Integrating sustainability into business practices: a case study approach

Woolworths

Facts and figures

<table>
<thead>
<tr>
<th>Type of organisation</th>
<th>Publicly listed company</th>
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</thead>
<tbody>
<tr>
<td>Industry</td>
<td>Food and staples retailing</td>
</tr>
<tr>
<td>Turnover (2010)</td>
<td>A$51.7 billion</td>
</tr>
<tr>
<td>Head office</td>
<td>Sydney</td>
</tr>
<tr>
<td>Operations</td>
<td>Australia, New Zealand</td>
</tr>
<tr>
<td>Employees</td>
<td>188,000</td>
</tr>
<tr>
<td>No. of travellers p.a</td>
<td>3,199</td>
</tr>
</tbody>
</table>

Governance and strategy

Woolworths Limited (Woolworths) was established in Sydney in 1924 as Woolworths Stupendous Bargain Basement. It grew nationally and into New Zealand both organically and through acquisition, and was listed on the ASX in 1993 under the ticker WOW. From the outset, Woolworth’s values focused on ‘integrity, trust and accountability’, and so the foundations for sustainable business practices were in place from the start. Woolworths established a strong governance framework around its sustainability strategy.

Awards

Woolworths has won many awards, including:

- **2008, 2010** Leadership award (Australian Food & Grocery Council)
- **2008, 2009** Sustainability Reporting award (ACCA)
- **2009, 2010** Banksia finalist (large business sustainability award category)

Board oversight

The Board has ultimate responsibility for governance over the sustainability agenda. There is a Board People Policy Committee, as well as a CEO led Safety and Health Executive Committee, which deals with health and safety performance and issues. The Group Manager Sustainability reports to the Board on a monthly basis on Woolworths’ overall performance against the sustainability targets as well as on regulatory

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Case: Woolworths
and policy changes, developing risks and opportunities. More formal presentations are made quarterly to the Board on performance against the key Sustainability Strategy KPIs, emerging issues and related impact on Brand and Reputation.

Visible CEO leadership

The key driver of the Sustainability Strategy is the Sustainability Executive Committee (SEC) comprising the CEO, CFO, Group Manager Sustainability and general managers from the trading and support divisions. The SEC ensures that the strategy is being implemented on a timely and cost effective manner. One important role of this committee is to approve business cases and monitor progress. One of the key drivers for middle management action and engagement in delivering on the Sustainability Strategy is that this CEO-led committee empowers them to take action and demonstrates the central strategic importance of sustainability for Woolworths.

Champions at every level

At the next level down, there is the Sustainability Co-ordinators Committee which comprises sustainability champions from retail businesses and logistics who manage process changes to embed sustainable business practices, as well as share ideas across divisions and facilitate the Eco Ambassador program. This group together with the Eco Ambassadors are charged with making sustainable business practices live on the shop floor.

Expert advice

Woolworths has also set up a Corporate Responsibility Panel of external experts in sustainability, ethics and other relevant fields, who provide advice to the CEO and leadership team on international trends and good practices, as well as a reality check on Woolworths' progress to date. This panel ensures that Woolworths' considers tackles and then reports transparently on the tough sustainability issues the organisation faces (i.e. alcohol, gaming, palm oil etc.)

The Woolworth’s governance framework over sustainability is multi-layered and complex, as would be expected for a large public company seeking to drive sustainable business thinking throughout its whole business. However, it is not a stagnant framework, and will be further enhanced following the current strategic review.

Leadership and employee engagement

Woolworths has been very successful for many years, but in 2007, with the drive of the new CEO, Michael Luscombe, Woolworth’s codified its sustainability goals and roadmap in its ‘Doing the Right Thing: Sustainability Strategy 2007-2015’: ‘Woolworth Limited’s long-term goal is to be recognised as the leader in sustainable retailing in the Australian retailing sector. As such, integrating corporate responsibility and sustainability into our (Woolworth’s) day-to-day business practices is a high priority.’

The reason the CEO re-focused Woolworth’s on sustainability is simple, as a retailer Woolworths’ needs to understand how people feel, what their fears and needs are, and how these needs are changing and then try and align the business’s focus to addressing those needs, building both loyalty from customers, and effort from employees. In the CEO’s opinion, focusing on sustainability ‘is about doing the right thing … and sustainable behavior just makes good business sense.’

Woolworths don’t see sustainability as a stand-alone activity rather it is embedded in everything they do. The company is now half way through the 7 year strategy, and is undertaking a review of progress and making improvements.

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Case: Woolworths
The 2007-2015 Sustainability Strategy was developed by the Group Sustainability Manager in mid-2007, when Government, business and consumer attention was clearly focused on Climate Change. Woolworths therefore decided to focus its initial Sustainability Strategy on environmental conservation and waste reduction activities, which would also deliver community and business benefits.

The strategy was developed as an initial strategy, a starting point, setting the organisation on a ‘pathway for change’. As the CEO commented, the strategy must be a *living breathing document* taking into account both the changing needs of consumers and improvement for ongoing lessons learned. In the Strategy, the CEO notes:

*We have set out the areas we will focus on, and how we plan to address them. Transparency and openness are important so, wherever possible, we have identified specific actions to take, performance measures to assess and targets to aim for.*

In establishing the Strategy, the Group Sustainability Manager did not have time to engage with all external stakeholders, and so focused on documentary review and internal engagement. In particular she:

- Reviewed sustainability legislation and regulation in Australia and overseas to understand the information that is, or might be, required for regulatory reporting
- Reviewed the disclosures of overseas retail companies to identify areas of focus and trends in sustainability reporting
- Undertook a broader media scan to filter out pseudo-sustainability issues; and investigated market research on areas of ‘public opinion and concern’
- Met with internal managers to identify known areas of focus.

This investigation identified many priority areas for further consideration and development where considered material and relevant. Woolworths already had much underlying data, and so the Group Sustainability Manager was able to develop baseline positions and set targets for the key strategic areas.

She knew from experience that the Sustainability Strategy needed to align with Woolworths’ overall strategy, and there needed to be quick wins that would capture the imagination of management and staff, involving them in the sustainability strategic drive. She also knew, and as the CEO reminded us, Woolworths is a responsible retailer, not a charity.

There must be a return on the investment, as the Strategy states:

*There will be significant financial investment required to bring this strategy to life, and we have applied the same rigour to our decisions about investment in sustainability as we normally do to any other business decision. The majority of investments required in achieving our targets deliver on-going and long term cost savings to our business.*

Taking all this into account, the Group Manager Sustainability focused on the big ticket areas where Woolworths’ actions would have the greatest direct impact. Six issues were prioritised, as noted in the table below from the 2009 Corporate Responsibility Report. For each issue, Woolworths set out:

- Where Woolworths is now (baseline position).
- Challenges and opportunities – including summaries for some of the initiatives underway or being developed.
- Woolworths’ commitments.
- Woolworth’s target.

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Integrating sustainability into business practices: a case study approach - May 2011
Case: Woolworths
The targets were set based on proven technology available at 2007, taking into account growth plans and ability to retrofit existing sites. Each initiative needed to meet Woolworths’ required hurdle rates; some were easy like the ‘water saving commitments’ which paid for themselves in seven months’ others required more detailed modelling. Some stretch was built into the future targets for 2015 to take account of likely future technology improvements.

**Figure 1: Prioritisation of environmental sustainability issues**

<table>
<thead>
<tr>
<th>Issues</th>
<th>Compliance</th>
<th>Impact on reputation</th>
<th>Impact on business continuity</th>
<th>Materiality/significance</th>
<th>Priority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate change:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&gt; Use of energy and greenhouse gas emissions</td>
<td></td>
<td></td>
<td></td>
<td>High</td>
<td>1</td>
</tr>
<tr>
<td>&gt; Use of fuel and associated greenhouse gas and other emissions in our</td>
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<td></td>
<td></td>
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<tr>
<td>distribution network (trucks) and our company cars/business travel.</td>
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<tr>
<td>Direct use of water and the effect of drought.</td>
<td></td>
<td></td>
<td></td>
<td>Medium</td>
<td>2</td>
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<tr>
<td>Sourcing of our private label products and ingredients as well as</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>other products and services.</td>
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<tr>
<td>Packaging – including consumer packaging in our private label products</td>
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<td></td>
<td></td>
<td>Low</td>
<td>3</td>
</tr>
<tr>
<td>and distribution packaging.</td>
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<td></td>
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<tr>
<td>Waste generation from all our stores.</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Store development (design, construction, equipment and materials</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>specification).</td>
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**Source: Woolworths**

Although the Sustainability Strategy 2007-2015 was predominantly focused on environmental issues, the Group Sustainability Manager is currently undertaking a ‘materiality assessment’ to identify those sustainability issues where Woolworths has: a material direct impact; an opportunity to drive solutions or offer a different perspective; or needs to be involved to remain a leader in transparency and leadership. This will include refining the Strategy for material social and other sustainability initiatives, commitments and targets.

Implementation of the Sustainability Strategy has delivered a number of financial, environmental and social benefits, as well as challenges, which are clearly reported in the annual Corporate Responsibility Report. The Report also describes Woolworths’ response, and actions taken to address community issues such as plastic bags, GM food, responsible sale of alcohol etc.

However, engagement of Woolworths 188,000 people has been the central ‘resource’ mobilised to drive the change and deliver on Woolworth’s central sustainability strategy and objectives.

Engaged employees—Woolworth’s key driver of sustainable business practices, innovation and enhanced brand value
Woolworths believes it is its people and culture which gives it a competitive edge. Woolworths is committed to building the capacity of its people, spending over $63 million on learning and development in financial year 2010, recruiting during the GFC, introducing a diversity strategy and paid parental leave, as well as many other staff focused initiatives.

In addition, Woolworths is a responsible employer with a safety strategy named ‘Destination Zero’; that is zero harm to our people, our property and our community. The Lost Time through Injury Frequency Rate (LTIFR) is monitored and has been reducing significantly over recent years.

There is a range of training and development offered to management and staff including skill based training, job-relief assignments, secondments and formal academic training through MGSM. Woolworths prides itself on developing its future leaders, with training to assist staff attain promotions.

One training program ‘Between the Flags’ is a compliance related package, which focuses staff on the need to take ownership for their actions and seek help when they are unsure. There are three fundamental principles:

- Am I doing the right thing, and how do I know if I am starting to move outside the flags?
- Do I need to put my hand up and ask for help?
- Do I need to tell someone about this? Who do I need to tell?

These basic principles tie in nicely to the kind of questions staff should be asking when making sustainable business decisions. But to think sustainably requires more than just training, it requires behavioural change.

In order to engage the 188,000 staff at Woolworths in the Sustainability Strategy, the CEO and executive leadership have introduced a number of activities:

The governance framework was established. The CEO’s Sustainability Executive Committee has been critical in not only approving the sustainability investment cases, but more importantly in driving middle management to focus on sustainability issues. The CEO recognised that in order for the Strategy to succeed, he needed to ‘push the buttons’ of middle management, who wanted an opportunity to push back, challenge and then when comfortable with the strategy, feel empowered to implement the required changes.

This forum gives middle management the opportunity and the authority, and so has been critical in getting traction.

- Centralisation of all site design, build, maintain and engineering capabilities and central co-ordination of building policy and implementation. This ensured business cases were robust and the appropriate allocation of capital to environmental projects. It also ensured that benefits identified and realised at on site could be shared nationally across all locations.
- With 188,000 staff, and with only 10% having access to a work computer, staff communications are difficult. There are a number of staff newsletters which include some sustainability stories, but are not likely to be forceful enough to drive behavioural change. Woolworths therefore established a team of Eco-Ambassador to spread and implement the Sustainability Strategy and actions at the various Woolworths’ locations.
Woolworths started with location managers, but soon found that it was a role better undertaken by an enthusiastic staff member with support from the manager. (The Supermarket division is aiming to have one eco-ambassador at each site this year.)

The eco-ambassadors network has a monthly call, organised centrally, to share ideas, activities and news. Each eco-ambassador then holds meetings and discussion groups to discuss ideas and opportunities, and drive environmental actions. It is early days for the network, and its success is being monitored, but the message is spreading.

On one eco-ambassador call, a store member commented that they could not recycle all the wrapping plastic on the pallets because the bananas came in blue plastic and so contaminated the clear plastic. Woolworths followed up why bananas are treated differently, and were told that the practice was a throwback to the days when bananas were displayed in the pallets and green bananas look more yellow against a blue background. As the display methods have changed, there is now no requirement for blue plastic. This has resulted in a cost saving for the supplier, and improved recycling figures for Woolworths.

Resources and alliances

Woolworths has been very active in supporting many community initiatives, and advancing and championing many societal issues. These are reported on in the Corporate Responsibility Report each year. What is particularly impressive is the alignment between Woolworths’s business strategy, as the responsible retailer, and the community initiatives it supports. This has been a deliberate strategy to ensure that support is maintained even when the business environment is weak (i.e. the GFC), as the areas supported are core to strategy and not discretionary philanthropy. Key social programs include:

- **Responsible food retailing** – including the Fresh Food Kids campaign, Food Rescue program, Foodbank; work and education activities on genetically modified food.

- **The Food Rescue program** has significantly reduced organic waste, whilst delivering food for people and animals. There are four programs: Farmers Program; Reverse Logistics; Total Fresh; and Single Charity. Most food retail outlets run one or more programs, some run all four. At Woodford in Queensland, the team now only uses a third of a 3m bin per week, as opposed to an average of 2-3 bins per store. From a social perspective, many Queensland stores provide food to the Tribes of Judah under the Total Fresh program. This Christian motorbike gang then cook, freeze, and distribute the food for use at Ronald McDonald Houses.

- **Selling alcohol responsibly** – development and implementation of an Alcohol Ranging Charter with 10 principles that must be met before a product can be added to the range and sold.

- **Responsible service of gaming** – a number of initiatives to both train staff and educate gamblers about ‘being honest with yourself about your gambling’.

- **Responsible sourcing** – as a signatory to the UN Global Compact, Woolworths is working with its suppliers to ensure compliance with the organisation’s ethical supply policies. Woolworths’ are carrying out audits to assess and rate the level of compliance. Woolworths is also working with: suppliers to
reduce the need for palm oil (and so reduce deforestation in Indonesia); timber and paper goods to improve use of renewable and certified wood products; and with various groups to prevent selling fish and seafood at the wrong times of year, or the wrong size and maturity.

- Animal welfare – through monitoring consumer behaviour and taking measured action, Woolworths can both meet the consumer needs, whilst helping the farmer or supplier deal with the changes required to their operations to service the new consumer need i.e. the move away from caged eggs to free range.

- Woolworths realise that some of the services provided by the group have social implications, and they have had to make trade-offs (i.e. to gain liquor licenses in Queensland, Woolworths needed to own pubs, which is turn led to an involvement in gaming); however, they have found that being transparent about their business activities has enabled them to be better engage communities and NGOs in focus groups to discuss issues and seek to develop sustainable and yet commercial solutions.

In the 2010 Corporate Responsibility Report, Woolworths have specifically highlighted ‘issues of public interest’ providing an overview of the issues raised, such as gaming and liquor, Woolworth’s response and linking it to where further information is available.

Woolworths is on the sustainability journey, and is working to embed sustainable business practices throughout the organisation.

‘As to the future, we believe actively engaging with the community, leading the way in responsible retailing, sourcing ethically and responsibly and keeping our business transparent are all critical ingredients to our long term sustainable growth.’

In 2010, Woolworths has provided more detail on its understanding of what is important to each of its stakeholders, and how it has sort to address each matter raised.

As noted earlier, Woolworths works closely with its suppliers on ethical as well as environmental supply chain issues. There are many initiatives to engage with customers to confirm, or adapt, to meet their needs and resolve any issues arising. In addition in December 2010, the Woolworths CEO held his first analyst and investor briefing on the business implications of Woolworth’s sustainability / ESG strategy, performance and challenges, further demonstrating the importance and long term value implications of the company’s sustainable activities. The Governance framework is strong and ensures that the Woolworths brand and reputation is maintained and developed as the responsible retailer.

**Accounting and integrated reporting**

As the CFO, Tom Pockett says ‘Don’t think of profitability and sustainability as separate propositions. Sustainability is not just about social and environmental benefit. There has to be value for the business as well whether that’s risk mitigation, resource efficiency/cost savings, or creating market share.

Woolworths’ Sustainability Strategy included commitments and targets for 2015, as well as a commitment to prepare a Corporate Responsibility Report each year to ‘ensure we are accountable and transparent to all our stakeholders.’

To provide confidence to the reader, the Report was to be prepared in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines and externally verified.

The 2009 and 2010 Corporate Responsibility Report meets these initial commitments, and clearly summarises Woolworths’ performance against the original targets set, with explanations of variances. Some initial targets have been reworked as Woolworths gets a better understanding of its key sustainability risks and opportunities. The Report is quite qualitative in many areas, but is clearly aligned to strategy.
As noted earlier, the CFO is a key member of the SEC responsible for developing and implementing the Sustainability Strategy and the approval of sustainable investments. Finance has a specific role in ensuring there is rigour in the investment business cases.

Reporting responsibilities at Woolworths are divisionally based, and sustainability targets and KPIs are reported as part of mainstream business reporting for review by the CFO and CEO leadership team.

Finance has also been closely involved in commissioning the new sustainability management system which will extract required data from underlying systems and present sustainability management reports more regularly and efficiently. It has taken Woolworths over two years to determine what information is required, define the data and work with the vendor to implement the system. However, soon all sustainability data will be systems generated and readily available to assist internal decision making.

Woolworths are not yet at the position to integrate the core financial report with the sustainability report. They are only halfway through their Sustainability Strategy and are just starting to bed down the GRI compliant sustainability report and key KPIs.

In the Retail sector, Woolworths are ahead of their competition in Australia in reporting, and there are only a few European retailers who produce more comprehensive GRI sustainability reports. Woolworths believe there will be a broader move to integrated reporting once a framework has been developed, and consistently applied definitions for retail sector KPIs have been determined. At this point, they are likely to move to the integrated framework. Woolworths certainly understands the value of the integrated performance report for key stakeholders.
Lessons learned

Governance and strategy
- There needs to be clear and consistent leadership from the Board and CEO to drive the sustainability agenda
- Embed sustainability into everything you do, and align community and environmental activities to the broader business strategy
- Consider establishing an independent advisory panel to review and challenge current and future practice.

Leadership and employee engagement
- Start the sustainability strategy in a few areas where there are visible ‘quick win’ opportunities
- Ensure middle management and operational employees are ‘on board’ by linking messaging to what they do and care about
- Develop and motivate sustainability champions (i.e. don’t take them for granted), and they will drive behavioural change among their peers
- Link sustainability outcomes to divisional leaders key KPIs, to be cascaded to each division.

Resources and alliances
- Remember the needs of stakeholders, and that their view on sustainability will change over time
- Implement an ethical supply policy, undertake audits of ethical processes of suppliers, and undertake lifecycle analysis of products
- Investigate the background of joint venture partners and the goods and services they supply
- In engaging with stakeholders, use plain language to explain sustainability and why it’s important to long-term business value.

Accounting and integrated reporting
- Align internal reporting information for sustainability performance with targets, KPIs and qualitative outcomes for external reporting
- Be transparent in your reporting, and open and respectful in discussion on sustainability issues, as this will result in better and more valuable dialogue with customers, communities and others.
- Systemise data capture (e.g. GHGs, waste, water use)
- Engage the reporting team to support in developing policies, systems, processes and controls for sustainable decision-making and ongoing collection, monitoring and reporting of KPIs
- Undertake internal and external audits of sustainability reporting systems to add credibility to the information as well as to highlight gaps with a view to improvement and consider holding separate sustainability briefings for analysts and investors.