

**HOT TRENDS IN SUSTAINABILITY MANAGEMENT FOR 2015**  
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## EXECUTIVE SUMMARY

This report explores the key sustainability management trends that will impact businesses in 2015 and beyond. It builds on detailed Verdantix research into regulations, innovations, competitive dynamics and corporate strategies from around the globe, including interviews with over 500 sustainability and EH&S leaders in 2013 and 2014. The analysis finds that with approaches to sustainability maturing, leaders will find their attention drawn towards company specific risk-based thinking objectives and how to efficiently integrate alternative strategies, such as green infrastructure, into their plans for 2015 onwards.

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### HOT TRENDS IN SUSTAINABILITY MANAGEMENT FOR 2015

## REFERENCES

### ORGANIZATIONS MENTIONED

3M, Alcoa, Apple, AT&T, China Labor Watch, Coca-Cola, Dow Chemical Company, Eni, FEMSA, Gap, Global Reporting Initiative (GRI), Greenpeace, Holcim, International Organization for Standardization, Johnson & Johnson, Oger International, P&G, PepsiCo, Sustainability Accounting Standards Board (SASB)

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## HOT TRENDS IN SUSTAINABILITY MANAGEMENT FOR 2015

To understand the key sustainability management trends that will impact businesses in 2015, Verdantix assessed regulations, innovations, competitive dynamics and corporate strategies around the globe. For 2015, Verdantix expects the following themes to influence the agendas of corporate sustainability decision makers:

1. **Sustainability strategies will start to systematically use risk-based thinking.** In 2015, the International Organization for Standardization (ISO) will revamp all of its standards to integrate the ISO 31000 standard's risk-based concepts. While practitioners already approach sustainability planning with elements of risk-based thinking through materiality matrices, the inclusion of this logic in the updated ISO 14001 standard will open the door to a consistent and systematic use in management systems. This will support the broader trend of increased involvement of sustainability leaders in sustainability risk management: 62% of leaders reported having full or shared sustainability risk management authority, up from 20% in 2012 (see Verdantix Global Survey 2014: Sustainability Budgets And Priorities).
2. **Supplier sustainability assessments will move beyond checklists.** Businesses face continued pressure to account for and rectify sustainability failures within their supply chains. The global apparel industry was held responsible for the 2013 Dhaka, Bangladesh factory collapse. More recently, Apple has been in the news for human rights lapses in its supply chain, as reported by China Labor Watch. The realization that it is no longer enough to simply state that a firm has a supplier sustainability questionnaire, is pushing firms to seek means to audit and engage suppliers to ensure sustainability performance. For example, 3M has worked with suppliers to improve their compliance with its supplier policy and standards, as well as implementing third-party assurance of its sustainable supply chain assessment efforts (see Verdantix 3M Demonstrates Customer-Centric Product Stewardship).
3. **Businesses will mature their approach to Social Licence to Operate.** A Social Licence to Operate is derived from the trust of local communities in a firm's ability to safeguard community welfare. The extractive sectors have had to manage this trust carefully over time through transparency, accountability and clarity around community benefits. The need to manage an organization's social licence has expanded to encompass industries beyond the extractive sectors as NGOs, such as Greenpeace, pursue campaigns against firms. The next challenge is gaining positive advantages from good management of local stakeholders. For example, in 2007, a range of stakeholders, including trade unions, defended the apparel retailer Gap – as a result of its history of local engagement and transparency – when it was accused of child labour abuses at an Indian supplier.
4. **Water scarcity concerns will increase corporate investigation of natural capital risks.** Water scarcity continues to be a corporate concern as evidenced by the recent forced closure of Coca-Cola's bottling plant in the water stressed region of Mehdiganj, India. An example of corporate action towards addressing risks associated with the inter-relationships between natural capitals, such as forests and water, is the sustainability strategy of Mexican Coca-Cola bottler, FEMSA. This strategy includes forest

conservation programmes as a way to address water risks (see Verdantix Natural Capital Is A Catalyst For FEMSA’s Sustainability Strategy). Verdantix forecasts that corporate engagement with natural capital will be spurred on in 2015 as firms, including PepsiCo and P&G, work to accomplish sustainable agriculture goals, such as reduction in cropland soil erosion, improving regional water quality and improving land use efficiency.

5. **Green infrastructure strategies will gain popularity for water management.** US municipalities, such as New York City and Philadelphia, are exploring green infrastructure strategies, including transforming impervious land into pervious green spaces, to help manage storm water run-off and reduce costs associated with water infrastructure maintenance. Washington DC is implementing a ‘Stormwater Retention Credit’ trading programme, which allows property owners to generate revenue from voluntarily implementing green infrastructure projects. Corporations are also exploring the cost effectiveness of green infrastructure solutions. Dow Chemical, Holcim and Italian utility, Eni, are examples of firms that have used green infrastructure to reduce costs, improve water quality and availability, and improve contaminated soils (see Verdantix Why CSOs Can’t Escape Action On Natural Capital).
6. **Non-financial reporting will continue its slow incremental growth.** The idea of non-financial reporting has been pushed by NGOs, trialled by large organizations, and facilitated by the issuance of frameworks, such as GRI and SASB. Mandatory requirements are few and far apart – for instance, in France and South Africa – but broad-based obligations are on the horizon as the European Union and several stock exchanges (in Brazil, China, India and Malaysia) push members to greater disclosure. What does this mean for the future? The acceptance of the principle is now widespread among large businesses. For instance, Verdantix interviews with 260 global sustainability leaders in 2014 found that 90% of leaders will publish an annual sustainability report in 2015. Of those interviewed, 45% believe that improving their performance on sustainability reporting over the next 12 months was ‘very important’. We see the near future continuing in the same pattern of incremental improvements in data collection and reporting processes, concurrent with a gradual handover of reporting to finance teams.
7. **EH&S and sustainability job functions will migrate closer together.** Some industries, such as the chemical and mining industries, have already implemented dual EH&S and sustainability roles. For example, Alcoa, Johnson & Johnson and Oger International have leaders with combined EH&S and sustainability titles. Verdantix research finds that other industries are starting to merge the responsibilities of EH&S and sustainability managers. Of the 250 EH&S leaders Verdantix interviewed across all sectors in 2014, 67% had responsibility for measuring corporate-wide results for sustainability data collection and reporting, while 75% were responsible for setting corporate sustainability data collection and reporting policy (Verdantix Global Survey 2014: EH&S Budgets And Priorities). Meanwhile, the main priority of sustainability leaders is to improve on health and safety processes in their organizations.

8. **Materiality assessments will be the focus of sustainability strategy reviews in 2015.** Chief Sustainability Officers reporting under the GRI G4 framework have had to think hard about their firm’s materially relevant sustainability concerns, in contrast to the ‘report on everything’ approach that organizations were following under GRI G3. Two issues will be important in the years ahead. Firstly, firms will have less latitude in deciding what to report. In 2015, GRI plans to update its framework again to tighten its focus onto sector-specific reporting indicators. US-based SASB is an alternative reporting standard, which is in development and already focusing on sector-specific indicators. SASB is due to be completely rolled out by the first quarter of 2016, but is already garnering a lot of attention (see Verdantix Early Adopters Of SASB Will Reduce Disclosure Risk). Secondly, following materiality assessments, firms are challenged to update their sustainability strategies in a consistent way, while tackling questions such as: should sustainability initiatives that resonate strongly with customers and support positive communications be terminated if they have little impact on material issues? (see Verdantix Redefining Sustainability).
  
9. **Businesses will mature their strategies for monetizing sustainability trends.** Many executives have fallen short of their promises to monetize sustainability. Verdantix research shows why corporate strategies that use a naive ‘green will sell’ vision fall short of the mark (see Verdantix Sustainability In Telecoms: The Financial Benefits). Firms need to understand the four different themes at work: 1. General corporate strategies that are strong enough to meet customer procurement criteria; 2. Selling solutions that directly solve customers’ challenges linked to energy, EH&S or climate change; 3. Sustainability side benefits that bring a level of differentiation to existing solutions, but don’t trigger the purchases; 4. Increased brand awareness from greater share of voice or sustainability communications that resonate with audiences. For example, a product strategy that resonates with customer segments includes AT&T’s ‘Digital Life’ suite of energy, water and lighting management tools – part of AT&T’s connected devices product range (see Verdantix AT&T Adapts Sustainability Strategy To Meet Market Demands). Verdantix forecasts more firms will tighten their focus on core strengths to monetize sustainability in 2015 and beyond.
  
10. **Singapore will position itself as an Asian hub for sustainability.** The past two years have seen the city-state of Singapore pick up the speed of its exploration of sustainability programmes. These initiatives have included the launching of the third version of its sustainable building regulations in 2013, the 2014 announcement of mandatory non-financial reporting for listed firms and the 2014 passing of cross-border environmental prosecution legislation. In December 2014, Singapore signed an agreement with the Indian state of Andhra Pradesh to jointly plan and develop the state’s new capital city and its surrounding regions, as part of a S\$21.36 billion (\$16 billion) project. This momentum is expected to continue into 2015 as the Singaporean government works to implement its stated goal of investing S\$2 billion (\$1.5 billion) in the sustainable development of Singapore (see Verdantix/WWF Green Game-Changers).

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