

Environmental Targets of Companies in Switzerland

FINAL REPORT SUMMARY

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October 2016

Commissioned by the Federal
Office for the Environment
(FOEN)



Fachhochschule Nordwestschweiz
Hochschule für Wirtschaft

Zürcher Hochschule
für Angewandte Wissenschaften



School of
Management and Law

PUBLISHING INFORMATION

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Economics and Innovation Division
CH-3003 Bern

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Note:

This study was conducted on behalf of the Federal Office for the Environment (FOEN). The agent is alone responsible for the content of the report.

Context: companies as responsible partners

Companies play a decisive role in implementing the Sustainable Development Goals (SDG) set in 2015. On the one hand, they provide goods and services that, when consumed, leave a “footprint” that could potentially exceed the planetary boundaries. On the other hand, they have many resources and potential influence that they can draw on to make essential contributions to sustainable development.

Their awareness of their corporate responsibility is documented not only in a growing number of scientific-theoretical papers, but also in the many activities that companies carry out to meet ecological and social challenges. Small and medium-sized enterprises (SMEs) also recognise that a systematic concern for environmental and social issues can yield economic advantages. One precondition for this is that they recognise the environmental issue as a strategic success factor and systematically incorporate it into their management system. Only then can they reap the potential competitive advantages that come with greater concern for environmental issues.

Targets as indicators of corporate commitment

One relevant and significant indicator of progress in actually incorporating environmental and sustainability issues in the management systems and processes of companies is the presence or absence of concrete targets. After all, as the old saying goes in management, if you can’t measure it, you can’t manage it. And in the economic context, you can only measure something if you have already set a target for it and developed the associated indicators. Therefore, nearly all companies now use strategic control systems, which will basically only work if strategic goals are set. And while publicly traded companies may regularly report on the targets they have hit, missed and surpassed during a reporting period, they have done this up until now much more frequently for economic targets. In contrast, ecological or social targets are much more rarely found in the annual reviews of companies.

This is the focus of the “Environmental Targets of Companies in Switzerland” project that was commissioned by the FOEN and prepared in the summer of 2016. The goal was to find out which environmental targets are published by Swiss companies (quantitative aspect), which issues and environmental areas for action are addressed in them and how the targets were formulated (qualitative aspect). Other hindering and potentially beneficial factors were identified as well.

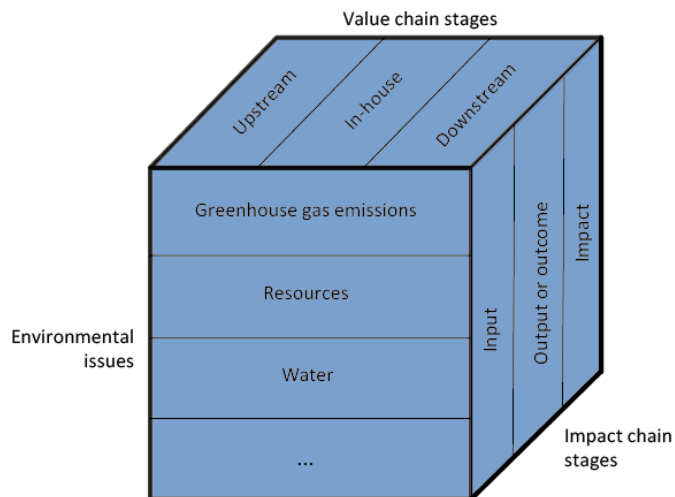
Environmental targets are targets that are defined and set by companies to improve their corporate environmental performance by reducing emissions, conserving resources and minimising risks.

Environmental targets: general

The term “environmental targets” describes the targets that are defined and set by companies to improve their corporate environmental performance by reducing emissions, conserving resources and minimising risks. A distinction is made between direct and indirect environmental aspects in these targets. The former include all impacts of a company’s activities, products or services that are directly attributed to it, while the latter include all those that are not directly subject to a company’s controls, such as the ways in which customers use the products that are sold to them. Thus, targets are logically divided up into the upstream, in-house and downstream stages of the value chain, whereby the direct environmental aspects are located in the in-house stage and the indirect environmental aspects in the upstream and downstream stages.

Location of the targets in an impact chain

A logical and important distinction can also be made between the targets and the type of impact they deliver. They are defined here in terms of their location in an impact chain or model, which includes a sequence of logically-related individual steps. Thus, to achieve an impact, inputs (e.g. financial resources and know-how) are first required to help carry out ecological improvement measures, which lead to an output (e.g. environmental-friendlier packaging) and ultimately to an outcome (e.g. waste reduction), which then – and this the decisive step – leads to an impact, particularly a positive ecological effect at the social level (in this case, the quantity of waste per unit). Based on this model,



the environmental targets of companies were allocated according to their location in the impact chain at “input” stage, “output or outcome” stage or whether they aimed at a measurable “impact” as their intended result. However, since an impact-focused formulation alone cannot adequately guarantee that tangible results will be derived from the targets, another target classification criterion was defined according to the SMART formula: Goals must be specific, measurable, achievable, realistic and time bound.

Figure 1: Dimensions to analyse environmental targets

Comparison of 88 companies in the baseline sample, 8 SMEs and 8 MNEs

A two-part research approach was selected to answer the research questions. In the first part, a quantitatively-based desktop search was conducted in the form of a systematic analysis of publicly accessible reports by Swiss companies. In the second part, this analysis was then complemented by a qualitative analysis (guided interviews) to determine the drivers for setting environmental targets and to identify related pioneers and best practice examples. The study population included the 500 largest Swiss companies. Companies that issue a public report and announce at least one environmental target were studied in detail. This baseline sample was composed of 88 companies. Two comparative samples were also analysed: one composed of eight small and medium-sized enterprises (SMEs) that issue a report with sustainability targets and are considered pioneers, and another composed of eight multinational enterprises (MNEs) that are seen as having best practices in setting environment targets.

Interviews to deepen specific questions

Since an analysis of reports cannot provide any information about motivations, contexts and other reasons for setting targets, individual and group interviews were conducted as well. For instance, the corporate executives, CEOs and sustainability and environmental managers of several selected companies were interviewed. This included 6 SME pioneers, 10 companies that set environmental targets and 3 companies that issue a public report but do not publish any environmental targets in it.

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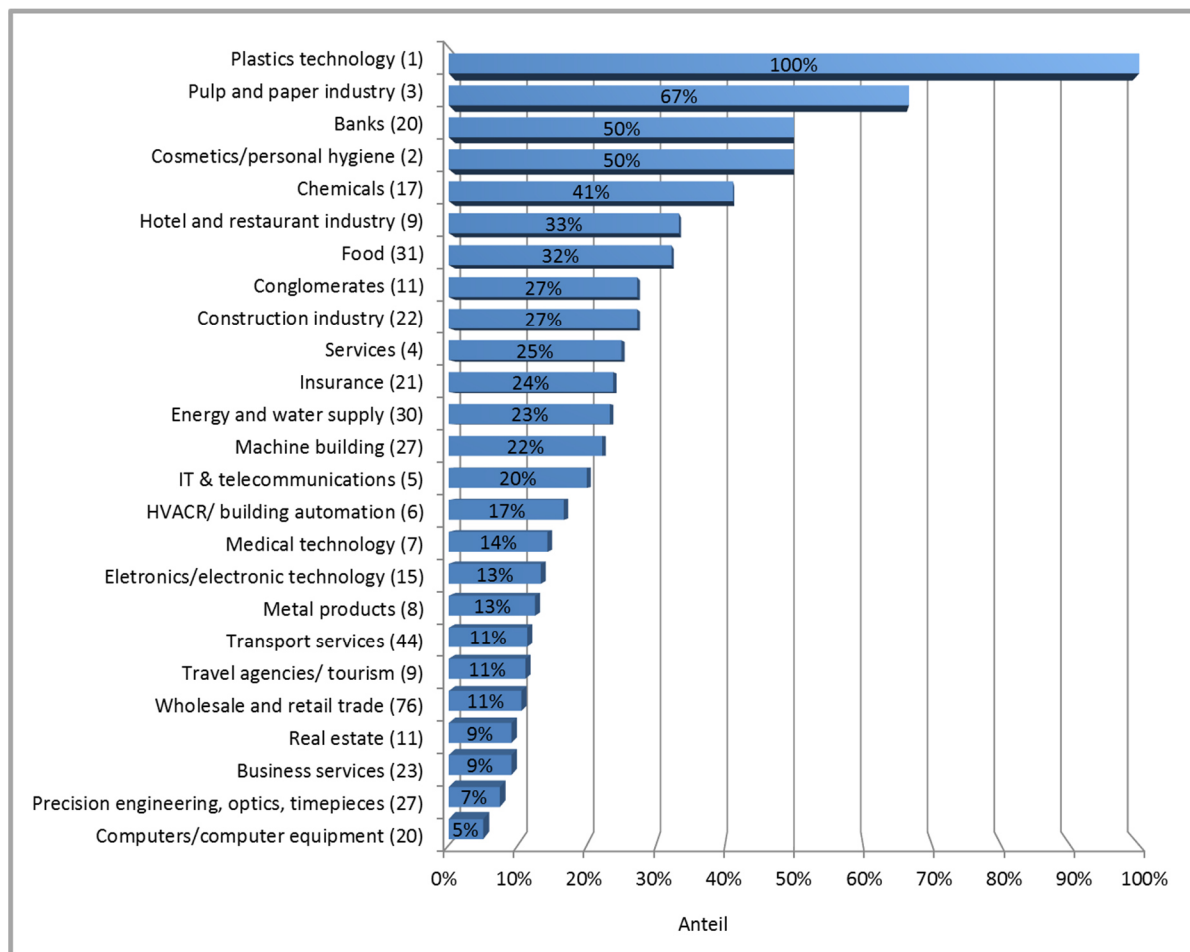


Figure 1: Top 500 companies: percentage of companies per sector with environmental targets

According to the analyses, the plastics technology industry heads the list of companies that publicly disclose environmental targets (100%). However, since there is just one company, the result is only partially significant. The number two and three rankings go to companies in the pulp and paper industry (67%) and banks (50%). More specifically, three companies in the pulp and paper industry are among the 500 highest-earning companies, and two of them, or 67%, publish environmental targets. As for the banks, there are 20 companies, with ten, or 50% of them, publishing environmental targets. Classical B2B industries, such as machine building (22%) or electronics/electronic technology (13%) show lower percentages.

52% of the 500 companies publish their sustainability targets in a separate report, 44% incorporate them in the annual report and another 4% publish them in an online report. 24% of the companies have their report externally validated.

Comparison to international companies

88 of the 500 companies in the study have published reports with environmental targets. 18% might not seem like much at first glance, especially when you compare this figure to the more than 80% of the 500 largest companies in the world that have reported their greenhouse gas emissions to the Carbon Disclosure Project (CDP). However, it should be noted that the smallest company on the Fortune Global 500 (Old Mutual) list, which brings in around 21 billion dollars, would be ranked 15th on the list of the 500 highest-earning companies in Switzerland. Still, 11 (73%) of the 15 highest-earning Swiss companies have greenhouse gas emission targets and 10 companies (66%) have energy-related targets. In addition, it must be remembered that many firms on the list of 500 companies are not publicly listed and not subject to reporting requirements.

How SMART were the targets?

As already explained, targets should be as SMART as possible. The figure below compares the average percentage of SMART criteria that were fulfilled per sample.

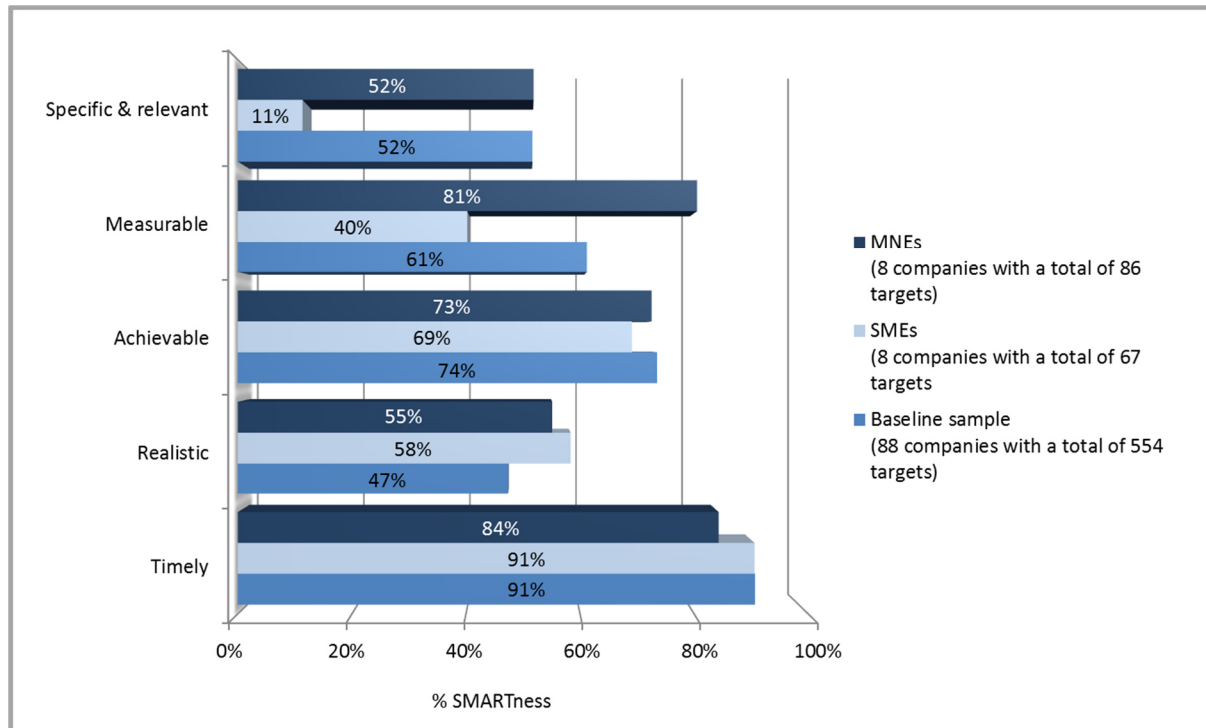


Figure 2: Comparison of SMART criteria fulfilment

Three of the five criteria are fulfilled by all three samples to about that same extent. The time-bound criterion sticks out since all companies with values between 84% (MNEs) and 91% (SMEs & baseline sample) fulfil it. This is not surprising, as it can be relatively easily fulfilled. In contrast, two criteria show significant variations: The “relevant and specific” criterion is fulfilled by more than 50% of the baseline sample as well as the MNEs, while the targets of only 11% of SMEs fulfil this criterion on average. The SMEs lag behind as concerns the criterion of measurability, which 61% of the companies in the baseline sample fulfil, while the MNEs earn their reputation as having “best practices” because 81% of them fulfil the criterion.

Best Practices for measurable goals:

“20% absolute reduction in facility CO₂ emissions by 2020 against 2010 baseline” (Johnson & Johnson, 2015)

“Bis 2017 Reduktion des Stromverbrauchs um 12% gegenüber 2013. (Zürcher Kantonalbank, 2015)

Environmental issues per company

The specific environmental issues covered by targets in Swiss companies (baseline sample and SMEs) and MNEs can be seen in the figure on the next page. Accordingly, companies from all three samples set mostly targets for the issues of energy use, greenhouse gas (GHG) emissions and waste and wastewater. Non-GHG emissions, biodiversity and compliance are all issues that are not very highly represented in the targets.

The distribution of the targets among the environmental issues is reflected in the varying significance of the issues in current public debates, among other things. It was also noticed that the more fre-

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quently encountered targets are in areas in which concrete, measurable and time-bound targets are relatively easy to formulate. Of the three issues strongly linked to planetary boundaries (climate, biodiversity and nitrogen cycle), the issue of climate is the only one that plays a significant role in the environmental targets of all three samples. Biodiversity-themed targets are set by only 5% of the companies in the baseline sample. About 5% of the companies of the basis-sample set targets relative to issues in biodiversity.

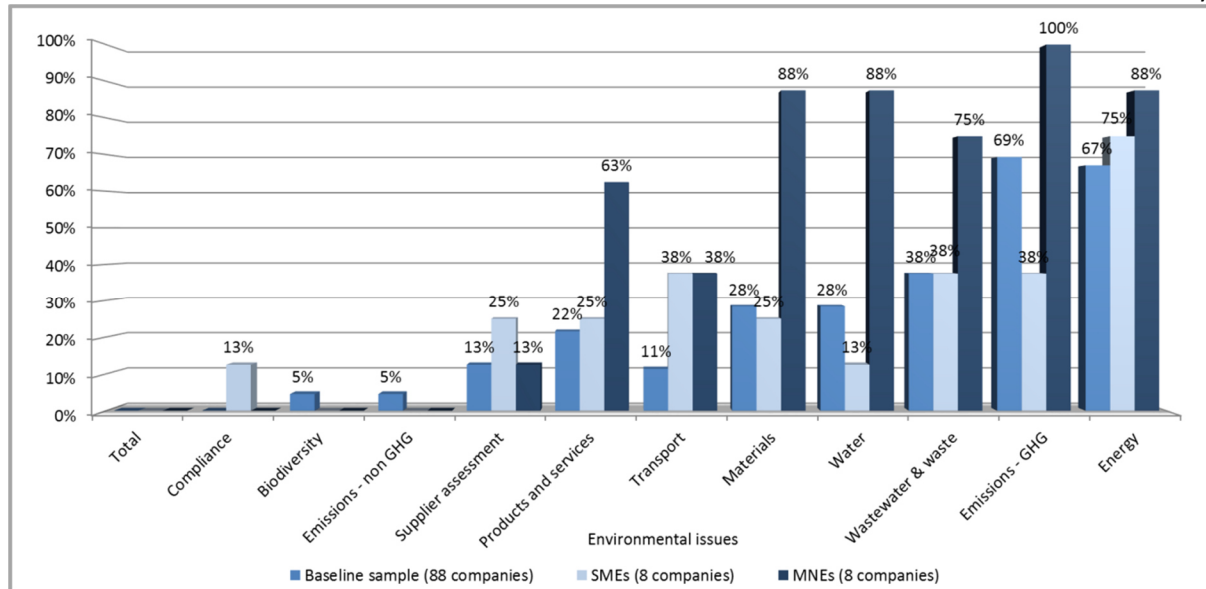


Figure 3: Percentage of companies that set targets for environmental issues

Which stages of the value chain are addressed by environmental goals?

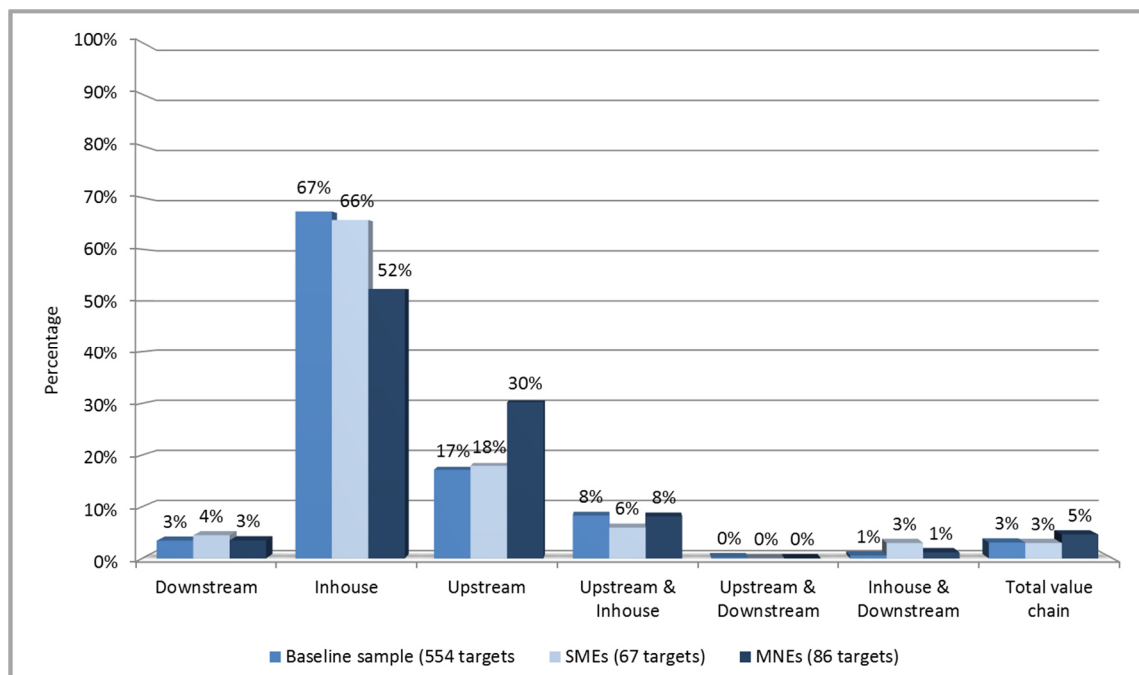


Figure 4: Distribution of the environmental targets among the stages of the value chain

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The distribution of environmental targets among the upstream, in-house and downstream stages of the value chain can be seen in the figure below. Since several environmental targets cover two stages of the value chain, and others cover three, they were shown separately. Every target was allocated to one stage only.

The analysis reveals that the companies in all three of the studied samples focus their environmental targets on the stages of value chain that can most directly influence them, particularly their own processes (in-house). Footprint targets, as defined by FOEN as targets that encompass every stage of the value chain respectively the entire product life-cycle are rarely encountered. The majority of the quantified footprint targets are related to the issue of GHG emissions (scopes 1, 2 and 3) in all three samples.

Numerous impact targets a positive

The figure below shows the distribution of the environmental targets among the impact categories of input, output/outcome and impact. In the baseline sample and among the MNEs, the impact targets clearly outnumber the output/outcome targets, which suggests a high degree of maturity in these companies' sustainability management. Unsurprisingly, the MNEs lead the pack with 84%, while the SMEs lag way behind with 40%. The latter situation may be attributable to the SMEs' limited resources or difficulty in accessing expertise. Because impact targets are often more difficult to measure, it is challenging for companies to integrate SMARTness of targets and impact focus when they set targets. Impact measurability difficulties are not the same for all environmental issues. Accordingly, targets for an environmental issue such as biodiversity are much more rarely impact-related than those with relatively easy to measure issues such as energy or

Best practices for footprint targets:

*"In 2016 maximum of 360,000 tonnes CO₂eq emissions in operations and in the supply chain (excluding Fastweb, energy offset)"
(Swisscom AG, 2015)*

"Reduce environmental impact of new elevators by 5% until 2016 compared to the 2012 baseline" (Schindler Holding AG, 2015)

*"Helvetia plans to reduce CO₂ emissions by 20% per employee compared to 2012 by 2020"
(Helvetia AG, 2015)*

*"By 2014 maintain or reduce direct and indirect GHG emissions in CO₂eq per 1,000 working hours compared with 2013"
(Sulzer AG, 2015)*

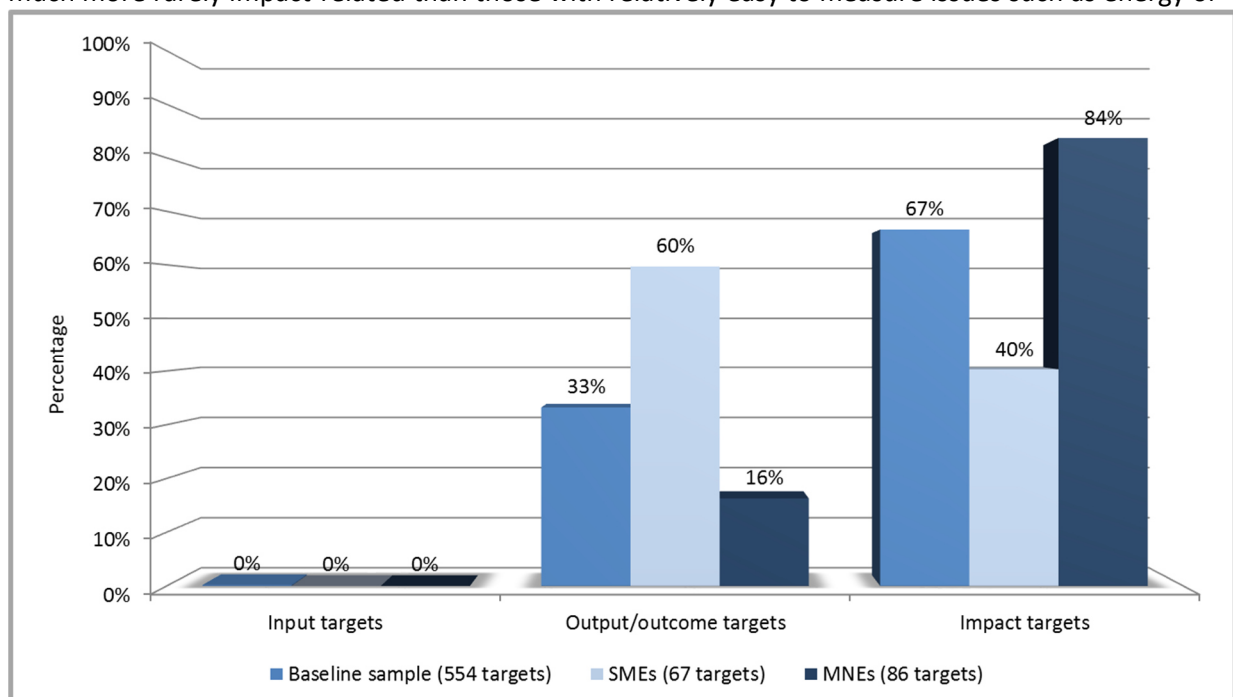


Figure 5: Distribution of environmental targets among the impact categories

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GHG emissions.

When attributing process and impact-focused environmental targets to the individual stages of the value chain, the analyses revealed that the companies in the baseline sample and the MNEs set most impact targets in the in-house area. SMEs, however, set more output/outcome targets in that area. Yet, an even higher percentage of impact targets have been expected in the in-house area since it is easier to set impact targets where they can be directly influenced (in-house) than in the upstream and downstream (i.e. procurement and client-side) stages, where they can be influenced only indirectly. Nevertheless, SMEs set more output/outcome targets in that area.

Examples of in-house targets:

"By 2016 reduction of paper consumption by 5% per full-time employee in comparison to 2012" (UBS AG, 2015)

"By 2020 reduction of GHG emissions per tonne of product in our 100 largest storage facilities by 10% below their 2014 level" (Nestlé S.A., 2016)

Examples of output/outcome targets:

"By 2014 improve transport"
(Hunziker Partner AG, 2014)

"In 2015 integrate ecological aspects in the product design"
(Swiss youth hostels, 2015)

Best practices by companies

To identify exemplary companies that other companies can use as references for optimising their environmental targets, the research team applied the criteria listed in the table below. Indeed, none of the companies fulfilled all five criteria equally well, but there were some that fulfilled most of the criteria well to very well.

For instance, Clariant AG and Coca-Cola HBC Schweiz AG meet the SMARTness criterion the best (98% and 96%). In addition, both set exclusively impact-focused environmental targets, whereby one-third of Clariant AG's targets concerned climate change. The relatively low standard deviation in their environmental targets suggests that all targets are similarly SMART. The same applies to Swisscom AG. Moreover, it has published two targets that concern the entire value chain and are also formulated in an impact-focused and absolute manner. Holcim (Schweiz) AG and Geberit AG made the list because they have published a relatively high number of targets for the planetary boundary issues of biodiversity and oxygen cycle.

Table 1: List of companies with exemplary environmental targets

Companies	Targets	SMARTness	Standard deviation	Impact goals	Value chain goals	Planetary boundary targets		
						Climate change	Biodiversity	Oxygen cycle
Swisscom AG	10	94%	6%	100%	20%	80%	0%	0%
Clariant AG	6	98%	4%	100%	0%	33%	0%	0%
Coca-Cola HBC Schweiz AG	12	96%	4%	100%	0%	0%	0%	0%
Berner Kantonalbank AG	8	94%	7%	100%	0%	25%	0%	0%
Givaudan SA	7	94%	9%	100%	0%	29%	0%	0%
UBS AG	10	90%	9%	100%	0%	20%	0%	0%
Holcim (Schweiz) AG	12	78%	19%	58%	0%	25%	25%	8%
Geberit AG	21	72%	18%	48%	0%	14%	0%	10%

The sustainability issue has gained a foothold in many companies

The study showed that the issue of sustainability has now definitely gained a foothold in the reality of Swiss companies, but not in the same way and to the same extent for all companies. For instance, the fact that 88, or 18%, of all companies in the top 500 in Switzerland have published environmental targets suggests that the issue is topical. In addition, the observation that several SMEs in Switzerland issue public reports on their sustainability activities and thus also report on their targets confirms this trend. It was also observed that large and publicly listed companies are currently several steps ahead of the SMEs when it comes to systematically and simultaneously integrating sustainability in their corporate strategies based on international “state of the art” standards.

Best practices for impact-focused targets:

“By 2020, reduce total energy consumption by 10% compared to 2014” (Bank Julius Bär & Co. AG, 2016)

“By 2020, reduce the absolute annual energy consumption in the retail trade by 13.4% compared to 2008” (Coop Genossenschaft, 2016)

“By 2016 reduction of waste per full-time employee by 5% in comparison to 2012” (UBS AG, 2015)

“By 2025, reduce the wastewater volume per tonne of produced goods by 40% compared to 2013” (Clariant AG, 2016)

Large companies in particular are proactively working on environmental issues

There are many different reasons for the larger companies’ “lead”. The most important is undoubtedly the comparatively limited resources of the SMEs. In addition, larger companies are under the scrutiny of a critical public and usually have to justify themselves to a larger and more heterogeneous number of stakeholders.

One “rule of thumb” revealed by the study was that a proactive examination of environmental issues, which includes setting environmental goals, correlates primarily with the size of a company and secondarily with its industry and degree of international focus. The fact that almost exclusively multinational companies in specific industries are considered models for SMARTer targets is not insignificant. Likewise, a distinction must be made between the SMEs and the larger companies when it comes to the question of recommendations that can be derived from this study.

The specific situation of SMEs: limited resources, greater room for manoeuvre

Although the SMEs in this study certainly formed a very small comparative sample, the eight SMEs studied represented almost the entire selection of SMEs that had issued a sustainability report. For that reason, they can undoubtedly be described as pioneers or ahead of their time in their field.

One key observation is that the approach chosen by larger companies for integrating environmental and sustainability issues in their management systems involved mostly international systems, tools and guidelines (ISO 14001, EMAS, GRI etc.). But this approach does not appear very suitable for the SMEs, which do not often use it because it is tremendously resource intensive. Many SMEs that are not subject to a reporting requirement also think that it is reasonable to take specific advantage of their room for manoeuvre in dealing with environmental and sustainability issues – e.g. in order to communicate this to clients or involve employees more effectively.

It was also noticed that a materiality analysis was absent in seven of the eight cases. This means that the companies concerned more or less forfeited the opportunity to use environmental targets as more specific means to improve their processes, trigger innovation and demonstrably reduce their environmental footprints. In addition to the previously mentioned reasons, this can also be explained by the absence or limited availability of specialised knowledge and especially the SMEs’ need for customised tools. Otherwise, this situation also applies to some degree to the smaller companies in

the baseline sample that forewent a materiality analysis to justify their environmental and sustainability targets.

Against this backdrop, it seems advisable to increase the number of services (workshops, publications, consulting offers, etc.) or specifically develop consulting offers or tools to help companies achieve a convincing and serious analysis of the real and measurable impacts of their business activities on their business and particularly on the natural environment. In that case, consulting firms that specialise in this area and sustainability specialist associations, such as öbu, the network for sustainable economies, or swisscleantech and other industry associations, such as Swissmem, would need to be involved. The government could provide funding or co-funding in such a context. However, the key is to create materiality assessment offers that are as accessible as possible and to convey to companies that the imminent tasks can be performed at reasonable cost and effort.

SMEs and smaller corporations in particular need to be offered support to help them integrate environmental targets based on the discussed materiality analyses and to design and set them so that they meet the SMART principles. One of the items highlighted by the study was that the quality of the formulated environmental targets is clearly higher when experts who have specialised expertise are in charge of, or at least adequately involved in, formulating them. Furthermore, international guidelines, such as the recently published Future-Fit Business Benchmark, can be useful in formulating the targets.

Large companies will make greater use of the concept of science-based targets in the future

The current context of the larger companies is somewhat different. They are very interested in science-based targets. The “hidden agenda” behind this key strategy seems evident: The more consistently a company uses science-based knowledge on climate change and other environmental changes as a reference, the more credible its efforts will be seen by external groups, especially legislators and key stakeholders, such as environmental associations.

The first science-based targets have already been announced, particularly in the area of climate targets, but their complexity prevents them from being immediately useful to companies. As the concept of science-based climate targets is further developed in the coming years, it can be assumed that the number of companies using the concept as a reference for their own targets will rise. Yet, a serious estimate of how fast the concept will be implemented and how many companies will implement it is impossible to make at this time. Publications providing concrete recommendations as guidelines would need to be prepared and published soon if the number of companies with more science-based targets is to be increased in the medium term.

Science-based targets

Targets adopted by companies are considered “science-based” if they are in line with the level of decarbonization required to keep global temperature increase below 2 degrees Celsius compared to pre-industrial temperatures, as described in the Fifth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC AR5). Currently a scientific dialogue is taking place around a broadening in scope to include targets beyond science based climate targets.

Science-based targets for other global problem areas

Although discourse on science-based targets is definitely still focused on climate targets, it could be expanded to include other global targets. Companies could and should be given concrete examples of the types of contributions they would need to make from a scientific perspective in other thematic fields addressed by the Sustainable Development Goals (SDG) to contribute to sustainable development. This would specifically help reduce uncertainty about the extent of the commitment companies must make not only to fulfil their statutory obligations, but also their ethical obligations.

In addition to the aforementioned specialist and industry associations, organisations that promote the concept of science-based targets need to be involved in order to follow up and implement these measures. In such a case, the government could act as an agent by promoting suitable publications or initiating and funding workshops and events, for example. Until then, companies' best practices – e.g. even from this study – can be used and then further developed in a subsequent step (e.g. in the form of a publication) if necessary.

Central role of best practices – different depending on the type of company

In general, the best practices aspect has a highly significant role. For that reason, it should be ensured that companies choose "models" as their point of reference which are as similar and comparable to them as possible. To set better environmental targets in Swiss companies, it is recommended that specific best practices be identified for clearly defined groups of companies and the findings be converted into suitable measures. Examples of this would again be publications or workshops as well as the exchange of specific expertise between specialists. While this idea is nothing new, it should be taken up again and rethought so that it can be specifically focused on convincing target setting in the area of sustainability and the environment. Specialist associations should take the lead in this

Recommendations for promotional measures (selection)

Accessible and practical offers (e.g. guidelines) to conduct materiality analyses (especially for SMEs)

Support offers (workshops, exchange between experts, etc.) to ensure that SMARTer targets are set

"Translation" of the concept of science-based targets into useful tools for companies (e.g. through practice-oriented publications)

Publications outlining best practices

Awarding a CSR prize as an incentive instrument

area by preparing university-level publications and workshops in collaboration with educational establishments. However, the government could also play a supportive, and possibly financial, role.

Incentives for sustainable corporate behaviour

The study revealed a "clearly unclear" picture of the issue of which incentives should be set by legislators and the government. While some of the interviewed CEOs and sustainability/environmental managers – mainly from the larger company group – were decidedly in favour of an ecological tax reform, incentive taxes, and stricter laws and regulations, the representatives of the SMEs clearly backed voluntary incentives and mostly rejected legal provisions. The concept of an industry-related benchmark allowing companies to compare their sustainability performance with other companies is an example of that type of incentive. Finally, awarding a prize for a special performance in the areas of corporate sustainability and CSR would also be a measure worth considering.