensure materials used in products are not harmful to the environment or people, and can either be recycled, remanufactured or composted.

The project team spent two years examining how to embed C2C into a large organization and now incorporates it into every new product-design process.

Toward a Sustainable Culture

Integrating formal sustainability goals into an organization's project management practices requires culture change, education, measurement—and support from the upper ranks.

Here are some tips for making the most of sustainability initiatives:

Embedding sustainability across the project portfolio requires a high-level champion. Companies cannot achieve sustainability goals unless they have unwavering executive support for the process, which then is driven down to each project in the portfolio. "Leadership is necessary to integrate these goals across the organization," says Fujitsu's Ms. O'Flynn. "If you don't have it, you'll face constant challenges."

Sustainability efforts must be embedded across the enterprise. Project teams cannot make decisions that support sustainability goals if the culture in which they operate doesn't value those choices, says Dr. Brent, University of Pretoria. "Until these values are pushed down from the top throughout the organization, the change won't happen."

Sustainability can't be viewed as a panacea. Consider the risks as well as the opportunities to determine the full value of sustainable choices. "You have to understand the environmental impact of what you are doing," says Mr. Makower.

For instance, if reducing air emissions has the side effect of increasing water pollution, for example, the net gain is zero. And if your organization makes sustainability a selling point, it must back it up at every project turn or risk a severe public relations hit.

Sustainability must be non-negotiable. You can't be socially responsible only when it's convenient. It has to become an integral part of your value system, says Herman Miller's Mr. Wing. "Start with non-negotiable criteria and make meeting those criteria a requirement of moving the project forward."

Link sustainable goals to bottomline results. Start with project goals
that are easy to identify and
analyze the data behind them.
For example, improving energy
efficiency and avoiding landfills
have clear environmental and
financial benefits. "Even skeptics
can see the value these changes
add to the bottom line," says Mr.
Wing. "If you are not making
sustainable choices, you're leaving
money at the table."

What's measured is managed—and sustainability is no exception. Define specific, measurable, sustainability goals within each project, such as reducing energy use, eliminating waste to landfills or cutting greenhouse gas emissions, and then track those metrics as part of the project review process. "When you have clearly defined metrics, you can make them an integral part of project tasks," says Ms. O'Flynn.

The quality of a company's offerings is reflected in the quality of its supply chain. Sustainability goals cannot be achieved in a bubble. To be a truly sustainable organization, you must set expectations for environmental

stewardship across your supply chain as criteria for doing business, says L'Oréal's Mr. Quinn. "It requires a shared vision among your partners and commitment to long-term collaboration."

Summary

Sustainability is a business reality. The challenge facing executives is finding a way to address environmental and societal issues in a way that also delivers bottom-line results.

One of the most effective ways of doing that is to embed sustainability into the organization's overall project management practices. Yet addressing the risks and opportunities therein requires a fundamental shift in the way decisions are made, projects are managed and investments assessed.

"It can't be done overnight," says Herman Miller's Mr. Wing. "It's a process. You have to make the best choices for the project, learn what you can and push the boundaries of performance for the next time."

Executives attempting to integrate sustainability across their project portfolios face a difficult journey, but there's no ignoring it, warns L'Oréal's Mr. Quinn. "If you want to grow your business in the future, then sustainable development should be your roadmap," he says. "It has to be a priority or you will not succeed."

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¹ A New Era of Sustainability: UN Global Compact, Accenture, 2010.

Green Brands Survey, Landor Associates, June 2010. Results based on a survey of 9,000 consumers in eight countries.

iii The Business of Sustainability, MIT Sloan Management Review and The Boston Consulting Group, 2009. Results based on a study of 1,500 corporate executives.

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