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C H A P T E R



SUSTAINABILITY FOR BUSINESS A New Global Challenge

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AT&T CASE STUDY: A WORK IN PROGRESS—INTEGRATING BUSINESS NEEDS WITH THOSE OF SOCIETY

OVERVIEW

AT&T's legacy spans more than a century, but in many respects, the AT&T of today is a new burgeoning company. The “new” AT&T—a Fortune 12 company with more than 255,000 employees and well over \$100 billion in annual revenue—emerged in 2007 after a series of mergers. The largest of the merged companies were SBC, AT&T, BellSouth and Cingular, but the mergers also included several smaller companies that were also folded into the new AT&T. Each of the legacy companies had its own culture, operations and policies, and the workforce was geographically diverse. After AT&T completed the major steps involved in integrating these companies, it recognized the need to reevaluate and realign its strategy around social and environmental sustainability and ensure alignment between that strategy and the business strategies throughout the company.

THE BUSINESS CASE FOR ACTING

There were many reasons for the company to strengthen its commitment to citizenship and sustainability. Initial discussions centered on potential reputational issues, customer pressure and on AT&T's existing environmental profile. At the time, some in the business community tended to believe that keeping a low profile would pose much less risk than voluntarily raising the stakes—particularly in an area considered by many inside the company to be uncharted territory. To counter that challenge, early advocates within the company focused on an idea that would resonate with people inside the company: AT&T needed to define its own image in this space, rather than allow others to do so.

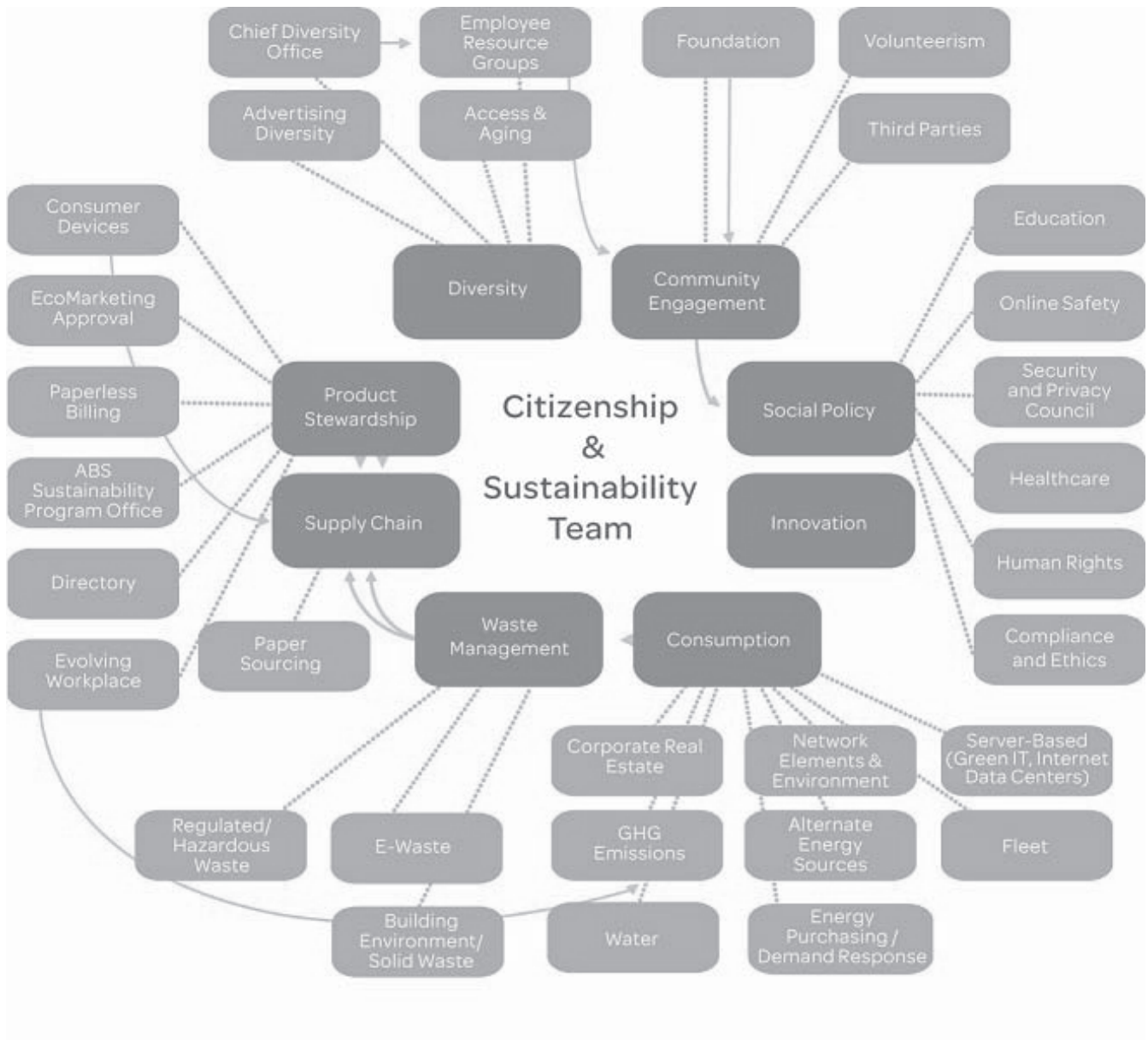


FIGURE 27.1

Citizenship & Sustainability Team

A host of additional reasons provided support for that central idea.

- Policy makers were increasingly inclined to take action, particularly in energy and environmental areas where the company was potentially exposed to legislative and regulatory impact simply due to the sheer size of the new company.
- The investment community and shareholders were increasingly focused on the subject. The company was beginning to see an increase in investor surveys and RFP's asking the company to report on its social and environmental impacts. Additionally, the first shareholder meeting of the new company saw a shareholder resolution asking the company to be transparent in its sustainability commitments.

- Customers increasingly expected corporations to be sensitive to social needs. The United States had seen a string of company executives abusing the public trust, and customers were looking for proof that companies were ethical, community focused and responsible.
- Social concerns captured the interest of employees. Employees wanted to work for a company that was a good corporate citizen.
- Environmental stewardship supported new market opportunities. There was a realization that the company's products and services could help customers minimize their environmental impact. At the same time, there was a recognition that the company would need to "walk the talk"—i.e., if the company were to credibly promote the environmental benefits to their customers, AT&T would need to demonstrate that it was helping its employees do the same.
- The explosion of bloggers and "citizen journalists" was creating an era of greater transparency and disclosure with companies. A company's impact on its communities was now becoming a matter of public record and a topic for open discussion.

Since those early days, sustainability has started to evolve into an explicit and defined aspect of AT&T culture and business operations. AT&T has achieved significant milestones—including the announcement of a commitment to spend up to \$565 million to deploy approximately 15,000 more fuel-efficient vehicles in its corporate fleet through 2018—but these achievements were not without hurdles. AT&T knows its efforts are a work in progress, with ongoing challenges and setbacks that are economic, operational and institutional. While change sometimes comes slowly in such a large organization, AT&T leadership is committed to fully integrating sustainability and sustainable business practices throughout the company.

Maintaining this commitment requires many different strategies and approaches—and one fundamental condition: corporate recognition that sustainability brings value back to the business. Defining sustainability as a key business approach ensures that it is assigned appropriate significance at all levels of the company. Such high-level commitment also promotes sustainability as a more efficient way to meet bottom line goals and to drive shareholder value.

AT&T's sustainability journey has led to six key lessons that may be helpful to any business or organization looking to integrate sustainability into its business operations.

DEFINING SUSTAINABILITY: BEYOND BEING GREEN

Sustainability has no uniform, consistent definition, and it encompasses more than just environmental issues. For AT&T, it came down to recognizing the natural link between its business and society—understanding that the long-term financial health of the company is inextricably linked to the health of its communities. Therefore, AT&T used phrases such as *citizenship and sustainability* and *social and environmental sustainability* and focused its efforts on those issues that are found at the intersection of society and AT&T.

A good example is the issue of world hunger. While it is a serious global issue, it does not as naturally overlap with the company's core business or expertise as some other potential areas of focus. Instead, the company concentrated its efforts in areas where it could provide valuable business and expert input such as energy management, maintaining a diverse and highly trained workforce and deploying more fuel-efficient vehicles in its fleet.

This approach to sustainability also included a major education initiative, AT&T Aspire, which is championed by AT&T's CEO, Randall Stephenson. Aspire was launched in 2001 as a four-year, \$100 million initiative created to address a true national crisis—the growing epidemic of high school dropouts. About 25 percent of U.S. high school students drop out before they earn their diploma, and the number is about 40 percent for African American, Hispanic and Native American students. The Aspire program is dedicated to addressing this crisis by improving high school retention rates and workforce readiness. The company believes that people, not capital, are the critical business resource of the future. Concentrating resources on developing a high-quality labor pool addresses a serious problem in which the needs of the business community intersect with the needs of society.

While the company had a long history of social commitment dating back to Alexander Graham Bell, this focused approach placed a business value on addressing specific societal issues and infused the philosophy throughout the company's operations.

OPERATIONAL ALIGNMENT: A METHOD TO THE MADNESS

Key to AT&T's effort to implement sustainable business practices across the company was the ability to gain understanding of and build relationships with a variety of stakeholders. With that concept as a foundation, AT&T based its sustainability leadership in the Public Affairs business unit—a core function of which is to build relationships with key stakeholders in society through understanding their issues and finding commonality in purpose. The same relationship-building and listening skills employed with key public affairs stakeholders were applied internally to help AT&T drive sustainability further into the company. These skills helped AT&T better understand its employees' motivations, to identify the communications that would most resonate with them and, ultimately, to better work with them to find long-term business success.

Regardless of where this function resides inside a company, success requires some type of internal structure that seamlessly integrates sustainability into an organization's business operations. This helps ensure that sustainability is not seen internally as an "add on" that is confined to a particular function of one business unit.

For AT&T, the first step of operational alignment was taken by AT&T's Public Policy Committee of the Board of Directors, which, led by the Chairman and CEO, changed its charter in the first quarter of 2008 to include oversight of citizenship and sustainability initiatives. Followed by this action, the company created a Citizenship and Sustainability Steering Committee. The committee is made up of senior executives and officers from across the company who meet quarterly to determine company priorities, align resources and help further integrate these issues into its core business operations.

As part of the structure, the company now has more than 25 active "expert teams" aligned around specific citizenship and sustainability issues. Each team has cross-functional business representation, serves to assess company operations through the specific lens of sustainability initiatives and drives projects and initiatives around sustainable business practices. The strategy, execution and public messaging of these expert teams and initiatives are coordinated by members of the company's corporate citizenship and sustainability core team, which helps the "expert teams" determine key performance indicators and goals, undertake new initiatives and strengthen existing ones.

While AT&T's approach produces consensus and ownership within the various business units, it is not an effortless operating system. For instance, the goal of an initiative and the time it takes to be achieved are open discussion points between the company's corporate sustainability team and the affected business units. Shared understanding and consensus on a path forward must be resolved. The goal and pace of this process may not be as significant or fast as preferred, but the final outcome is stronger because the decisions receive buy-in from the business unit, and decisions are made with full understanding of business impacts.

Given the uncommon nature of the system, and the reliance upon consensus vs. command and control, there was an initial lack of role clarity for the Steering Committee, causing some inertia early in the system development. Today, however, committee members have taken ownership of their roles; they more readily embrace driving change, and they are setting the agenda and pace for the company's sustainability efforts. The company further strengthened its sustainability operating structure by appointing its first chief sustainability officer.

ISSUE ALIGNMENT: MORE THAN STARS NEED TO BE ALIGNED

With a more explicit definition of sustainability in place and a strengthened internal alignment, AT&T turned its attention to identifying priorities for the company to pursue.

AT&T started by conducting a series of in-depth interviews with employees, focused on senior executives, officers and mid-level managers inside business units. The interviews gave greater insight into the challenges and opportunities sustainability presented for each sector of the business. AT&T balanced these internal conversations with a variety of key external stakeholders' views on what they felt were the key issues to AT&T.

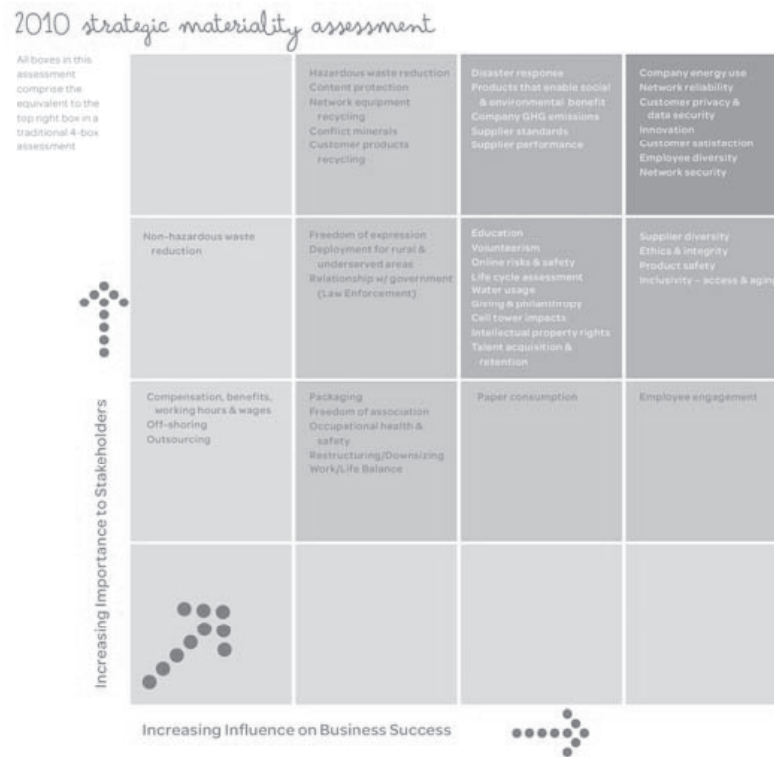


FIGURE 27.2

2010 Strategic Materiality Assessment

AT&T then undertook a “materiality assessment” designed to achieve three primary goals:

1. Identify and align the company’s greatest risks and opportunities with key stakeholder expectations
2. Prioritize the risks and opportunities based on importance to stakeholders and relevance to business operations
3. Help inform subsequent decisions regarding which issues to pursue and the level of activity

The full results of the materiality assessment are available online at <http://att.centralcast.net/CSRBrochure09/Default.aspx>. The analysis presented a clear picture of the areas of confluence between business success and stakeholder priorities, and clarified the connection between sustainability and the bottom line. Simply put, the process provided AT&T with a road map to identify the issues that mattered most and allowed the company to restructure its efforts into several focus areas that would guide the company’s sustainability efforts.

UNDERSTAND THE CULTURE AND BLEND

The culture that develops around a business is a reflection of both the individuals involved and the group dynamic. As such, being mindful of a company’s culture is critical to success in any corporate endeavor, including sustainability. AT&T’s challenge was particularly unique as it was integrating several separate corporate cultures into one cohesive company.

Nothing better illustrates the need to be mindful of a company’s culture than the effort that was undertaken at AT&T to produce and publish the company’s first carbon footprint. Simply suggesting that developing and publishing a carbon footprint would be the right thing to do would not be sufficient. It had to make sense

to the company from a business perspective, too. To garner support, efforts were made to link the need to produce the carbon footprint with the company's efforts to better understand its energy use and control its energy-related costs. AT&T had continually assessed its energy consumption; conducting a carbon footprint analysis was presented as another way to examine energy output and provide additional data points to identify the key drivers of AT&T's energy consumption.

Disclosing AT&T's footprint was another matter altogether. This ran counter to a culture disinclined to publish otherwise closely held numbers absent a compelling reason. Again, understanding this aspect of the internal culture helped guide the rationale on why to publish this information. AT&T is in a very competitive market, and it was this competitive element that presented the best opportunity to build a business case supporting the disclosure of this information.

AT&T examined Fortune 10 companies, as well as peers in the telecommunications industry, and discovered that many of the other companies already had published their carbon footprints. AT&T also watched and reported on the generally favorable public response to corporate disclosure of this information. AT&T went on to track the increasing number of customer, investor, media and analyst requests asking for information about its carbon footprint. Finally, the sustainability team sought the opinions of credible third-party organizations in the environmental space. The team shared the potential risks and opportunities that could be lost over the coming months and years if the company did not disclose its carbon footprint.

The findings compiled from internal research dovetailed with evidence of the increasing external pressure of government regulation, as well as a growing interest from key nongovernmental organizations and socially responsible investors to disclose this information. Collectively, these elements built a compelling and ultimately successful case for disclosure and allowed frank conversations about the reputation risks associated with failing to do so. Ultimately, AT&T disclosed its U.S. footprint in December 2009.

While this was a significant achievement, the sustainability team recognized it was one step in the journey. The next step is how to address the issue of potential carbon emission reduction goals. There are strong cultural currents that must be considered in connection with this decision, including both the competitive nature of the company and the corporate culture that demands accurate and detailed information and comprehensive plans before committing to any goal. Plans to move forward are under robust discussion and development.

TAKE BABY STEPS: LEARN BEFORE YOU LEAP

AT&T is a large company, and each decision has the potential to affect shareholder value, company profits and employee morale, among myriad other effects. As with any initiative, small steps that enable the company to assess impact are often favored over sweeping actions. AT&T's corporate fleet effort provides the best illustration of this approach.

After the mergers, AT&T found itself with one of the largest commercial fleets in the country. With the unpredictability and spikes in fuel prices, the company realized it would need to reduce its fuel consumption—particularly when an increase of just a few pennies at the pump could cost the company millions of dollars each year. In 2007, AT&T put more than 100 alternative fuel vehicles, including compressed natural gas trucks and hybrid electric passenger cars, through an initial trial. AT&T deployed the vehicles in different geographies and weather patterns to better assess their performance. AT&T had been concerned that people would say the effort was miniscule given the size of its fleet—a proverbial “drop in the bucket.” But it made business sense to first conduct a trial before committing to a larger fleet. Although anticipating negative feedback, AT&T was pleasantly surprised by the positive response the initiative received both in the media and from environmental groups.

The effort was almost universally reported as a smart approach to a complex issue—experimenting with different technologies to see which worked best before making significant investments. The trial was successful, and although there remains no single alternative fuel technology that can answer all the company's needs, AT&T learned which type of alternative fuel vehicles performed best in specific geographies across the company's broad geographic footprint. AT&T was also able to calculate the long-term fuel savings the company could potentially achieve if a significant investment were to be made in these vehicles.

After the successful trial, in 2009 AT&T announced its intention to deploy approximately 15,000 alternative fuel vehicles through 2018. The fuel cost savings certainly helped the bottom line, and the announcement also signaled a demand for more fuel-efficient vehicles. AT&T is applying the same “learn before you leap”

approach to all-electric vehicles. By early 2011 AT&T had deployed more than 3,500 alternative fuel vehicles, including more than 2,500 compressed natural gas vehicles. AT&T is testing several all-electric vehicle models, along with heavy-duty trucks, to assess performance before determining whether to make significant investments. Beyond the bottom line and environmental benefits, this effort has produced an unforeseen internal benefit: the initiative has become a source of employee pride throughout the company.

A WORK IN PROGRESS: SISYPHUS WOULD BE PROUD

Driving sustainability throughout the company remains a work in progress. At times, it can feel much like Sisyphus did in the ancient Greek myth—always pushing a boulder up a hill. Never quite able to get the boulder to the top, it would fall back down. Sisyphus would forever keep trying. But, AT&T also understands that meaningful change does not happen overnight, and it is important to adjust expectations accordingly. Three years into this journey, the pace of integration is steady, but at times it is a slower pace than some would like. AT&T has numerous business units across the company. Many of these business units understand the relationship between sustainability and its core business function; others are less mature in their development.

Beyond the pace of progress, AT&T communicates its sustainability efforts in ways that, at times, have run counter to a traditional approach. The tendency for most companies is to discuss its efforts in very bold terms. This approach, however, is not always appreciated or viewed as the most credible by those in the sustainability space, many of whom expect companies to express their commitments and achievements with humility and candor. While this effort remains a work in progress, AT&T tries to follow four criteria when communicating about sustainability:

1. Communicate in a humble tone, and discuss efforts in terms of aspiration.
2. Be transparent with information and progress.
3. Let others speak out on its progress.
4. Discuss results in tangible and understandable terms.

Additionally, when the company releases its annual Sustainability report, it attempts to discuss in specific and quantifiable terms its impact on the communities in which it operates. For example, it will discuss the total number of hours employees and retirees volunteered in their communities, the total amount of philanthropic contributions and employee giving and the specific reductions in energy and fuel consumption.

Despite the challenges the company faces when publishing goals, over the past two years AT&T has made significant progress in both the development and disclosure of goals and metrics to measure the company's success in nearly all of its initiatives. The goals that AT&T develops are based on consensus. Some goals may not go far enough for some, but they are established in ways that work within AT&T's culture. AT&T will continue to strive for transparency in its goals and key performance indicators. AT&T's 2011 goals can be found online at www.att.com/Common/about_us/citizenship/Our_Goals.pdf.

Finally, economic realities and factors beyond anyone's control, like the price and availability of alternative energy, can sometimes limit the ability to make wholesale changes in operations as quickly as desired. These issues will not reverse AT&T's long-term path, but as with other companies, they do sometimes present challenges to developing aggressive short-term goals.

AT&T's sustainability efforts remain a work in progress. Success comes in many forms, whether it be a company-wide change in policy or an incremental step forward within one business unit.

THE FUTURE

MOVING FORWARD: WHAT IS NEXT

When AT&T started this effort, the decision was made to operate with a well-thought-out approach—one that had a formal governance structure with committees in charge of driving sustainability into the business

operations. Since that time the company has come to realize that each employee can be a source of new, innovative ideas that drive sustained change and better position AT&T for long-term success. Over the past year AT&T has begun to take steps that would empower and engage its total employee base in a voluntary initiative called “Do One Thing,” or “DOT.”

A simple concept, the effort is an invitation for employees to voluntarily adopt a practice—“do one thing”—that positively influences them personally, their community or the company. In 2010, the company launched a series of four pilot programs for DOT. The information and key findings are helping inform and guide the employee roll-out this year.

AT&T is also taking additional steps to further drive sustainability into the culture of its company. One example in particular bears mentioning. In 2010 the company initiated an energy scorecard of its top 500 energy-consuming buildings, while providing incentives for corporate real estate managers to meet or exceed specific energy reduction targets. This brought about more than 4,200 energy projects being implemented in one year that saved the company a total of \$44 million in annualized revenue.

Finally, for AT&T to credibly promote its products’ effectiveness in minimizing its customers’ environmental impact, it needs to ensure that efforts to minimize its own environmental impact are in sync. Employee telecommuting is such an example of “walking the talk,” and is an issue that presented some challenges. Similar to internal concerns about publishing AT&T’s carbon footprint, some viewed the benefits as counterintuitive, being concerned about sacrificing productivity and effectiveness of their work groups. It also was a source of culture clash, as the premerged companies had vastly different telecommuting policies.

These challenges have diminished as AT&T has communicated the areas of shared values: senior management understands that, when properly implemented and managed, there are many sound business reasons for the company to expand the number of employees who telecommute, all while supporting an action that helps society. Over the past two years, the company has made substantial progress in this effort and has realized significant real estate cost reductions. The company also has noted an increase in employee productivity and job satisfaction among the employees who are telecommuters.

AT&T has enabled virtual working for nearly half of its total workforce with mobile and remote access technologies. The company recently surveyed the telecommuter population to determine the environmental impact of the program, as well as to measure its effectiveness and ancillary benefits. The survey asked a series of questions related to transportation method, commute distance, number of telecommuting days or weeks, vehicle type and year and number of errand miles.

Coupling that data with the Fuel Economy Guide from the Department of Energy and the Environmental Protection Agency, the company found that by reducing its employees’ commute, AT&T’s telecommuters avoided 175 million total commute miles, saved approximately 8.7 million gallons of gasoline and avoided total greenhouse gas emissions of 76,000 metric tons—the equivalent of removing 14,788 passenger vehicles from the road for a year.

In turn, this saved on average 54 minutes of commute time per employee. Approximately 85 percent of survey respondents agreed that increases in productivity and work-life balance were the top reasons they telecommute. More than 95 percent of telecommuters surveyed agreed or strongly agreed that they are more productive when working from home, and an equal number similarly agreed that telecommuting is important to their job satisfaction.

While AT&T has been getting its own house in order by allowing a greater number of employees to telecommute, the company has also been aggressive in communicating the economic and environmental benefits of its products and services to customers, helping it to capture market share in the emerging low carbon market. To help identify and communicate these benefits more effectively, the company created a sustainability council, comprising leading environmental nongovernmental organizations, academics, customers and suppliers.

THE JOURNEY CONTINUES: THE ONLY CONSTANT IS CHANGE

Sustainability is not a static endeavor. To be successful in the long term, a company must continually evolve to meet the changing needs of society. In the beginning of this chapter, we discussed the main reasons that drove

AT&T's renewed desire to strengthen its commitment to integrate sustainability into its business operations. Those issues still exist today.

Over time, however, issues ebb and flow. A company needs to continually assess trends and determine their impact on its business operations. To answer this need, AT&T conducted a second materiality assessment three years after its initial assessment. This new assessment enabled the company to identify new trends and their impact on the business success of the company. It also enabled AT&T to evaluate progress that had been made, and changes still needed on the path of progress. For AT&T, the most significant issues identified in this recent assessment included:

- Energy consumption
- Network security and reliability
- Supply chain standards
- Innovation
- Education

Over the next two to three years, the above issues will be key priorities for AT&T. And while the company's approach to sustainability will remain focused on identifying those societal issues that directly intersect with its business strategy, the ways in which the company expresses this relationship will change, too.

The public at times shows cynicism for company actions that aren't completely altruistic. But growing demands by consumers for transparency are beginning to reveal the public's acceptance, and in fact respect, for companies that point out the business value of their actions. There is growing recognition of "shared value," and growing understanding that, without business value, a company's action cannot be sustainable. Shared value is not "social responsibility"; rather, it is a recognition that social good and economic success can and should co-exist. It is not on the margin of what companies do, but at the center. AT&T and others believe that this approach is beginning to transform business thinking.

CONCLUSION

AT&T's definition of sustainability is simple: it is a way of doing business that benefits both society and the company in specific and tangible ways. The fact that AT&T has been in existence for more than 130 years is proof that sustainable business practices have been part of its operating system. What has changed, however, is the realization that businesses need to take additional steps to bring more focus, discipline and value to these efforts. It is not a passing fad at the company, and AT&T strongly believes sustainability is increasingly important to customers, investors and to its bottom line.

This belief is the main motivation for AT&T to detail publicly its approach to addressing these issues. It did so with the hope that other companies might be able to learn from AT&T's experience, and perhaps find useful insights that could help their own journeys. AT&T's intent is for this report to have made the business case for operating a company in a way that recognizes the positive value found at the intersection of society and business—a value that translates into long-term health of the company and the communities where it does business.

DISCUSSION QUESTIONS

1. How would a company define sustainability that is relevant to its business?
2. What would some of the criteria be to make the business case for integrating sustainability into its long-term business strategy?
3. For a company coming out of a series of mergers, how should this new company approach developing its sustainability strategy?

4. Is it more effective to adapt the culture of a company to its sustainability strategy or try to integrate sustainability into the company's culture?
5. If sustainability is not personally championed and driven by a company's CEO, what recommendations would you provide to integrate sustainability into its business operations?
6. What are some of the methods a sustainability officer can use to further integrate sustainability into the company's business operations when the officer has no ability to mandate that it be done?
7. What are the steps a large, multinational company should take to identify the most relevant sustainability issues important to its business success?
8. What are some of the communications challenges a company might face while promoting green initiatives?

ADDITIONAL READING

AT&T Sustainability media kit: <http://www.att.com/gen/press-room?pid=2644>.

AT&T Sustainability news room: <http://www.att.com/gen/press-room?pid=2644>.

2010 AT&T Sustainability report: <http://www.att.com/csr>.