

THE MATTER WITH METRICS:

Measuring the ROI of Sustainability



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Senior executives understand that pursuing sustainable business and creating shared value drives competitive advantage and long-term profitability. But without measurement to quantify the return on investment in sustainability relevance and integration is inherently limited. Across brands there are key ROI metrics every company or organization can adopt that will prove the value of sustainability to their brand and accelerate their progress.

OFFENSE, DEFENSE OR ON THE FENCE?

Most publically listed companies with brand equity recognize the notion that the single-minded pursuit of profit and shareholder return at the expense of society and the environment is a business model ready for reinvention, that business must be part of society and not separate from it.

Some companies are on offense, believing (correctly in JetBlue's view) that integrating an authentic wider purpose into their brand is a source of competitive advantage, long-term profitability. Fewer are optimistic and see opportunity and abundance. Others are on defense, taking steps to protect their position and the status quo. They are more pessimistic and reactive to competitive threats and concerns about scarcity. And some, on the fence, have not yet moved to act. (And it is worth asking how long no action will be taking as passive rather than defensive.)

THE GROWTH OF SUSTAINABLE BUSINESS AND ITS MANY FORMS

Companies have started taking steps towards a more sustainable business model. They may have lowered operating costs by reducing their carbon footprint or sourcing more sustainable materials, or reducing waste, or have taken other specific steps towards the triple bottom line of balancing profit with people and planet.

A relative few have begun to go beyond this ground-floor level of incorporating more sustainable consumption and environmental awareness into their operations and practices and are embracing shared value, the management principle that seeks opportunity for business in solving social problems.

Companies in many industries are showing the way. Each is finding competitive advantage and profitability in programs that are consistent with their purpose while more consciously stewarding resources or investing in people and communities. Whether you sell access to capital or clothes, every product and service can be made more sustainable.

Financial services companies are pursuing impact investment in areas such as microfinance, rural development and agriculture, unbanked or financially-excluded consumers, and clean or renewable energy:

- Morgan Stanley for example founded the Institute for Sustainable Investing in 2013 to

create financial products, such as green bonds, and solutions that help entities scale and build capacity. The Institute has also sponsored contests leading to advances in areas such as brownfield remediation.

In retail and fashion, some brands have long been active in health and welfare initiatives:

- Estee Lauder Companies' MAC AIDS Fund, for example, has for nearly 20 years underwritten innovative programs that support AIDS and HIV research and initiatives in underserved communities and countries.
- In a sector chronically beset with labor abuse issues Levi-Strauss, H&M and Gap made the Ethisphere Institute's 2014 list of the world's most ethical companies.

Airlines, traditionally thought of as the biggest contributor to an individual's carbon footprint are keenly aware of their environmental footprint and the possibilities for mitigation.

- British Airways recently entered into a multiyear contract to purchase jet fuel sourced from recycled garbage.
- JetBlue recently operated carbon neutral flights for a month and has offset over a billion pounds of CO₂-equivalents, integrating the process into their customer communication.

DIFFERENT PROGRAMS, SIMILAR IMPERATIVES

Wherever on this spectrum a company or organization is located, they will find there are some things that don't change. We still play by the same rules.

There are three imperatives that have not changed and are unlikely to change:

1. **Profit.** The profit imperative (or "development" in the case of a non-profit organization) is undimmed, even among companies that are pursuing "profit with purpose" or "conscious capitalism". Without profit, purpose cannot be realized.
2. **Competitive advantage.** Sustainable business is still all about winning in the marketplace, innovating to win and investing to win.
3. **Return on investment.** Just as with a traditional advertising or marketing budget, or any other investment, defending the spend is critical. The sustainability of sustainable business depends on being able to prove the ROI.

THE ROI IMPERATIVE

Accenture's 2013 CEO Study on Sustainability "*Architects of a Better World*" prepared for The UN Global Compact is one global survey among many that casts a spotlight on the importance of ROI measurement as a key to sustainable success. It shows that 80% of CEO's view sustainability as a route to competitive advantage (they may have read the HBS study!), but only 38% believe they know how to accurately quantify the business value of their sustainability initiatives, and just 31% believe their company's share price currently includes value directly attributable to sustainability initiatives.

Therein lies a central challenge for the sustainability of sustainable business. What gets measured gets managed. And if you don't measure it you can't fund it. Measuring the ROI of sustainability, like measuring advertising, means demonstrating how and why it is effective against its intended strategic goals.

Accenture suggests, correctly in our view, companies need to go beyond measuring, managing and reporting the metrics of mitigation. They should quantify the value of sustainability initiatives and business models to the company, and should track their impacts on sustainability outcomes. For example by integrating sustainability metrics into financial reporting, measuring and tracking their impacts on community and society, and building sustainability engagement and performance into employee assessment and reward.

In similar vein, the HBS study finds that “high sustainability” firms are characterized by strong governance, comprehensive stakeholder engagement, a long-term perspective, detailed measurement, and a high degree of transparency.

CONNECTING PURPOSE AND SUSTAINABILITY

Finding the brand’s purpose or “north star”, then linking it authentically to an issue or initiative that promises to meet strategic corporate goals, is a major undertaking for most companies.

True, there are older established companies and brands that have decades or even a century of heritage to draw upon, that were founded in an earlier time when the social purpose of a business was expected as of right. And there are new young brands created specifically with social impact in mind. But the vast majority of today’s brands have legacies to overcome and thinking that needs to evolve, and a *latent* purpose that needs to be “discovered” and brought out into the light of day.

Some companies and brands find their purpose organically or serendipitously in the process of commercializing an opportunity. They may sense a need and find that what begins as “a nice thing to do” becomes a major business opportunity

JetBlue’s new Emissions Offsetting program is typical in that, once the need has been recognized, the value is obvious and the fit with the brand’s purpose is natural and authentic. As part of its “Inspire Humanity” purpose and launched in connection with its new Mint service, the airline now funds carbon dioxide and methane capture in landfill recovery gas-to-energy projects equivalent to the amount of carbon dioxide emitted on all flights with Mint class seats between San Francisco and New York. In addition to mitigating JetBlue’s own emissions, this program also reduces landfill emissions, generates electrical power, and supports employment and the local economy around the Granger South Jordan Landfill.

In another first, JetBlue recently worked with Planet Aid and fashion company Loomstate to recycle nearly 20 tons of used crewmember uniforms. One-third of the clothing is donated to be worn again, and two-thirds finds new life recycled into new products. Proceeds support health, agricultural, educational and environmental programs in emerging countries. Ultimately the program contributes both to reducing resource consumption and to landfill reduction and associated emissions.

In summary, the company identifies the social issues to target, makes the business case, tracks progress and measures the results, and uses insights to unlock new value.

CONNECTING SUSTAINABILITY AND ROI

Sustainable business requires both upfront and ongoing investment of capital, time and effort, and produces returns that may be realized over long periods of time. A quarterly financial

perspective or a market-timer mindset is therefore less useful than the perspective of a long-term strategic investor. This is the context for measuring return on sustainability investment.

Companies have found that the conditions for success include:

- The sustainability program must be a *real* program and not just a marketing initiative.
- It should have the potential for real social or environmental impact, able to produce measurable change.
- It should also have a measurable impact on purchasing behavior.
- It requires an emotional connection to both customers and employees.
- It should be *much more than* a communication of intent or a contribution to an issue.
- It should be substantial enough to motivate the company to stay the course and inspire management and employees.

One such program is JetBlue’s ocean health initiative which supports beach clean-up in the Caribbean. Working with the Clinton Global Initiative and The Ocean Foundation, JetBlue recognized that every tourist is an eco-tourist, that a clean environment is fundamentally important to its leisure customers, and that its route network is an important asset for Caribbean economies.

As it reports in “*Eco-Earnings: A Shore Thing*”, the airline sought to measure the relationship between the long-term health of Caribbean shorelines and JetBlue’s investment in Caribbean routes to “sun, sea and sand destinations” and its financial bottom line. Tourism (22 million visitors) represents 16% of Caribbean GDP but much trash eventually finds its way into the water. By measuring beach cleanliness (trash volume), health of coral reefs and mangroves and water quality, JetBlue is able to correlate the health of each destination with profitability as measured by revenue per available seat mile (RASM). More research remains to be done to prove the causal relationship, but the initial findings strongly suggest that clean beaches and profitability go hand in hand. The long-term effort to measure ocean health impacts also serves as a call to action and to promote wider understanding of the economic value of an ecosystem.

METRICS FOR MEASURING RETURN ON SUSTAINABILITY INVESTMENT (ROSI)

As a practical matter, a company can measure *anything* but it cannot measure *everything*: choices require prioritization. In the case of Return on Sustainability Investment there are two key considerations. First, ROSI measurement should not displace anything else that is currently measured, it should be additive. Second, it should encompass assessments of impact, reputation, and program performance. (Note that ROI measurement is typically at the discretion of the company while compliance reporting may be a regulatory requirement.)

There are four broad areas of ROI measurement that every brand, company or organization can adopt. These are relevant no matter how a purpose is defined or what sustainability or shared value initiative is pursued, and irrespective of industry sector, size, and level of sustainability experience or maturity.



Our framework addresses Return on Sustainability Investment (ROSI) metrics in the four key areas of financial return on Brand, Talent, Reputation, and the Program itself.

FINANCIAL RETURN ON BRAND. For any brand, sustainability and shared value are a lifelong commitment so it is critical to assess the return on brand in terms of lifetime value.

Customer Lifetime Value (CLV) is a key Brand Metric because it addresses the *lifetime value* of the customer, consistent with sustainability or shared value being a *lifetime commitment* and doing that is baked into the business.

CLV, simply put, says that successful brands win more customers, lose fewer customers, have customers that buy more often or more exclusively, and have more valuable customers. Creating shared value works because it leads over time to attitudinal and behavioral change in consumers. Shared value therefore drives KPI's like brand preference, brand loyalty and usage frequency. It attracts more valuable customers, and supports the customer lifetime value of the brand which in turn impacts directly on market share, margin improvement and profitability.

FINANCIAL RETURN ON TALENT. Employees are among the most important of a company's stakeholders. Critically, from the ROI perspective, employees can influence, and in turn be influenced by, their company much more directly than many other stakeholder groups (Stapylton, April 2014).

Among the many succinct expressions of the elevated role of the employee stakeholder, is this from PepsiCo Chairman and CEO Indra Nooyi: "We recognized early that when we transform our business to deliver for our customers, protect our environment, and invest in our employees, we achieve sustained value. In fact, these actions fuel our financial returns".

Just as customers want to feel good about the brands and companies they transact with and have relationships with, so too do employees increasingly demand jobs that feel good as well as look good. Human Resources and Talent Acquisition specialists know that a company's reputation for "doing well by doing good" is a major draw for recruitment and retention of high-caliber employees. (Stapylton, Jan 2014). Harris Interactive's 2013 Reputation Quotient survey shows that "being a good company to work for" is one of the attributes of corporate reputation that has increased the most in importance to the American public in the past two years.

Commenting on talent acquisition and retention at IBM, Stanley Litow, IBM's VP of Corporate Citizenship and Corporate Affairs, remarks that by including metrics for social impact in employee satisfaction surveys IBM is able to quantify the ROI of social impact on employees. IBM sees that employees who have been actively involved in the company's shared value programs are more likely to stay with the company.

Measuring the financial ROI on Talent can simply involve ensuring that the appropriate questions about sustainable business practices, shared value and social impact are included in the annual employee satisfaction surveys that most companies and organizations already routinely undertake. The cost of measuring this return on talent is marginal assuming a pre-existing commitment to monitoring employee satisfaction.

FINANCIAL RETURN ON REPUTATION. The Reputation Institute's 2013 global reputation leadership survey shows that nearly 80% of corporate executives think we now live in a "reputation economy" but only 20% say their company is ready to compete.

Sustainability is in many ways the epitome of a reputational issue. It is one component or element among many of a company's overall reputation, but clearly it is growing in importance and is rapidly becoming a key driver of reputation.

A company's reputation can be influenced by *any* stakeholder who chooses to have an opinion about the company, even by those with a different agenda or who lack personal knowledge and experience. In a very real sense, a company's scorecard performance on sustainability is judged not by the company itself but by its stakeholders. Perception is reality.

Measuring the financial ROI on Reputation can be approached in the same way as measuring the impact on Brand among consumers or the impact on Talent among employees: that is, by survey-based measurement of reputation and then modeling out the contribution of sustainability and shared value initiatives to overall reputation.

However, a more dynamic, real-time, and potentially cost-efficient approach is one that puts a value on reputation based on content analysis of earned media.

Earned Media is commonly defined as the value of the content generated by a company or a brand when it gains recognition and a following. In the past, most earned media was assumed to reflect editorial influence. Today, it also encompasses social media influence -- both online and offline -- which is understood to include word of mouth. Earned media and word of mouth have been found in many studies to be highly trusted sources of information, and are therefore a channel very likely to stimulate stakeholder response.

Innovative approaches have been developed for measuring financial return on online earned media investment. (Offline earned media, e.g. in-person word of mouth conversations, can still be measured on a self-reported survey basis). A suite of social media monitoring tools begins with the use of web monitoring to capture (or "scrape") all instances of pre-specified names (e.g. a brand or company name) mentioned in co-occurrence with words and phrases relating to an issue, theme or subject. Once collected, this "unstructured narrative data" is analyzed using text analytics tools such as natural language processing.

Outputs include measures and trends of volume (number of mentions) and sentiment (positive, neutral or negative) for each name and issue, by location (geography), source (e.g. Amazon or Yelp or Glassdoor review, Facebook status update, Twitter, other digital media outlets, and so on), and timeline (point in time or continuous, since every online mention is date-stamped).

FINANCIAL RETURN ON PROGRAM. Measuring the ROI of the actual program or initiative that a company or brand has embraced is fundamentally different in two important ways from measuring the impact on Brand or Talent or Reputation.

First, every program is different and unique and therefore requires custom-designed metrics rather than generic metrics that work well across a multitude of sectors. Second, the preponderance of metrics skews more to the objectively quantifiable (e.g. tons, gallons, miles,

numbers of trees saved, jobs created or houses built, etc.) than to the subjectively measurable (e.g. survey-based attitudinal and behavioral data).

A successful sustainability expert survives in the corporate environment by beginning with the end in mind. The most meaningful and relevant KPI's or ROI metrics might be as wide-ranging as: lowered levels of diabetes or obesity (healthier ingredients), increased penetration of credit cards among the formerly unbanked (financial inclusion), cleaner air or water or fewer lawsuits (responsible resource consumption).

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