



# **The Business Imperative for Sustainability**

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## **The Seven Critical Success Factors**

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*"Sustainability is a process not a project. It impacts system-wide business practices and affects every corporate value-creation lever. To succeed organizations must weave sustainability into their operating DNA. This white paper details the seven critical success factors for successful sustainable resource management planning and execution."*

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## **Overview**

### **Why Sustainability Matters**

Sustainable resource management is no longer an option. It's a business, societal and global imperative. Sustainability is now the touchstone for system-wide innovation. Failure to pursue sustainable business practices has moral, ethical and business consequences in the face of dire and imminent climate change. Ultimately, sustainability means survival for organizations, the human race and the planet.

Almost all CEOs agree that sustainability is more than just a passing trend, but definitions abound and many are skeptical of the business case or where to begin. Googling the term renders 28 million earth-saving hits on a host of topics from energy efficiency to architecture that imply a transformative way of thinking, living, and doing business. We define sustainable resource management as applying demand management to resource-related business practices to reduce consumption, minimize resource intensity and maximize resource productivity.

Sustainability is much broader than meeting regulatory requirements and implementing corporate social responsibility tactics. For leading organizations it's the key driver of innovation and cost reduction. Sustainability has the potential to impact an organization's entire operations, from design and construction, to service delivery and support functions. It affects every value-creation lever thereby providing organizations with a clear benefit—competitive advantage.

Organizations that are realizing the benefits of sustainability are implementing system-wide sustainability and resource management plans.

Aligned with the mission of improving quality and productivity, reducing costs and improving efficiency, sustainability is a force impacting the way organizations think, act, manage and compete.

But change is never easy. To impact system-wide business practices such as resource consumption and demand management; procurement; capital planning; financial evaluation; design and construction and building performance, organizations must weave sustainability into their operating DNA.

While no two organizations are alike, we have identified seven critical success factors for maximizing sustainable resource management planning, development, implementation and success.

#### **1. Sustainable resource management supports the mission of the organization**

Linking resource management to an organization's mission makes sustainability a strategic directive rather than a tactical or defensive project. Sustainability viewed within a proactive strategic framework yields fundamental, long-term benefits rather than small, incremental changes.

The business case for sustainable resource management must identify the links between resource management and mission-critical business objectives. Sustainable resource management must support these objectives, and success must be tracked through explicit performance-based measurement systems. Above all, the mission of the organization should guide decisive, organization-wide action. Hospitals, one of the most resource and energy-intensive industries, share the common mission of providing quality

patient care. If hospital executives look at patient care through the lens of resource management, they will work to ensure their buildings, technology and operating environment contribute to the care and outcome of their patients. Mounting evidence shows that the quality of the hospital environment directly affects patient outcomes and recovery times.

A 2006 Robert Wood Johnson study documents the impact of daylighting and task lighting on patient outcomes and staff performance. The research shows that increased daylight in patient rooms decreases length of stay; improves sleep; lessens agitation among dementia patients; eases pain; and improves adjustment to night-shift work among staff. A Pebble Project study at Bronson Methodist Hospital in Kalamazoo, Mich., found that after new private rooms were added with well-located sinks and improved air-flow design, hospital-acquired infections declined 11 percent.

Executives at the forefront of sustainability understand that linking resource management to an organization's mission galvanizes thinking about what's best for the whole organization—its customers, employees, shareholders and the greater community.

James Lussier, the past president and CEO of St. Charles Medical Center in Bend, Oregon best articulates the strategic link between mission and sustainability saying, "We consider our facilities a primary source of giving care, and integral to the healing environment is to use our facilities efficiently."

## **2. CEOs must champion sustainability throughout the organization**

Executive and organizational commitment is critical to successful sustainable resource management. Top management ensures that adequate organizational support and resources are provided, and that resource management is integrated into strategic, master planning and capital budgeting. Given that the biggest drivers of sustainability investments are government legislation, consumer concerns and employee interest, top management must have a pulse on all these issues and reach across the organization to affect change.

According to the MIT Sloan Special Report, The Business of Sustainability (September 2009), thought leaders and executives with experience in sustainability expanded the definition of sustainability beyond the "green" zone. They considered the economic, social and even personal impacts of sustainability-related changes in their business landscape. The resounding conclusion is if sustainability is an integral part of value creation, CEOs need to visibly lead the effort.

Much has been written about WalMart's full-court press for sustainability. In the face of mounting consumer, shareholder and public dismay about its poor environmental record, WalMart CEO Lee Scott has led a notable revolution. He confronted sustainability as a core strategic objective and transformed not only the retail giant's business practices but WalMart's public image from environmental laggard to environmental leader.

### **3. Sustainability is an enduring process, not a one-time project**

While projects have a beginning, middle and end, lasting sustainability planning continues to shape and transform organizations well after the initial project. A comprehensive, forward-looking plan will change the dynamic from resource management projects competing with more “critical” business initiatives to resource management as a means to support and potentially fund other strategic initiatives. By adopting a strategic approach, organizations avoid the “hit and miss” nature of justifying each and every resource management project.

Within the framework of a strategic plan, the benefits multiply throughout the organization. Many healthcare systems now operate more efficiently by standardizing system-wide resource management policies. According to Medrice Coluccio, former CEO Lower Columbia Region PeaceHealth, “an energy management strategy is an opportunity for terrific hospital savings, and a system-wide plan provides a strong focus, synergy and a way to parlay the knowledge of our facilities people across our entire hospital system.”

A systematic approach to sustainability requires a view well beyond Wall-St.’s focus on quarterly profits. Symantec Corp., an infrastructure software provider, is achieving significant business cost and productivity benefits including a projected energy cost savings of \$2.1 million thanks to its ongoing “green” IT strategy.

### **4. Sustainable resource management requires systemic business change**

Sustainable resource management must be embedded into key business practices. Practice change covers all applications of resource management—R&D, product offerings, facility master planning, new construction and major renovations, existing facility operations and upgrades, and the financial analysis and procurement practices that support these activities.

To paraphrase Albert Einstein, the significant problems organizations face cannot be solved with the same level of thinking as when they created them. Implementing a sustainable resource management plan requires a new way of thinking and managing. These changes impact not only the way organizations run their businesses and their building assets but also how success is measured, tracked and reported.

General-Electric,(GE), re-oriented R&D and product development to make energy efficiency a primary directive. This was not a decision led by regulatory pressures, but rather, the result of market-driven initiatives. Admitting zero ideological bent on the sustainability issue, CEO Jeffery Immelt changed his position since launching the 2005 ecomagination initiative. GE thought the program to reduce its carbon footprint would cost \$100 million, but instead saved \$100 million in energy costs.

From a business standpoint, GE stands to make billions of dollars from green technology. "There's a lot of money to be made here," Immelt said.

*"It doesn't make me afraid or scared. There's a tidal wave coming, and you either get ahead of it or you get crushed." GE CEO Jeffrey Immelt*

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Senior Executives at Legacy Health System, Portland, Oregon, placed corporate responsibility for its strategic resource management plan in the finance department rather than facility operations or support services. While these departments are vital to organizational success, only when accountability and ownership is placed in the executive suite will the entire organization stand up and take notice.

### **5. Explicit performance goals motivate practice change and sustain organizational commitment**

Clear performance goals are mandatory for successful sustainable resource management. They accelerate decisive action, document success and allow for course corrections as needed. According to Steve Fludder, Vice President of GE's ecomagination, "we have specific metrics because in a culture of execution, which is what GE is all about, the only way ecomagination could survive is if we put some hard metrics around it." Steve Ballmer, CEO of Microsoft, echoes this core business philosophy: "What gets measured gets done."

To set realistic goals, organizations should conduct an assessment and evaluation of current resource management business practices. Areas of focus include: organizational engagement and commitment to sustainability; explicit policies and business practices; current resource

management analysis and tracking; use of lifecycle costing; resource use benchmarking; performance goals for resource use reduction, integrated design and construction practices; building performance improvement and staff involvement. From this assessment, organizations can identify the areas of greatest need and develop a baseline for performance improvement.

Since most organizations have a difficult time modeling intangibles such as societal costs or environmental impacts, a sustainable resource plan should first focus on setting goals for tangible, bottom-line areas of the business. For organizations with large facilities, energy management represents a key area for substantial cost-savings.

School districts like Gresham-Barlow spread across 11 elementary schools, five middle schools, and three high schools in Oregon have gained system-wide efficiencies by setting clear, system-wide goals for reducing energy consumption. Gresham-Barlow was the first organization to be recognized by the EPA for setting and achieving a goal of 30% energy savings across its entire portfolio of buildings, and increasing these savings to more than 48% during the 2007-2008 school year.

Setting goals to lower design and construction costs and achieve better operating performance are now achieved through proven integrated and evidence-based design practices. Banner Bank in Boise, Idaho, built the first LEED Platinum building in Idaho. The building's Energy Use Index (EUI) is 37 kBtu/sq. ft/yr compared to an average office building in Idaho which uses 89 kBtu/sq.ft/year.

The reduction in energy use offsets approximately 721 tons of CO<sub>2</sub> -the equivalent of removing 139 cars from the road per year. "We created a beautiful,

high-performance building that's good for the environment. And it didn't cost us any more to do it," said Gary Christensen, Owner Christensen Corp.

## **6. Alliances, both internal and external, are critical for success**

Organizations pursuing long-term sustainable resource management must build alliances that fill gaps in technical or operational capabilities. With new domestic and international regulatory requirements, products and shifting consumer needs, organizations must develop effective partnerships with stakeholders, suppliers, regulators and influencers to meet these changes.

The Northwest Energy Efficiency Alliance's (NEEA) BetterBricks ([www.betterbricks.org](http://www.betterbricks.org)) program has worked with large commercial clients for the past six years to transform organizational thinking, strategies and practices in resource management.

Through business and technical advisory support BetterBricks has helped numerous organizations develop and implement strategic resource management plans – often overcoming significant skepticism from senior executives as the effort began. Other third-party resources are helpful and plentiful: the Department of Energy's, Energy Star Program; Portfolio Manager Benchmarking; BOMA Energy Crackdown; Practice Greenhealth; The Pebble Project; USGBC LEED and others.

Local utility companies often have significant financial incentives available for resource management initiatives. When St. Alphonsus Regional Medical Center decided to install energy-efficient variable-frequency drives on two large-scale air-handling units, they realized a two-year payback with an annual savings

of \$75,000—and its local utility Idaho Power paid half the capital cost.

BetterBricks, as part of its advisory support to develop and now implement St. Alphonsus' Strategic Energy Management Plan, funded nearly half the cost of a study by the Idaho Integrated Design Lab that identified opportunities to save as much as 25% a year in energy consumption, annually adding back as much as \$500,000 to the bottom line. (source BetterBricks.org)

Many of these recommendations are for no cost/low cost operation and maintenance practice changes rather than capital projects. St. Alphonsus is now implementing a strategic resource management plan to carry out multiple operational and capital improvements yielding a potential savings of \$2.5 million over five years.

## **7. A full-time, cross-functional leader ensures the success of a sustainable resource management**

Sustainable resource management requires dedicated leadership. The best way to ensure the organization has the ability to provide focus for a sustained effort is the establishment of a strategic resource director at the matrix level.

In much the same way a Chief Information Officer considers an organization's technology roadmap, a strategic resource director works cross-functionally to help identify, implement and measure the performance of the sustainability plan throughout the organization. As a leader and facilitator, the director must look internally and externally for sustainability improvements working in concert with multiple stakeholders, regulators and influencers. Depending on an organization's business model, this position can impact R&D,

service offerings, design and construction, sales & marketing and operations.

Organizations that have a dedicated Strategic Resource Director and have adopted a Strategic Resource Management Plan are realizing an average 10-15% in resource-related consumption reduction and cost avoidance over a three-year period.

The scope of responsibility for this position varies depending on the size and complexity of the organization. For large, complex companies, the resource director collaborates with facility managers, design and construction, procurement and finance to identify and facilitate implementation of practice change. This includes a thorough understanding of data analysis, the interaction of operational systems, market trends and performance tracking. Most importantly, this position needs the visibility and commitment of senior management to ensure seamless execution.

## Conclusion

Leading organizations have found a compelling business case for sustainable resource management—first-mover, competitive advantage. What was once a PR tactic housed in the corporate social responsibility department, sustainability now includes multiple, value-creation levers throughout the organization.

The benefits are driving organizations to take action. A more esteemed brand enables higher pricing power. Cost savings result from operational efficiencies including the use of resources, supply chain optimization and procurement strategies. Customer and employee retention increase. The additional revenue from all of these initiatives enables organizations to

expand into new markets or bolster quality and service.

The business case for sustainable resource management is clear offering a return on investment of 30-50% with payback periods in a few months or years – not decades (source, BetterBricks.org). Almost any existing building can benefit from energy-efficient operating improvements. Typically these no-cost or low-cost measures reduce energy expenditures by 10-20%. For any commercial building owner the business case is compelling - Improved asset value and a reduction in energy use by as much as 50% in new construction projects and 35% in existing properties. (source Betterbricks.org)

Sustainable resource planning has caused a seismic shift in how organizations plan and operate. CEOs understand that system-wide changes require a solid business case for sustainability. The benefits include both tangibles such as immediate cost reductions as well as intangibles like higher goodwill and improved customer satisfaction. In either case, top organizations are creating real value for all stakeholders as well as the planet.

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