



Six growing trends in corporate sustainability

The COO perspective

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The COO perspective – at a glance

Your time is precious. In order to get you the insights you need, as quickly as possible, we designed *The COO perspective* – a series of short executive briefing papers that provide a quick overview of the main findings of recent EY reports, with a particular emphasis on the relevance for you.

The role of the COO is hugely diverse, changing markedly from one company to another and across varying industries. Accordingly, in compiling *The COO perspective*, we have sought to highlight insights of relevance to one or more of the six fundamental components of the COO role, as illustrated by our wheel model that we believe collectively encompasses the full extent and potential of the COO role.

What is *Six growing trends in corporate sustainability* about?

In a sentence: sustainability is gaining momentum as a major strategic and operational issue for businesses, resonating at board level, and COOs will assume increasing responsibility for implementing adequate planning and controls to deal with this.

In the report,¹ EY examines how companies are responding to an emerging profile of environmental sustainability. To do so, EY and the GreenBiz Intelligence Panel conducted an online survey with the panel's 3,630 members. For the purposes of this report, we analyzed the results from 282 respondents who represented 17 sectors and are employed by companies with annual revenue greater than US\$1b. Of these, 85% of respondents were based in the US.

The survey identified six growing trends:

1. The “tone from the top” is key to heightened awareness and preparedness for sustainability risks.
2. Governments and multilateral institutions aren't playing a key role in corporate sustainability agendas.
3. Sustainability concerns now include increased risk and proximity of natural resource shortages.
4. Corporate risk response is not well paired to the scale of sustainability challenges.
5. Integrated reporting is slow to take hold.
6. Inquiries from investors and shareholders are on the rise.

¹*Six growing trends in corporate sustainability*, EY in cooperation with GreenBiz Group, 2013.

Sustainability: a strategic and operational issue

The conversation on corporate sustainability is shifting from regulatory compliance to risk reduction and mitigation. Sustainability-related risks are recognized as issues in business continuity, the right to operate and corporate reputation, while some organizations see scope to use sustainability as a strategic differentiator. All this is helping propel sustainability onto the boardroom agenda.

There are many examples of how sustainability-related environmental issues are having an impact on operations. Supply chain disruption from extreme weather events is merely the most obvious. There is also a growing need for actions to mitigate natural resource shortages or failures, and greater efforts to deal with heightened regulatory pressures, to name just two issues. Almost two-thirds of large companies surveyed for *Six growing trends in corporate sustainability* commit to public environmental and social goals and report against them.

The COO and sustainability

Given that many sustainability issues intersect with the company's day-to-day operations, the topic has become a key consideration for COOs. Responsibility increasingly falls on COOs to translate their organization's ambitions into executable programs.

A large percentage of COOs are stepping up to the plate: research for the 2012 report *The DNA of the COO: time to claim the spotlight*² showed that 41% of COOs understand that deep insight into sustainability trends is vital for their role. Some 54% of COOs are already measured on their company's ethical standing, with environmental issues a core component of this criterion.

However, as this topic further climbs the corporate agenda, there is a growing necessity for COOs to take the lead on sustainability issues. Drawing on the findings from *Six growing trends*, there are three primary areas where COOs need to set the course for their company on sustainability.

²*The DNA of the COO: time to claim the spotlight*, EY, 2012.

1. Provide a C-level focus for execution

The CEO is frequently the public face of sustainability for the business: the CEO makes the company's commitment to sustainability visible for employees and wider stakeholders. However, it falls to the COO to find a workable strategy and bring it to the table within the board.

This is a complex task: corporate sustainability issues, particularly when viewed through the lens of risk management, demand a tightly integrated approach. Any single issue is likely to have impacts across the organization: in finance, operations, procurement, facilities, human resources, supply chain, logistics, finance investor relations, marketing and communications, and more.

COOs are ideally positioned to lead this integrated approach, providing leadership and oversight from the top. First, they usually have deep insights into relevant sustainability trends, given the broad implications these hold for operations. Second, they're close to all the core stakeholders that matter in this – from key suppliers, where many of the issues will first be noticed upstream from the business, to

the customers and their changing demands and preferences relating to sustainability downstream. Third, a major issue of this nature needs powerful executive backing, which is something that COOs are best placed to deliver on. Accordingly, from their commanding viewpoint, COOs can ensure that implementation in any one area is aligned with the corporate sustainability strategy.

2. Use scenario planning to underline the impact of environmental risk

About 8 in 10 companies have incorporated environmental risks into their risk register and stated that their board of directors has oversight of how those are addressed by management. This is an encouraging start, but truly meaningful usage is still growing: only 3 in 10 executives, for example, say they run any kind of scenario planning considering the availability of key inputs such as water or other raw materials.

The reality is that the scale and interconnectedness of sustainability issues require a scenario-based approach that anticipates how change in one area could quickly affect others. With scenarios in place, companies can integrate these complex risks and develop confident



appraisals of the costs and benefits of different adaptive responses.

The COO has a key role to develop and implement this level of holistic analysis and planning, thanks to the breadth of their scope across the organization. By working with department leaders to prepare them for scenario planning, the COO can ensure a company-wide approach.

3. Prepare the supply chain for new risks, including natural resource shortages

Companies recognize that corporate sustainability and access to natural resources are inextricably linked. Executives polled for the report rank water as the most at-risk resource, followed by oil and metals and other materials.

About half (51%) of companies anticipate their core business objectives to be affected by natural resource shortages – such as water, energy, forest products and rare earth minerals or metals – in the next three to five years.

With scarcity of these basic raw materials on the horizon, COOs need to help supply

chain leaders build supply continuity into their planning. One way is to implement adequate forecasting. Another is to introduce processes that keep supply chain leaders abreast of the latest innovations in substitute materials and production alternatives. COOs play an especially vital role by helping to ensure appropriate links between various functions and geographies within the business, ensuring that evolution in one area is also reflected elsewhere.



The COO's sustainability checklist

- Is sustainability regarded as a risk management issue in your company?
- What measures have you taken to ensure that you, and your senior colleagues, are aware of current and emerging sustainability risks?
- Is there a process in place at your company that allows your employees, from the shop floor to your direct reports, to alert you to new risks?
- Have you got multidisciplinary teams in place to deal with complex and interconnected sustainability risks?
- Are your sustainability, finance, risk and investor relations teams all working together to ensure a joined-up response?
- Have you made your supply chain leaders aware of their role in sustainability-related business continuity?
- Do you regularly evaluate your business continuity planning, both internally and across your supply chain?
- Have you tasked your supply chain leaders with creating substitution strategies for critical resources such as raw materials?
- Have you incorporated environmental risk into your company's risk register?
- Are you modeling scenarios of water shortages, climate change and population growth for risk planning?

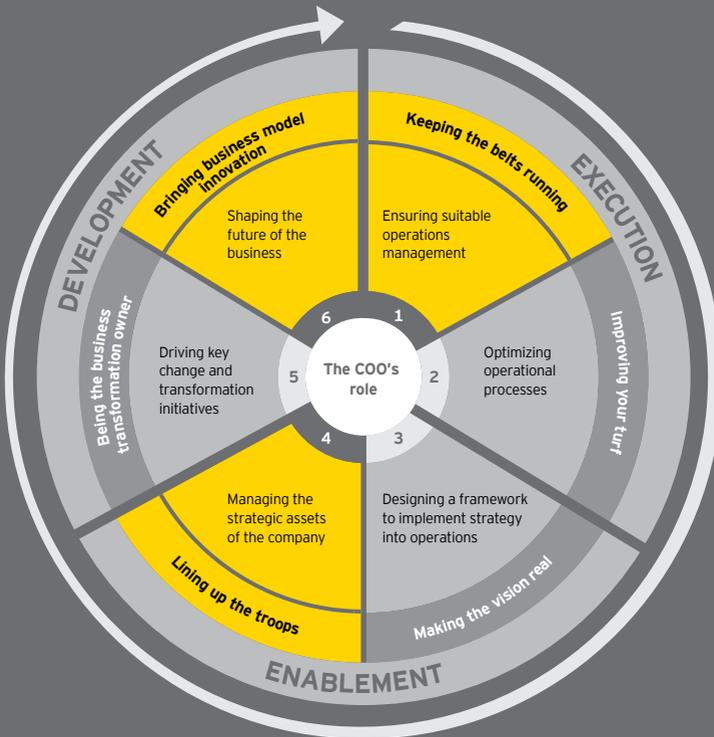
Further reading:

- ▶ *Taking flight: environmental sustainability proposals gain more attention*, EY, 2013.
- ▶ *Sustainability Accounting Standards: health care sector*, EY, 2013.

For a copy of the full report, please visit
www.ey.com/2013-sustainability-trends

Other insights for the COO

Six trends in corporate sustainability has a strong relevance for the COO's role. The yellow wedges highlight those areas that are influenced most strongly.



For more on these insights, please go to ey.com/coo, email coo@ey.com or contact your local EY representative.

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