

# Sustainability management framework

Fitness check for executive and  
supervisory boards



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# Assessing your sustainability management framework

## What is the challenge?

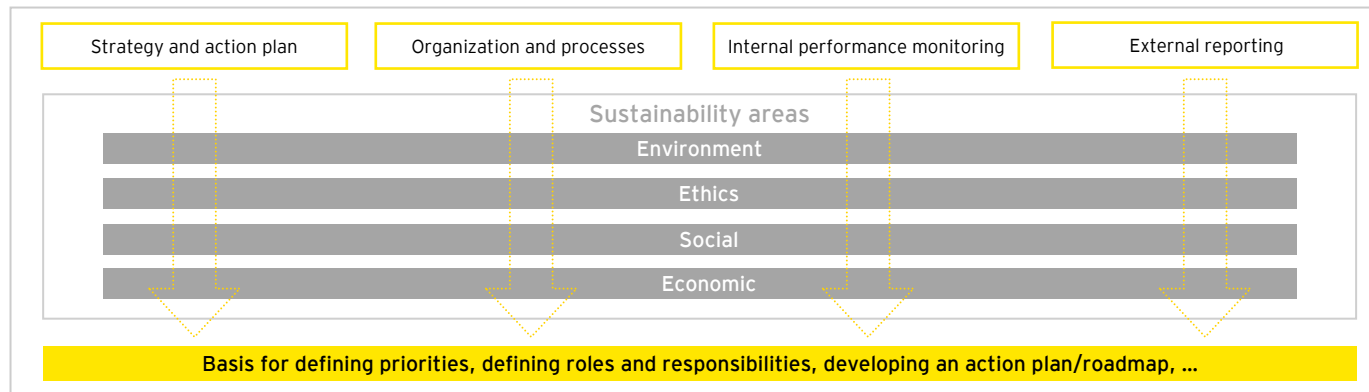
Sustainability has become more and more important and is no longer just of interest to a small number of stakeholder groups. Nowadays, the general public is concerned about sustainability, thus increasing the pressure on companies to assess and, when necessary, adapt the way they operate. To address this increased scrutiny, companies often conduct numerous, uncoordinated activities which focus on different sustainability related topics. Due to general cost and performance pressure, these sustainability activities need to be constantly reviewed.

Many activities are reactive and only address sustainability in response to targeted external pressure. These activities are frequently carried out by various business functions. Often there is no company-wide coordination of these activities and the various functions who are involved develop their own initiatives. Therefore, most of the activities are not aligned with the company's overall strategy. Furthermore, in many companies, there is no guidance regarding the development and adaptation of sustainability activities as no clear priorities or roles and responsibilities have been defined.

## What are the key questions to answer?

1. How should priorities be set as to provide guidance for your operational management which will support your desired position with stakeholders?
2. How should roles and responsibilities be defined so that there is an effective set-up to address external pressure?
3. How can your current sustainability related activities be further optimized so they are in line with your company's strategy and address future needs?

## Starting point: Sustainability management framework assessment



Assessment of the formalization level of the current and target state of the sustainability management framework

It is important for your company to know the extent to which relevant sustainability topics are already being addressed as well as which significant sustainability issues may arise in the future. The aim of this assessment is to provide you with such an overview by analyzing the way in which you address relevant topics in the environmental, ethical, social and economic areas. This overview will be compared with your company's desired target state in order to establish a basis for defining/redefining your future direction regarding sustainability.

The basis for this assessment will be the individual sustainability assessments by relevant functions. The level of formalization for addressing sustainability topics will be evaluated. The level of formalization is defined by four elements: 1. Strategy and action plan, 2. Organization and processes, 3. Internal performance

monitoring, and 4. External reporting.

The derived view of your company will be an optimal basis from which to define/redefine your sustainability priorities. When there are discrepancies between the current and target state, measures can be defined to adjust the current activities or to initiate new activities. Then the topics to focus on to further optimize the sustainability management framework can be prioritized. Measures to close the existing gaps in addressing the priority sustainability topics can be defined in detail and responsibility assigned to specific functions. Furthermore, the roles and responsibilities for managing sustainability topics can be reviewed and adjusted to your current needs. All the defined measures can be placed on a action plan/roadmap.

## Your benefits

A sustainability management framework assessment, as outlined above, has numerous benefits. They can be classified into the following categories: revenue and market share, asset and capital management, earnings and operating margins, and reputation and brand.

### Revenue and market share

- Identified sustainability topics can be used to differentiate products and services
- Identified market expectations for acquiring new customers or entering new markets can be utilized

### Asset and capital management

- Sustainability priorities can be taken into consideration when making investment decisions
- A basis for communicating your company's sustainability performance to stakeholders can be established

### Earnings and operating margins

- Cost-optimized, pragmatic approach with clearly defined roles and responsibilities
- Activities that are not aligned with your strategy can be eliminated due to your clear sustainability focus
- Sustainability can be integrated into your existing processes and organizational functions instead of implementing a new structure

### Reputation and brand

- The overview of your current activities and the gaps between the current and target state can be used as a basis for positioning your company in the market
- Activities can be aligned due to clearly defined coordination across your entire company
- Your company's image in the market can be reinforced since your sustainability activities will be aligned with your strategy

## A task for executive and supervisory boards

The strategic importance of sustainability for a company's performance and success has significantly increased. Sustainability not only affects the general reputation of a company but is, for example, also relevant with regard to relationships with clients, (potential) employees and investors. Therefore, executive and supervisory boards need to take sustainability topics into consideration, not only to judge the relevance for and impact on the company's strategic goals but to also define priorities which provide guidance for operational management. Accordingly, the aim of the assessment of the company's sustainability management framework is to provide the executive and supervisory boards with an overview of the current situation and a list of identified gaps in comparison to the position which the company wants to achieve. By actively taking sustainability topics into consideration, executive and supervisory boards are thereby better prepared to proactively address sustainability related challenges and to optimize their response to these challenges. Otherwise, they face the risk that sustainability management is not aligned with the company's strategy.

## Market expectations and observations

According to our survey of audit committee members, executive and supervisory boards should address sustainability for the following reasons:

- The sustainability strategy should be aligned with and embedded into the overall corporate strategy
- Sustainability is relevant in the context of enterprise risk management
- The handling of specific sustainability topics can have company-wide implications (e.g., labor practices)
- Business opportunities can be identified

Our study on corporate responsibility governance in the United Kingdom showed that responsibility for sustainability is, to a large extent, already with the board. In some cases an individual board member is directly responsible for sustainability. In other cases responsibility is assigned to a sub-committee at this hierarchical level - whereby combinations of both elements were also observed. (see graph)

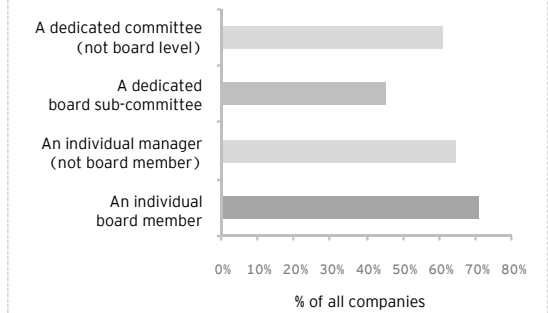
Therefore, it is essential that executive and supervisory boards have a comprehensive overview of the company's sustainability situation in order to take on such an active governance role.

Source: Ernst & Young and Tapestry Networks survey, *The governance of sustainability* (2007). Survey of 24 people in Europe and North America.

Source: Ernst & Young survey, *Corporate responsibility governance* (2008). Survey of more than 30 companies in the United Kingdom.

### Question asked to executives

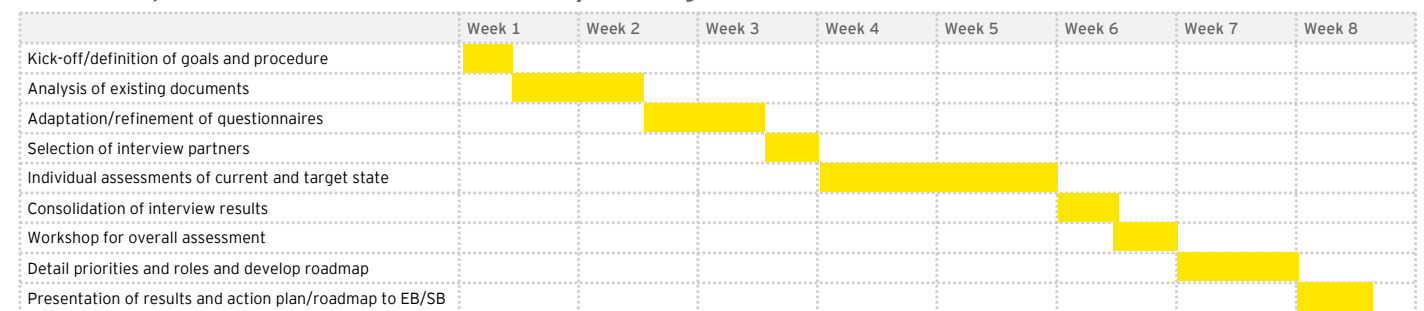
Which corporate responsibility governance/management practices are currently in place? (multiple answers possible)



## Fitness check for your executive and supervisory boards

1. Do you have a comprehensive overview of your company's sustainability management?
2. Have you identified the most relevant sustainability topics - in the areas of environment, ethics, social and economic - for your company?
3. Do you have an overview of the extent to which these topics are already formally addressed?
4. Is the level of formalization aligned with the requirements of your external stakeholders?
5. Are specific sustainability priorities defined which are aligned with your corporate strategy?
6. Are the allocated resources for dealing with sustainability in line with the defined priorities?
7. Is sustainability sufficiently embedded in your existing policies, structures and processes?
8. Are the currently defined measures sufficient to address sustainability related risks and to take advantage of opportunities that arise?
9. Do the executive and supervisory boards receive regular updates on sustainability which allow them to recognize any new trends on a timely basis?

## Possible procedure for a sustainability management framework assessment



## Why Ernst & Young

We are very experienced in the field of sustainability-focused advisory and assurance services and have worked with numerous international firms to address sustainability issues. Our professionals have extensive knowledge regarding strategies, processes, performance measurements and external reporting. The methodology we apply is compatible with related approaches for risk and performance management. Additionally, we play an active role in national and international organizations, which focus on the development of criteria and standards in the area of sustainability. We can therefore keep you up-to-date on current trends and developments. Furthermore, we can offer you global reach and scale through our worldwide network of sustainability professionals. We would be happy to meet with you and further discuss your sustainability needs. Please find our contact information on the back cover.