

OFFICEMAX GRAND & TOY 2013

INSIGHTS REPORT

Driving Sustainability in Canada and the Role of Supply Chain & Procurement
Do we need a broader view?



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OVERVIEW

“Sustainability”* is a buzzword in today’s global market and has become a strategic priority for many Canadian enterprise organizations. If executed successfully, a sustainability strategy can deliver many business benefits but how is Canada performing and how do we rate against the rest of the world? These are questions that OfficeMax Grand & Toy gets asked every day from industry and customers and that we continue to ask as an organization. In response, we commissioned Leger to conduct related research as part of our annual Insights Report to explore the answers to these questions in detail.

This report is based on live interviews with senior Canadian supply chain, procurement and sustainability executives, and a Canada-wide quantitative survey of more than 500 decision makers at organizations with a minimum of 500 employees across all industries. The research focused on current and future state challenges and priorities for these executives, as well as the status of Canadian sustainability performance versus worldwide results (MIT Sloan Management Review/Boston Consulting Group and McKinsey & Company research). The Canadian research was conducted by Leger on behalf of OfficeMax Grand & Toy between October and December 2012.

Executive Summary

Canadian organizations are in a worldwide leadership position in sustainability adoption. They acknowledge the need for sustainable business practices and are ahead of the majority in deriving financial benefits from these activities. Interestingly, the research indicates that procurement and supply chain have the potential to play a key role in expanding the adoption of sustainability in Canada, and that increased collaboration between these areas can have significant benefits. In order to further drive success however, Canada must adopt a broader, external view to better prepare for emerging risks.

Key Findings:

-  Canada leads in capturing profitability derived from sustainability initiatives
-  Compared to their worldwide peers, Canadian organizations are increasingly integrating sustainability into their operations, supply chain and procurement functions
-  Canadian sustainability departments may be over-emphasizing their focus on cost reducing sustainability initiatives at the expense of other non-financial initiatives
-  Organizational design is vital to sustainability success
-  Enhanced external collaboration is necessary for future success or Canada could run the risk of stalling its progression

*Defined as a combination of environmental, social, and business issues also known as corporate social responsibility (CSR) or corporate responsibility. This research focuses primarily on the business (economic) prong of sustainability.

Driving Organizational Buy-in Through A Focus On Profitability

Canadian organizations are more focused on creating operational efficiencies and lowering costs from sustainability initiatives than their worldwide counterparts, which is driving organizational buy-in for sustainability in the process. Furthermore, the research findings illustrate that Canadian organizations are in fact outperforming their worldwide peers in delivering sustainability related bottom line benefits, laying a strong foundation for Canadian sustainability leadership.

In worldwide¹ research, MIT Sloan Management Review and The Boston Consulting Group define the “sustainability tipping point” as “the point at which a substantial portion of organizations are not only seeing the need for sustainable business practices but are also deriving financial benefits from these activities”.² The Canadian research appears to conclude that this “tipping point” has been reached in Canada based on survey results that indicate³:

TIPPING POINT STATISTICS

WORLDWIDE RESEARCH



Despite a smaller percentage of organizations reporting strong CEO commitment to sustainability, Canadian organizations are significantly further along the tipping point curve than the worldwide norm:

CANADA RESEARCH



¹ Includes Europe, North America, South America, Australia/New Zealand, Asia-Pacific, Africa, Middle East. This report is benchmarked against “harvester” statistics. A “harvester” is defined as an organization that said their sustainability-related actions and decisions added to their profits and represent 31% of total respondents in the “Tipping Point” Research.

² *Sustainability Nears a Tipping Point*, MIT Sloan School of Management Review / Boston Consulting Group, Winter 2012

³ *Sustainability Nears a Tipping Point*, MIT Sloan School of Management Review / Boston Consulting Group, Winter 2012

⁴ These statistics could also indicate that worldwide organizations may have already been committed to these areas and therefore had less need to increase the focus in one year.

In addition, operations is identified as the primary division accountable for implementing sustainability initiatives given the nature of its impact on costs (see chart below). However, sixteen percent (16%) of Canadian organizations identified procurement and supply chain as driving the majority of sustainability initiative implementation through collaboration with their sustainability department. This appears to show that procurement and supply chain play a key role in helping to lower costs and gain organizational buy-in by acting as implementers for many sustainability related initiatives, especially those related to full cost accounting, life-cycle costing and finding hidden efficiencies in the value chain.

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Department Driving Biggest Implementation

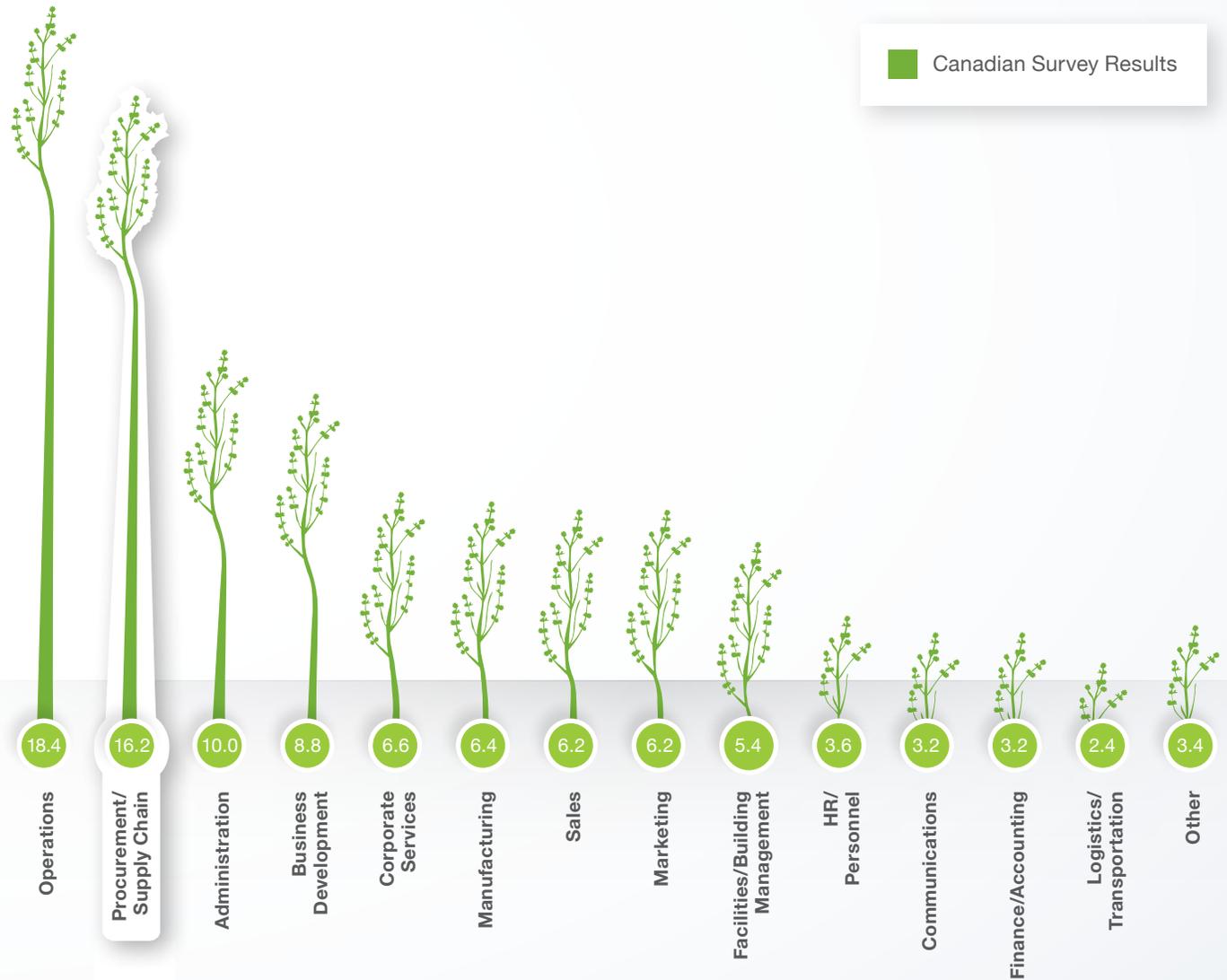


OPERATIONS is the highest driver in Manufacturing (47%)



PROCUREMENT/SUPPLY CHAIN is the highest driver in Healthcare (33%)

DEPARTMENTS DRIVING SUSTAINABILITY INITIATIVE IMPLEMENTATION



Q: Which department drives the bulk of sustainability initiative implementation at your organization?

Source: OfficeMax Grand & Toy Insights Report, *Canadian Survey Results*, Leger Market Research, 2012

When comparing the level of Canadian organizational structuring to support sustainability agendas to the worldwide leaders, Canada appears to out-perform in many areas. A significant percentage of the Canadian organizations surveyed “are adopting new structures, instituting new lines of communication and establishing new performance metrics”⁵ through a centralized function such as the establishment of a Chief Sustainability Officer.

ORGANIZATIONAL STRUCTURING TO SUPPORT SUSTAINABILITY



Q: Regarding sustainability in your organization, does your organization have:

Source: OfficeMax Grand & Toy Insights Report, *Canadian Survey Results*, Leger Market Research, 2012; *Worldwide Survey Result*, MIT Sloan School of Management / Boston Consulting Group, 2012

A significant difference between the Canadian and worldwide MIT/BCG research data is the lower level of “Strong CEO commitment to sustainability”. By focusing on driving bottom line benefits such as operational efficiencies, lower costs and more agile supply chains, this may be an indication that Canadian organizations are driving sustainability adoption successfully at the business unit level, with less need for strong CEO commitment to push the agenda from the top down. A key insight from these results is that strong CEO commitment may not be absolutely critical for sustainability adoption. If sustainability can be justified in business terms, bottom-line benefits drive business unit buy-in.

⁵ *Sustainability Nears a Tipping Point*, MIT Sloan School of Management Review / Boston Consulting Group, Winter 2012

Linking Sustainability Performance To Financial Metrics and Incentives – A Recipe For Success

In a McKinsey & Company worldwide⁶ survey entitled “The Business of Sustainability”⁷, the top three reasons for addressing sustainability were well balanced, and they emphasized the contribution to company reputation, fit with company mission, vision and values and the ability to drive efficiencies and lower costs.

While Canadian organizations surveyed in this research also identified company reputation as a sustainability driver, the primary emphasis was placed on bottom line benefits;

WORLDWIDE VERSUS CANADIAN SURVEY RESULTS – TOP THREE SUSTAINABILITY DRIVERS



Worldwide organizations are more focused on managing general key performance indicators for sustainability, perhaps because they emphasize a greater range of sustainability drivers like reputation, and alignment with organizational goals, mission or values. This finding demonstrates the potential risk to Canadian organizations of over-emphasizing internal factors alone over external drivers.

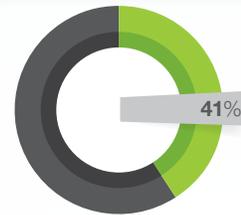
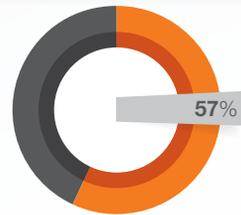
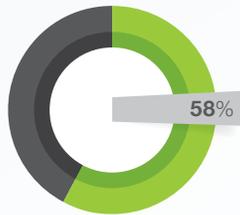
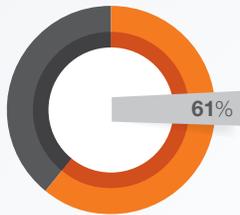
⁶ Online Survey of 3,203 executives representing a full range of regions

⁷ McKinsey Global Survey Results: *The Business of Sustainability*, McKinsey & Company, October 2011

An indicator of advanced sustainability business alignment in Canada can be seen when looking at how Canadian organizations link sustainability and performance when compared to their worldwide counterparts.

LINKING SUSTAINABILITY AND PERFORMANCE

■ Worldwide "Harvester" Survey Result (Leaders)
 ■ Canadian Survey Results



Clear communication of responsibility of sustainability

Company/operational key performance indicators related to sustainability

Personal key performance indicators related to sustainability

Link between sustainability performance and financial incentives

Q: Regarding sustainability in your organization, does your organization have:

Source: OfficeMax Grand & Toy Insights Report, *Canadian Survey Results*, Leger Market Research, 2012; *Worldwide Survey Result*, MIT Sloan School of Management Review / Boston Consulting Group, 2012

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Link between sustainability performance and financial incentives



Highest percentage in **FINANCIAL SERVICES (55%)**



Lowest percentage in **EDUCATION (25%)**

More than double the percentage of Canadian organizations have connected sustainability performance with financial incentives. In the Canadian context of integrating operations, procurement and supply chain with sustainability to drive efficiency and cost reduction, tying performance with financial incentives is a means of driving alignment amongst functions.

Procurement And Supply Chain Collaboration Promote Sustainability As An Effective Risk Mitigation Tool

Despite the strong Canadian emphasis on cost reduction, both Canadian and worldwide organizations are proactively engaged in managing their sustainability reputations and responding to regulatory constraints. Interestingly, a lower percentage of Canadian organizations are committing research and development resources to sustainability which is consistent with both the generally accepted economic view that Canada is an R&D laggard, and with what may be an organizational desire to avoid positioning sustainability as a cost centre.

Canadian organizations appear to be more engaged in capturing higher prices and market share from sustainable products and services and managing the impact of their products and services across the value chain than their worldwide peers. The greater level of engagement in these two areas may be a further indication that Canadian organizations perceive sustainability as a risk mitigation tool and as an opportunity, which is heavily influenced by procurement and supply chain activities. This fact is further supported by the finding that 50% of Canadian organizations have integrated sustainability with their procurement and supply chain functions vs. 41% of their worldwide peers (see chart on next page).⁸

SUSTAINABILITY ACTIONS



Q: Is your organization currently taking action with regard to:

Source: OfficeMax Grand & Toy Insights Report, *Canadian Survey Results*, Leger Market Research, 2012; *Worldwide Survey Result*, McKinsey & Company, 2011

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Managing organizational reputation for sustainability is highest in **GOVERNMENT (43%)** and lowest in **HEALTHCARE (29%)**



Responding to regulatory constraints is highest in **MANUFACTURING (45%)** and lowest in **EDUCATION (8%)**

If Canadian organizations continue to focus on managing their impacts through the value chain and collaborate more with their procurement and supply chain partners, this could assist in the identification of more valuable opportunities across the value chain.

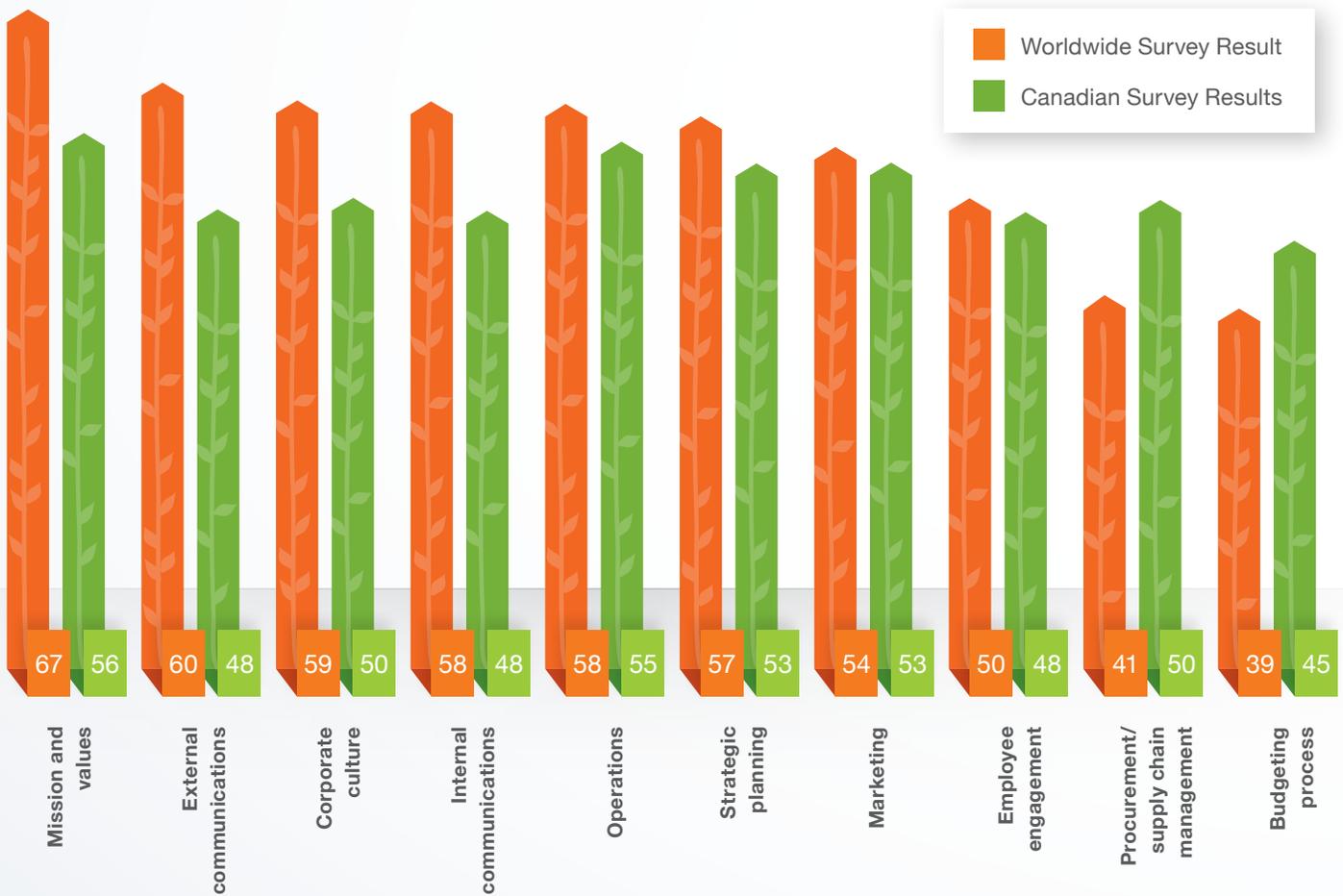
⁸ McKinsey Global Survey Results: *The Business of Sustainability*, McKinsey & Company, October 2011

Internal Reporting Expertise Aligns Sustainability To Business Objectives

A key finding of the qualitative research is that successful sustainability initiatives focus on quantifying sustainability related profitability benefits for the organization. The result is that many successful Canadian sustainability leaders have either operational, reporting expertise, or both. It is this expertise that enables them to have relevant discussions with business units and to take a leadership position in promoting alignment, integration and adoption of sustainability into the business. Many of the sustainability leaders who participated in the qualitative research are actually located in departments where measurement and reporting are a core function such as investor relations, operations or facilities. Their place in these areas (and familiarity with more traditional business metrics) enables them to “translate” sustainability more easily, and obtain buy-in from various stakeholders.

On a worldwide basis, the top three business areas into which sustainability has been integrated are mission and values, external communications, and corporate culture. The top three for Canada are mission and values, operations, and tied are strategic planning and marketing;

BUSINESS AREAS INTO WHICH SUSTAINABILITY HAS BEEN INTEGRATED



Q: How much has your organization integrated sustainability into the following areas?

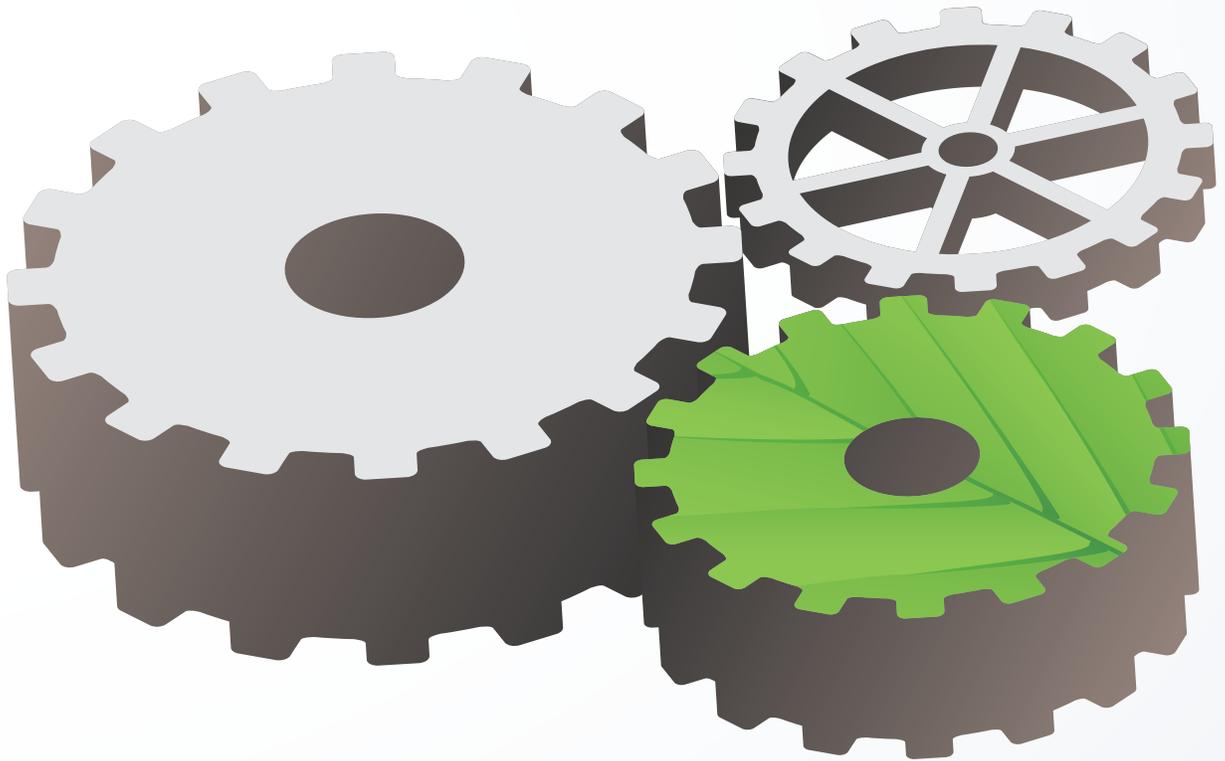
Source: OfficeMax Grand & Toy Insights Report, *Canadian Survey Results*, Leger Market Research, 2012; *Worldwide Survey Result*, McKinsey & Company, 2011

As well as the main emphasis on operations, strategic planning, and marketing, Canadian organizations place more weight on integrating sustainability with procurement, supply chain and budgeting processes. Ironically, the relative lower Canadian interest in sustainability integration with areas such as communications (areas that have a less tangible relationship with cost), may be a key contributor to communications being identified as a key sustainability challenge for Canadian organizations.

Procurement and Sustainability Reinforce Each Other

The research uncovered that a great opportunity exists for procurement and sustainability to reinforce each other. This opportunity is rooted in the adoption of purchase evaluation models that take into account longer term business benefits in procurement. Life-cycle costing is an example of a purchase evaluation model that attempts to take into account the overall cost of a product or service over its life to the organization, rather than simply looking at its initial purchase cost.

The role of procurement is to source the right products and services for organizational needs and requirements at the best cost. Procurement shows value to the organization by saving money. But the ability of procurement to do this is often limited by resource, skill set and time constraints which limit the ability to adopt more strategic purchasing models for complex product or service purchase evaluations. Many leading Canadian sustainability departments are being built with operational and reporting expertise, which provides the skill set required to identify and communicate criteria or specifications that would populate life-cycle costing and similar models.



Sustainability can support procurement by providing the expertise to make more refined purchase evaluations that save the organization money and procurement can support sustainability by promoting purchase decisions with a positive or reduced environmental impact. The research findings indicate that this kind of sustainability communication and collaboration with procurement is currently limited. The missed opportunity right now is extending this communication and collaboration to more complex purchase evaluations that would require relatively sophisticated specifications or criteria development but deliver greater sustainability and cost benefits.

Challenges & Recommendations

Challenges

In both the quantitative and qualitative research, Canadian practitioners identified the biggest challenge to future success as an over-emphasis on cost reduction versus other sustainability priorities. However, as the research also identified, delivering operational efficiencies and cost reductions from sustainability initiatives drives valuable internal buy-in and therefore is a necessary step to take. The results signify that this approach is working well enough to place Canada in a leadership position in sustainability adoption.

Other main challenges identified by Canadian organizations were:

- 1 Sustainability coordination**
e.g. management of sustainability reporting
- 2 Internal communication**
e.g. of sustainability business benefits
- 3 Internal collaboration**
across all functions and not just operations, procurement and supply chain

Recommendations

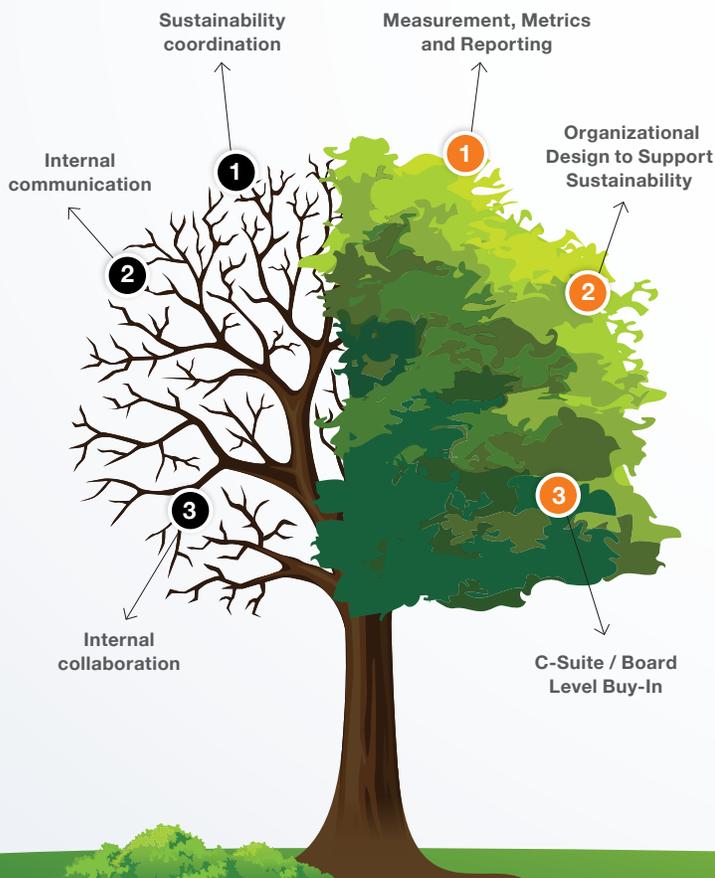
Recommendations for addressing these challenges were obtained in the qualitative interview portion of the Canadian research:

- 1 Measurement, Metrics and Reporting**
Measurement, metrics and reporting are the foundation for effective sustainability management. They provide the basis for sustainability performance measurement and therefore enable accountability for sustainability initiatives. Without solid measurement, metrics and reporting it is impossible to manage sustainability as a bottom-line focused business function.
- 2 Organizational Design to Support Sustainability**
Sustainability structures need to be designed in a framework that allows for the appropriate assignment of responsibility. The responsibility framework promotes effective utilization of the organization's resources and skills, cross-functional sustainability communication and collaboration, and centralized sustainability management and coordination.

A typical successful framework would be built around a centralized sustainability office, which is given the responsibility for managing sustainability through its measurement, metrics and reporting structure. The actual implementation and operational management of specific sustainability initiatives is handled by business units or departments such as operations or procurement.

Collaboration and communication within the framework centres on knowledge flow. Specifically, knowledge flow to the sustainability department of all operational measures and initiatives, and knowledge flow back on what operational measures and initiatives can be measured on a reporting basis. For example, an organization might collect energy expenditures in dollars only which the sustainability department could potentially translate into an energy usage figure based on kilowatts per hour.

- 3 C-Suite / Board Level Buy-In**
C-Suite / Board level buy-in, sponsorship of sustainability performance measurement and linking this performance to financial incentives is ideal for ensuring business unit and individual sustainability engagement and accountability.



Future Projection

During the qualitative portion of the research, senior sustainability executives were asked for their thoughts on the “future of sustainability.” Key conclusions from these interviews point to a belief that future sustainability adoption will be driven by four main factors, which must be incorporated into sustainability planning:



Economic Conditions

A key point made in the interviews, is that economic conditions will continue to define the balance of organizational emphasis on conflicting cost reduction versus other sustainability priorities. In order to maintain alignment with the business – whether in the private or public sector – practitioners must demonstrate that sustainability initiatives can contribute to operational efficiencies and lower costs. And the more sustainability stakeholders collaborate and integrate with key organizational departments such as operations, procurement and supply chain that focus on delivering bottom-line efficiency and cost reduction benefits, the more valuable it becomes to the organization.



Resource Scarcity and Risk Mitigation

As the impact of resource scarcity on supply chain increases over time, collaboration between supply chain, procurement and sustainability departments is a must for risk mitigation. Sustainability practitioners will increasingly be seen as sources of expertise who can aid in supply chain risk mitigation and therefore will need to incorporate risk management and knowledge of their organizations’ end-to-end supply chain processes in their skill sets.



Social Attitudes

Social attitudes toward sustainability may be both an accelerator and inhibitor to success. Increasing social acceptance and desire for organizations to adopt sustainability practices is regarded as a positive form of pressure on sustainability practitioners to deliver real benefits. Certain behavioural patterns that are emerging in society however, are seen as significant challenges to sustainability success. In particular, unchecked consumerism is seen as a social development that drives negative sustainability behaviours such as greater than required energy and food consumption, lack of attention to waste management and recycling initiatives, and negative individual behavioural impacts on resource use. Therefore, behavioural modification is predicted to become an increasingly important area of future sustainability focus.



Technology Development

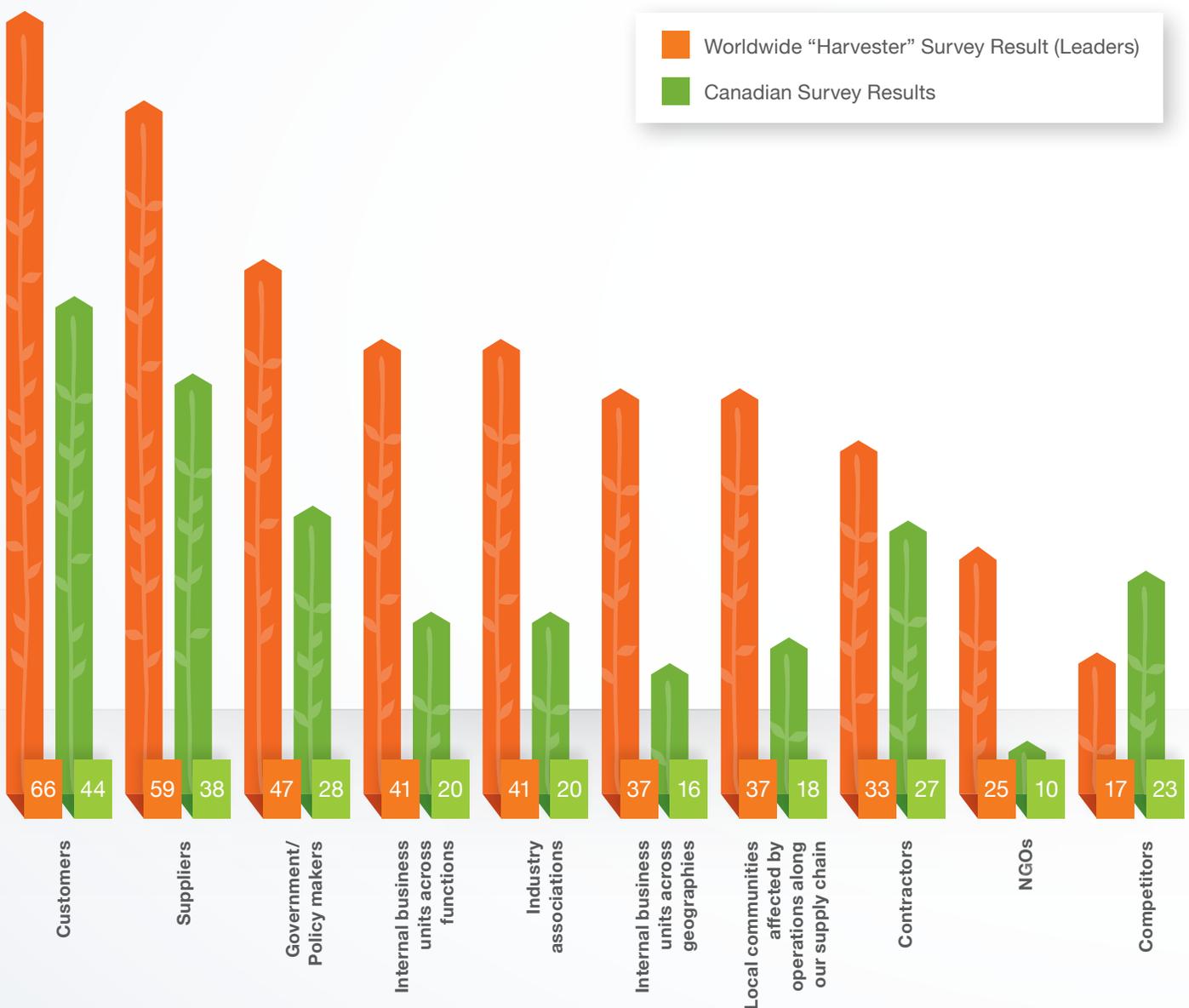
Technology development is seen as a potential enabler of furthering efficiencies, cost reductions and influencing behaviours. Development of alternative fuel technologies for example, may create opportunities for sustainability benefits in areas such as transport, supply chain, and building HVAC. Or the development of sophisticated building controls technology may provide the means to enforce heating, lighting, air conditioning and water usage behaviours down to the level of individual building or facilities users.

As shown, Canadian organizations are more focused than their global counterparts on contributing to profitability. This aligns with the future predictions above that economic conditions will be the greatest influence on sustainability adoption and progression, and resource scarcity will require sustainability practitioners and leaders to collaborate and integrate with supply chain and procurement to a greater degree.

Conclusion

Canadian organizations are in a global sustainability adoption leadership position as defined by “tipping point” statistics. This is being driven by centralized sustainability functions, that focus on deriving tangible benefits from their initiatives. These organizations are able to achieve this success through collaboration with operations, procurement and supply chain. It is supported by an emphasis on quantification of benefits, reporting on them, shared accountability with business units and links to the C-Suite. However, there are still significant opportunities for sustainability development and adoption outside of the efficiency and cost reduction based approach. Greater collaboration is a key area of potential improvement for Canadian sustainability as the chart shows;

INCREASED COLLABORATION DUE TO SUSTAINABILITY



Q: Has sustainability caused your organization to increase its collaboration with any of the following?

Source: OfficeMax Grand & Toy Insights Report, *Canadian Survey results*, Leger Market Research, 2012; *Worldwide Survey Result*, MIT Sloan School of Management Review / Boston Consulting Group, 2012

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Increased collaboration due to sustainability...



with suppliers highest in **GOVERNMENT (43%)** and lowest in **HEALTHCARE (29%)**



with competitors highest in **MANUFACTURING (35%)** and lowest in **HEALTHCARE (25%)**



with customers highest in **EDUCATION (58%)** and lowest in **FINANCIAL SERVICES (34%)**

Canada's worldwide leadership position in sustainability adoption is a positive finding, but it must be acknowledged that sustainability is not inherently focused only on internal organizational efficiency and cost reduction. While this has produced positive results, a continuing focus on internal efficiency and cost reduction alone, may place Canadian organizations at a competitive disadvantage by limiting the scope of their sustainability opportunities.

Expanding collaboration with external stakeholders appears to be necessary for Canadian organizations' future success in a global economy. Increased external collaboration could create opportunities to expand social and environmental impacts which could identify best practices that lower costs *and* have other sustainability benefits.

The overarching conclusion of this report is that Canadian organizations' sustainability adoption success should be a launching point for greater organizational awareness and involvement in the external facets of sustainability such as social and environmental impact, impact through the value chain and collaboration with external stakeholders and groups. Sharing knowledge so that sustainability affects positive change outside of the organization could lead to future success.





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