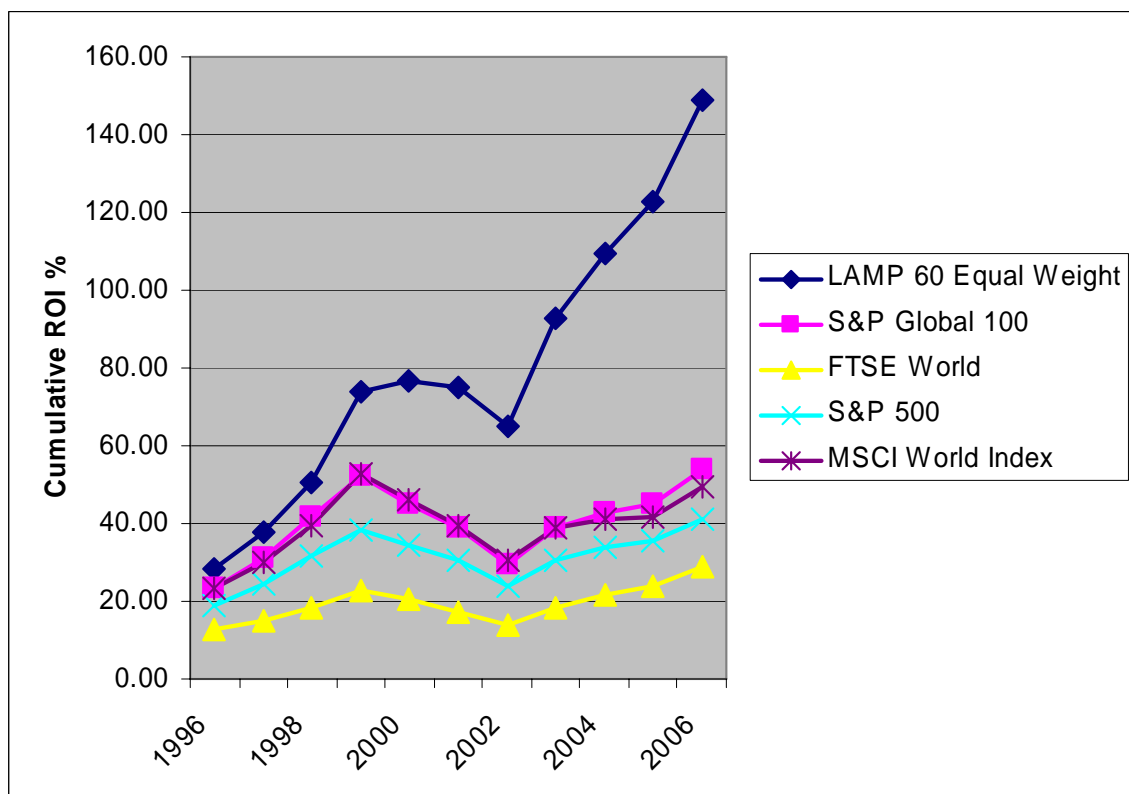


Sustainability: Show Me the Money!

“Sustainability? We can’t afford that!” summarises the current understanding of sustainability by most corporate executives. This is reminiscent of the attitude of those same executives when they first heard about lean. And just like lean, the data shows that companies that start on a sustainability journey usually outperform their competitors from a purely financial standpoint. We are defining sustainability from a Triple Bottom Line standpoint: profits **and** people **and** planet.

Using this Triple Bottom Line approach, return to investors a group of sustainable companies completely outperformed broader market indices for the last 10 years, as shown below, in both rising and falling markets.

Shareholder Returns, Sustainable vs. Conventional Indices



So what is the LAMP 60, and how is it different? The LAMP 60 includes 60 companies that mimic living systems; they “put a higher value on living assets (people and nature) than they do on non-living (capital) assets. They think and behave in ways that continually affirm life – from their corporate missions, vision and values to the ways they are organized and managed”¹ As a result, these companies have:

- consistently stronger balance sheets and significantly higher credit ratings
- more robust free cash flow
- longer life expectancies than the average exchange-listed corporation (the average age of a company on a stock exchange is 40 years; the average age of the LAMP 60 is more than 100 year)

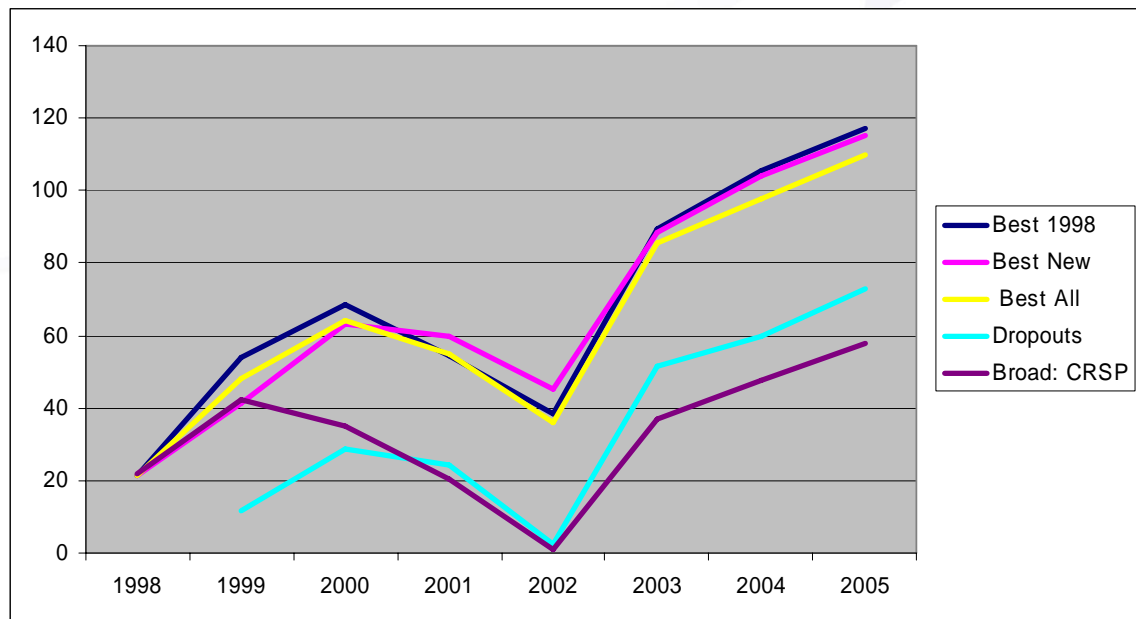
¹Bragdon, Joseph H., *Profit for Life: How Capitalism Excels*, (Executive Summary) Society for Organizational Learning, Cambridge MA, 2006. p. 5 execsum@solonline.org, p. 1

- consistently higher stock market returns.²

LAMP 60 companies eschew Management by Objectives (MBO), instead emphasizing building productive capacity by developing people and relationships and practice called Management by Means (MBM).

The companies included in the LAMP 60 Index focus on all three aspects of the Triple Bottom Line. But what would happen to a company that focused mostly on the people side (along with profit, of course). The following chart shows shareholder returns of companies in which the employees are much more engaged, vs. the returns of typical companies.

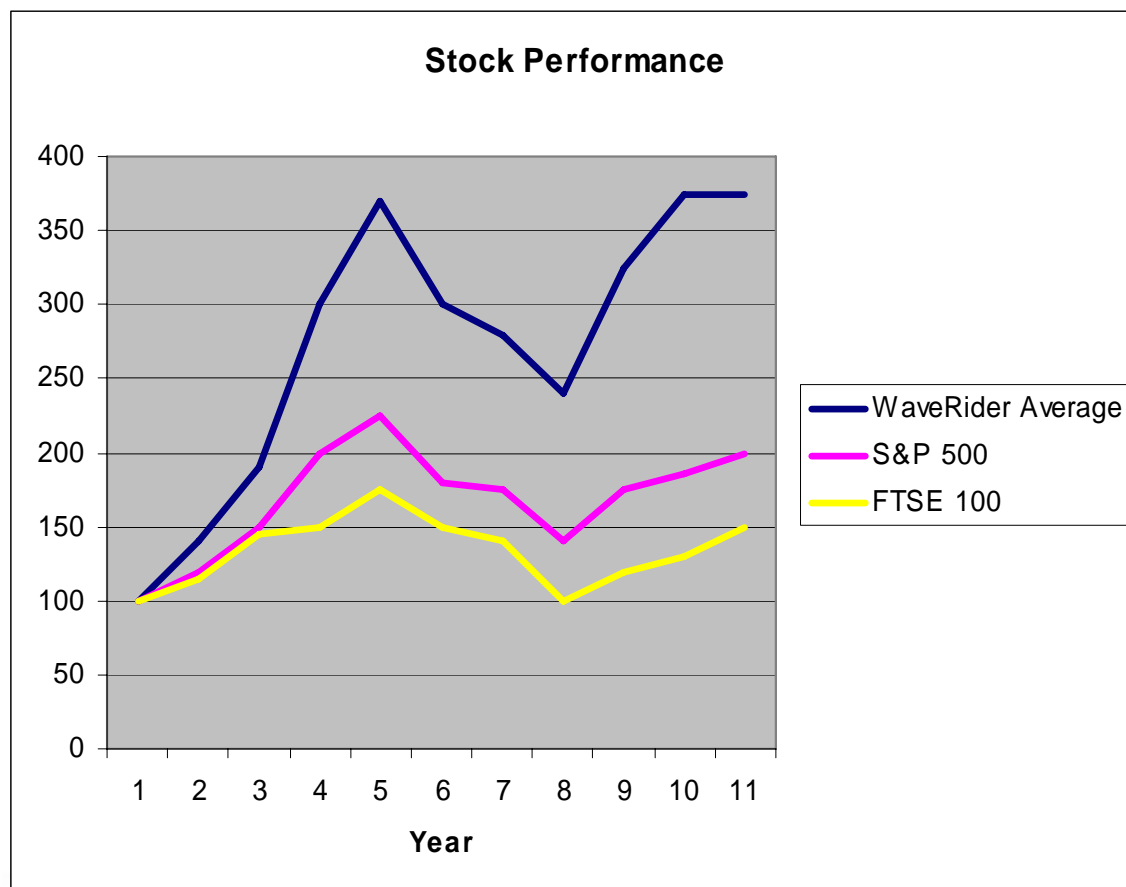
Cumulative Shareholder Return%, Engaged Employees



The top three lines show the results of companies that have been on *Fortune* magazine's list of Best 100 Companies to Work For. The list was first published in 1998 and has been published annually ever since. To be on this list, a company has to request to be included and then provide contact information for all employees. The company that performs the survey sends questionnaires to randomly chosen employees and tallies the results. The five lines represent the return on investment for:

- Best 1998: The 65 publicly traded companies who were on the 1998 Best 100 list.
- Best New: The companies who were on the Best 100 list from 1998 through 2005. They are included only for the years during which they were on the list. So the 1998 results are the same as the Best 1998. The 1999 results are different than the Best 1998 list, because the Best 1999 list dropped 26 of the 1998 companies, and added 23 more (netting 62 publicly traded companies on the list)
- Best All: All the companies who were ever included on the list, starting the year they were first on the list. So there are 65 companies in 1998, 88 in 1999, 109 in 2000, etc. In 2005, there are 170 companies making up this line

² *Ibid.*, p.5.



Dropouts: All the companies who have been dropped from the list, starting the year they were dropped. In 1999, there were 26 companies; in 2005, 115 companies were included in this line.

- CRSP: Center for Research in Securities Prices, based at the University of Chicago. This is a very broad market index; it includes all stocks traded on all exchanges.

This graph conclusively shows the consistent, positive relationship between employee engagement and shareholder ROI. However, it does not prove causality, nor does it suggest which attribute is the cause and which is the result. The author's personal experience strongly suggests that employee happiness, properly managed, can and will cause strong financial performance. The author has seen several companies where the prevailing employee attitude is "RIP" – Retired In Place. The employees do their jobs and are present for the exact hours required, but no more. In one company, the author learned very quickly not to be standing at the door of the Engineering department at 3:18 in the afternoon, because he would get stampeded by the engineers whose work day finished then. At 3:20, there were no engineers at all inside the company's walls. There were very few breakthrough ideas coming from the engineering department.

The other dimension of the Triple Bottom Line is planet, or the environment. The following chart shows the stock performance of companies with a strong environmental commitment, compared to market averages:

Esty and Winston³ identified 50 publicly-traded companies that are environmental leaders in their respective industries - 25 based in the US and 25 companies based outside the US. These companies, which Esty and Winston call "wave riders," are listed in Appendix B. The results challenge conventional thinking that an environmental focus reduces profits. The author's experience bears out this data – if a company moves toward environmental responsibility by writing checks, that company will indeed experience lower profits. However, if a company moves toward environmental responsibility by inviting its workers to become creative, and by working with its customers and suppliers, the program should produce handsome financial returns.

The data above clearly demonstrate that:

³ Esty, Andrew, and Dan Winston, *Green to Gold*, New Haven, Yale University Press, 2006, p. 27

- companies that are focused on the Triple Bottom Line (people and planet and profit) provide superior returns to shareholders;
- companies that are focused on people and profit provide superior returns to shareholders, and
- companies that are focused on planet and profit provide superior returns to shareholders.

These data should enable even the most skeptical CFO or CEO to start investigating sustainability as a corporate strategy.

About the author: Gary Langenwarter is a founding partner in ConfluencePoint, a sustainability consulting firm based in Portland, Oregon. He has more than 35 years business experience and is the author of four technical reference books, plus The Squeeze, a business novel on sustainability. He can be contacted at glangenwarter@confluencepoint.com