



The Lafarge Sustainability Compass: Developing an integrated sustainable development strategy

A data driven approach to manage sustainability initiatives

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Lafarge has developed the Sustainability Compass, a new strategic methodology to allow country management teams to tailor their sustainability strategy to fit their specific local context. Through this methodology, sustainability is no longer considered as a set of issues on the side of the Group's core business, but instead as a catalyst to achieve its business objectives.

A long history of working on sustainable development

Sustainable development has been an integral part of the Lafarge culture for over thirty years. As an industrial company producing construction materials, primarily cement, aggregates, and ready-mix concrete, we can have a large environmental and a large social footprint in the communities in which we operate. Both executive and line management have recognized for many years that, as a company with long-term stakes in a community, it is imperative to make a positive contribution to that community by minimizing environmental impacts and simultaneously providing benefit to all stakeholders.

In the 1990s the initial focus was on launching technical programs to improve environmental performance and on developing a basic methodology for community engagement. Later, in response to growing stakeholder interest and expectations, Lafarge started to make public commitments; in 2001 we were the first group in our sector and one of the first industrial groups worldwide to make a public, voluntary commitment to reduce our CO₂ emissions. At the same time, through joint work with the WBCSD's Cement Sustainability Initiative, we set a broad range of environmental improvement targets which evolved over time to include our first social and societal action targets. In 2006 we announced our first set of "Ambitions" for 2012 and, following the successful completion of that program, we launched our [Sustainability Ambitions 2020](#) program, which consists of 34 objectives set at the group level and covering a broad range of environmental, social and societal issues. Within Sustainability Ambitions 2020, country units are responsible for implementing actions that contribute to achieving the group's objectives, while monitoring of group progress is done by the corporate sustainability team.

Sustainable development in general, and specifically for Lafarge through Sustainability Ambitions 2020, cuts across many aspects of a company's operations. Different areas of a company, each often affecting different stakeholders, contribute to an overall sustainable development program, which affords the opportunity to create value for a broad range of stakeholders.

Customizing our approach to address local needs

While our Sustainability Ambitions 2020 program sets the broad framework for our Group approach to sustainability, some of the objectives set at the Group level may not be directly applicable in every country. We therefore set out to develop a process to help our local managers in 62 countries throughout the world to

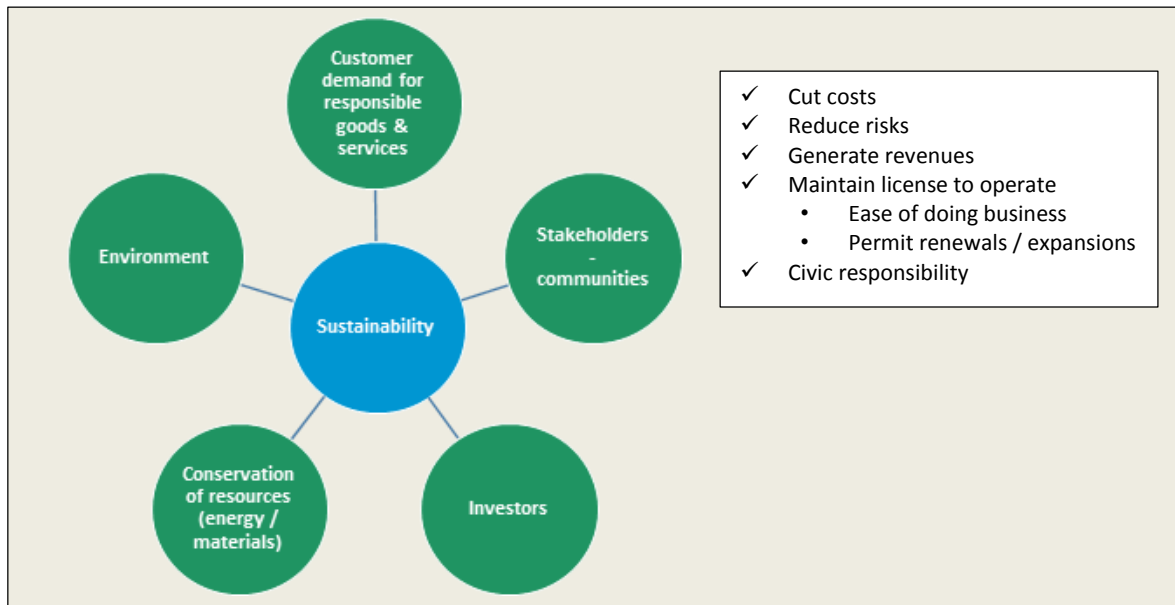


Figure 1. Sustainable development value creation

prioritize their objectives and determine the local specific sustainable development strategies that would drive value creation in their countries for both Lafarge and their stakeholders.

This new strategic methodology, the **Lafarge Sustainability Compass**, takes our country management teams through three key phases: it first provides them with an objective assessment of their maturity level in ten main “impact areas”; they then identify the key issues for their business and their stakeholders; and finally, by consolidating all this information, they can select the priority areas on which to act, drawing up action plans that combine growth in their business with ambitious targets for sustainability. This methodology therefore prioritizes actions towards the material issues of the local businesses.

Step 1: Assessing our performance

Through the Sustainability Compass, we take a stakeholder-centric approach to sustainability. The impact areas on which our country units are assessed have been defined in conjunction with existing recognized frameworks such as the World Business Council for Sustainable Development Cement Sustainability Initiative, the United Nations Global Compact principles, and extra-financial rating agencies that assess the sustainable development practices of global companies. They are also consistent with regulations for the cement/construction material sector and for extractive industries. The impact areas are therefore framed in terms of how our stakeholders look at societal and environmental issues. The areas selected are:

- Environmental issues: biodiversity, water, clean environment (air emissions and effects on the local community), waste and materials, climate change and energy
- Socio-economic issues: basic needs (i.e. socio-economic development), health and safety, human capital (diversity and skills development), employment, ethics and governance.

Like most large corporations, we collect a huge amount of information as part of our annual corporate reporting, covering statistics that are based on the materiality of our business, the Global Reporting Initiative (GRI) and extra-financial rating agency recommendations, and guidelines from industry, sector and trade associations. This

allows us to do the data-intensive phase of the Sustainability Compass process for our country management teams on the basis of existing information. We have chosen approximately 60 key performance indicators (KPIs) to help assess performance in each of the impact areas, with some KPIs being used to inform more than one impact area. By weighting the 1 to 5 ranking of the performance based on its importance to the impact area, an overall assessment emerges (for instance, the water impact area is informed foremost by performance of the quantity of water withdrawal, followed by the quantity of water discharged, then a slightly lower weighting is given to water management solutions and then finally to a lesser extent a weighting is given to the performance on biodiversity, biomass and stakeholder engagement). The performance level of each of these KPIs is then also used to get an assessment of the balance of sustainable development performance against three economic areas: risk management, operational efficiency and innovation.

The country sees its performance in a graphical presentation, provided as part of a spreadsheet tool that is used to assist in implementing the methodology. The performance criteria are set up so that a score of “3” would imply very good “internal” mastery of the subject. Higher scores indicate that not only is there good internal mastery, but in that particular domain the operations are also creating significant value for their stakeholder groups.

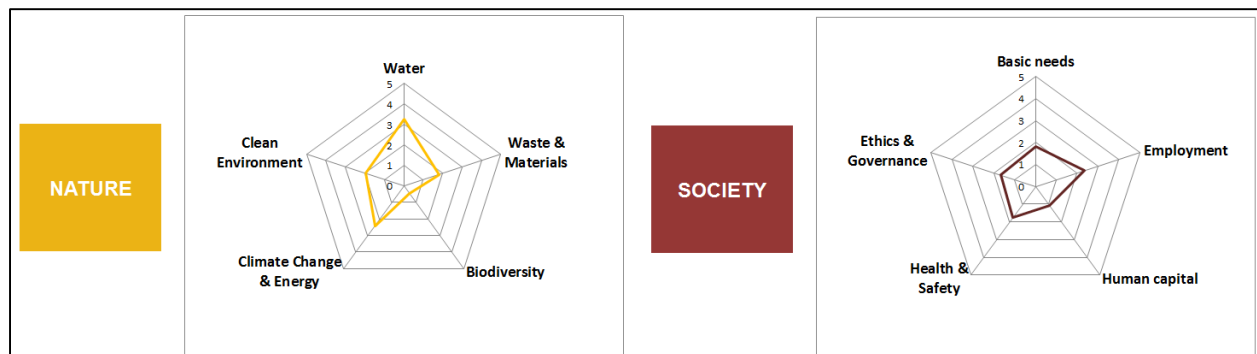


Figure 2: Country performance across 10 impact areas from the Lafarge Sustainability Compass

Step 2: Identifying key issues at country level

The next phase of the methodology is to customize the importance of performance in each area to the local context, taking into account the views of nine different stakeholder groups considered in our value chain:

- Commercial stakeholders and business partners: investors, suppliers, our workforce, clients and end-users
- Stakeholders affecting our license to operate: local communities, governments, NGOs and the media.

An assessment of the importance of each area as perceived by the local business as well as the importance/potential impact that each of the stakeholder groups has on the local business is the last part of the input.

Value creation matrix: Business priorities vs. stakeholder expectations

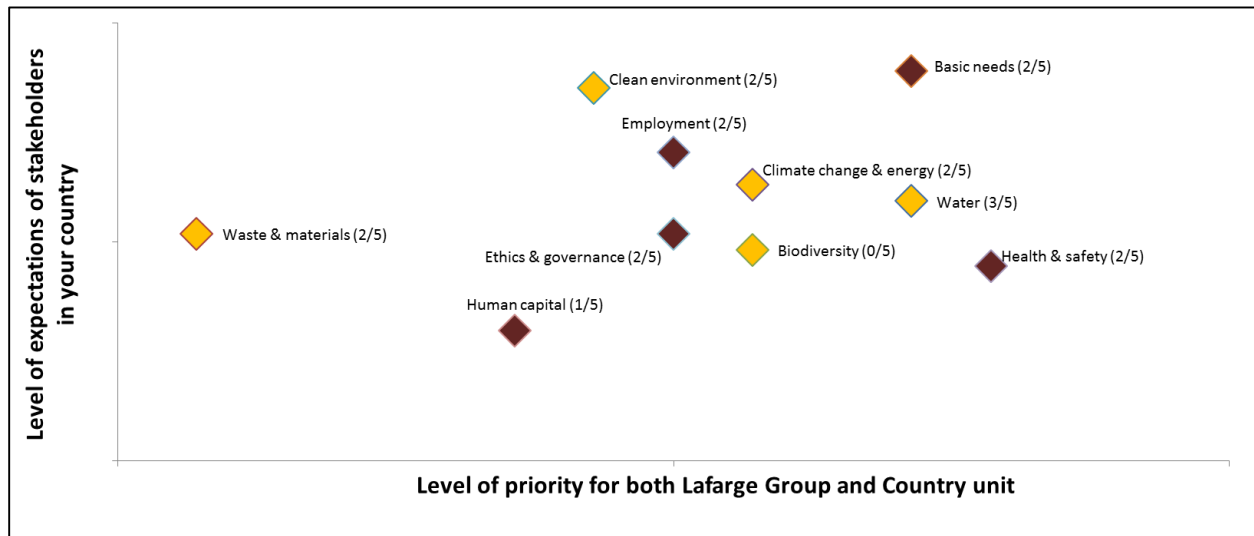


Figure 3: Lafarge Sustainability Compass: Prioritization dashboard

Step 3: Developing country-specific action plans

The final step in the methodology is the most important – prioritizing the areas the business should focus on to create the most value for itself and its stakeholders. The first thing we advise country units to do is to check if they have any areas of poor performance. An area of extreme weakness can put the entire sustainable development strategy at risk, regardless of how good performance is in any other areas. Next, countries need to look at areas of importance to both their stakeholders and their business (upper right quadrant of figure 3) that have just average performance: these represent areas of untapped broad value creation. In order to choose the appropriate lever to improve performance for a selected impact area, country units are provided with an estimate of the cost of marginal improvement on each KPI (low/medium/high OPEX (operating expenses) or CAPEX (capital expenditures)), and its overall effect on the system. For instance, using biomass as an alternative to fossil fuels would help reduce CO₂ emissions but might result in higher water consumption and less land available for alternative uses.

On this basis, country management teams can draw up their action plans, which are then fully integrated into the Group’s existing management cycle. While the methodology uses many of the KPIs that as a company we consider material for reporting, many times these KPIs may not reflect all the complexities influencing an impact area at the local level, particularly those impact areas related to social issues. Therefore the Sustainability Compass is useful to both start and inform a conversation at the country executive committee level; but ultimately local management is in the best position to determine the areas that will deliver the most value to the company and its stakeholders. As a strategic tool it is not appropriate for reporting; reporting and communication of results continues to be done using third-party verified data, which also serves as the input to the Sustainability Compass methodology.

Fostering a paradigm shift

The Sustainability Compass helps further integrate sustainability at Lafarge. It does so by providing value to the reporting process, turning this data into useful information to inform decision-making. It outlines the business case for sustainable development in a practical manner: sustainability strategies will be implemented not to deliver on a Group commitment but because we understand the value that they bring to our business and our stakeholders locally.

The fact that the Sustainability Compass is grounded in our management cycle ensures that sustainability issues are discussed regularly at the highest level and systematically taken into consideration in the resource allocation trade-offs made by management teams. The Sustainability Compass fosters a paradigm shift where sustainability is no longer a set of issues on the side of our core business but a catalyst to achieve our business objectives.