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FINDINGS FROM A SUSTAINABILITY CASE STUDY

How Caesars Entertainment Is Betting on Sustainability

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By Bruce Posner and David Kiron

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THE LEADING QUESTION
What has Caesars learned while launching a comprehensive sustainability strategy?

FINDINGS

- Bottom-line-oriented employees and those employees passionate about the environment needed to work together.
- Developing a sustainability scorecard appropriate for the company took some time.
- The scorecard gave corporate managers an opening to discuss sustainability.

IN EARLY JANUARY 2013, Gary Loveman, chairman and CEO of Caesars Entertainment Corp., the world's most geographically diversified gaming company, listened closely as Hilary Fagan, an employee from one of the company's Las Vegas casinos, presented her latest analysis on how customers felt about Caesars' green programs. She had sorted through survey data from guests who had recently stayed at the company's 450-room hotel at Harrah's New Orleans, and she was eager to share the findings.

The numbers revealed that the more information guests had about the different things the hotel and the company were doing to reduce energy consumption, recycle waste and rebuild the local community, the better they felt about Caesars as a company — and the more inclined they were to enjoy their experience in the casino and to book repeat visits. The analysis resonated with Loveman's view about what makes service businesses successful — that customers need to understand and value what you are doing. The proof that implementing and advertising sustainable practices that were in line with the company's corporate responsibility goals could positively influence

Caesars Entertainment's survey data suggested that the more guests found out about the company's sustainability efforts, the more they were inclined to enjoy their experience in the casino.

customer behavior was music to his ears.

In the past few years Caesars, which had 2012 net revenues of $8.6 billion and owned, managed or operated 52 casinos in locations around the globe, had come a long way toward earning a reputation as an environmental leader in the hospitality industry. It had received more than 50 awards and certifications for sustainability leadership from, among others, the Sierra Club, the U.S. Environmental Protection Agency, and the U.S. Green Building Council, which also awarded its LEED Silver certification to Caesars' Las Vegas convention center and hotel expansion. In just five years, the company had reduced its carbon footprint by nearly 10% and reduced its energy use per square foot by 20%.

Loveman had stepped up the company's sustainability efforts beginning in 2007, as the economy was beginning to weaken. At that time, the gaming industry was in free fall. Caesars' revenues were collapsing, forcing the company to reduce staffing levels by more than 20%. There was tremendous uncertainty about when things would get better.

Despite the uncertainty and a decline in morale, staff members at many properties across the Caesars portfolio began developing creative ways to cut costs, reduce energy consumption and waste, and increase recycling. Loveman saw an opportunity to build on their initiative and supported the creation of a multipronged sustainability program, which began as a mostly volunteer effort.

Five years later, Caesars' sustainability program has become institutionalized to varying degrees across more than 50 Caesars properties. Managers are being held responsible for energy reduction, customer impact and employee engagement targets (among other metrics) through a scorecard that is continuing to be refined. The company's reputation as a sustainability leader is beginning to demonstrate business value beyond cost cutting, enabling properties to attract sought-after conference business, retain employees and enhance loyalty among customers. (See "Major Projects and Savings From Caesars' Sustainability Program.")

Loveman had no intention of letting the company rest on its laurels. But he wondered where the company should go next. Should the company be more aggressive with its environmental targets? If so, how?

All properties had already reduced their carbon footprints and waste and had increased efficiencies a great deal; further improvements would probably be less dramatic — and potentially less motivating for employees. Loveman was also being encouraged to connect financial incentives to scorecard measures, something he was loathe to do. Should the company really pay staff to improve their properties' sustainability profile? Loveman wasn't sure what the next stage of Caesars' sustainability program would look like. But he was confident that his management team and staff's previous innovations around sustainability were a strong indication of how innovative they would be in the future.

Phase 1: Targeting "Low-Hanging Fruit"

Soon after Loveman took over as Caesars' CEO in 2003, he became known for his innovative approach to mining customer data to improve the company's customer service and marketing. But in 2007, no amount of data mining was going to boost the volume of customers, many of whom were beginning to worry about the stability of their household finances. Caesars, which used to be

MAJOR PROJECTS AND SAVINGS FROM CAESARS' SUSTAINABILITY PROGRAM

Big resorts and casino facilities such as those operated by Caesars Entertainment are energy- and resource-intensive. While Caesars managed 43,000 hotel rooms spread across all of its properties, the average Caesars hotel with 2,000 rooms consumed (per month) 4.9 million kilowatt-hours of electricity and 14.2 million gallons of water, and generated 357 tons of waste.

Caesars Entertainment has invested nearly $70 million on energy conservation projects during the past nine years and has invested in more than 162 major retrofits, including the following:

- Installing energy-efficient indoor and outdoor lighting and reducing lighting usage
- Improving the efficiency and effectiveness of air-handling systems
- Retrofitting equipment with energy-efficient upgrades
- Reducing water consumption in laundry facilities
- Upgrading guest-room thermostats
- Replacing technological controls with advanced energy-saving sensors
- Installing low-flow water controls and fixtures in guest areas
- Incorporating comprehensive recycling programs
- Training employees on environment-friendly practices

These and other conservation projects have generated several types of savings for Caesars:

- In excess of 208 million kilowatt-hours in energy are saved each year.
- Over 3.3 million therms in natural gas are saved each year.
- More than $24 million in resources is saved each year.
- Every year, 298 million pounds of carbon dioxide emissions are averted.

SOURCE: CAESARS ENTERTAINMENT

named Harrah's Entertainment, cut costs over several years by shrinking its work force and trimming popular benefits, including contributions to 401(k) plans. Cutting more than 20,000 jobs from a work force of nearly 90,000 was tough on morale.

At the time, however, Loveman and other executives noticed that employees at many of the company's properties were showing surprising amounts of resilience and initiative. They were coming up with ideas for saving on energy and water and reducing waste, and they were running with them. (See "Four Key Sustainability Areas for Hospitality Organizations.")

At a resort in Indiana, for example, the facilities director began collecting the used cooking oil from the hotel kitchen for reuse in fueling vehicles and heating a small warehouse. Other properties were experimenting with low-flow showerheads, implementing default settings in the off position on room refrigerators, introducing opt-out linen programs where all guests would forego daily linen service unless otherwise requested and taking other initiatives.

Loveman liked the fact that ideas were bubbling up from employees and that a small but significant group of people were noticeably excited about participating in activities during the workday to reduce costs and help the environment. In his view, recognizing these activities and encouraging employees to develop "green" programs had the potential to deliver multiple benefits.

Caesars had been investing in energy-related activities to improve efficiency and reduce electricity demand at its properties for several years prior to 2007. Employee innovations around cost cutting were enhancing pre-existing approaches to energy reduction across Caesars' properties. For employees, getting involved in an important issue they believed in offered a vehicle for personal growth and employee engagement during a time when the business itself was going through a difficult period. And there was an opportunity to make a positive statement to customers about what the company stood for and improve the Caesars brand. "To some, casinos are controversial businesses," Loveman conceded. "This [the initiative] was an opportunity to distinguish the company's position as a corporate citizen."

In October 2007, Caesars unveiled a companywide program called CodeGreen, the company's first comprehensive sustainability strategy, aimed at organizing and supporting employees involved with projects at the local level. To guide the overall effort and help coordinate the activities of the company's properties, Loveman picked Gwen Migita, who had worked in the company's corporate communications and government relations department. Loveman asked Migita, the company's director of corporate social responsibility, to assemble a team to develop a multiyear sustainability strategy and review and recommend best-in-class strategies used at other companies. Migita began collaborating closely with Eric Dominguez, corporate director of energy and environmental services, who was already managing several aspects of the company's environmental strategy.

CodeGreen was designed to fall under the Code of Commitment that was already in place. This pledged that the company would act responsibly with its customers, support local communities, treat employees with respect and support them in building satisfying careers.

Under CodeGreen, each resort was directed to

FOUR KEY SUSTAINABILITY AREAS FOR HOSPITALITY ORGANIZATIONS

There are four main ways businesses like casinos and hotels can improve their sustainability profile: energy and water conservation, waste management and procurement/facilities development.

Energy conservation. Combustion from electricity and fuel use are by far the biggest sources of carbon emissions for a hospitality organization, though leaks, refrigerants and wastewater treatment facilities are also significant areas for sustainability-related savings. Scaling back on electric power and fuel used for lights, signage, heating and air-conditioning, and restaurant equipment through more efficient light bulbs and other capital investments can lead to major savings. In addition, there are opportunities to achieve transportation-related savings among staff and guests.

Water conservation. Over and above the water needed for laundries, the amounts used for showers, toilets and restaurants are significant. What's more, many of Caesars' properties feature fountains, landscaping and golf course irrigation systems. Relatively small steps, such as installing new showerheads, can result in big savings.

Waste management. Hotels and restaurants can reduce waste by recycling or finding new uses for food waste; cooking oil; paper, plastics, and glass; soaps and shampoos; and surplus and damaged construction materials.

More sustainable procurement and facilities planning. Hospitality companies can be mindful of the environmental and social impact of products they purchase and encourage suppliers to change their business practices. Moreover, they can factor environmental and social considerations into plans for new buildings and building renovations.

assemble a team that would propose and implement sustainability programs at the local level, implement the enterprise-wide strategy every month and help educate their colleagues about sustainability. Resort general managers identified CodeGreen leaders, who took on new responsibilities in addition to their regular jobs. Although participation was mostly voluntary and attracted employees who were passionate about resource conservation and recycling, many teams also included leaders from key functional areas (for example, facilities, food and beverages and human resources).

Initially there was considerable confusion and debate about the best way to organize and manage the effort, but the broad goals were clear: Management wanted to reduce consumption of water and carbon-based energy while increasing the company's recycling efforts and encouraging employee and guest engagement. But what was the best way to achieve these goals in a company that had facilities scattered across the country, as well as internationally?

Within a short period of time, two things became clear. First, irrespective of initial enthusiasm about CodeGreen, the company couldn't tackle everything at once — it needed to prioritize and break things down into more manageable projects that people could understand. Second, CodeGreen had to become a broad-based initiative, which meant that operations and bottom-line-oriented people and those who were passionate about improving the environment needed to work together.

One of the company's most vexing challenges was bridging the internal divide over what sustainability was about. To Dominguez and other people working in finance and operations, the idea wasn't new — sustainability involved running properties more efficiently, which resulted in saving the company money. "We were already doing a lot of the hard stuff involving engineering, systems and efficiency," Dominguez said. In this view, many initiatives that would deliver significant impact (for example, investments in cleaner, more efficient energy systems or process changes that yielded reduced waste) were already under way.

What's more, given the serious pressures Caesars faced, some couldn't see how increased engagement from employees or guests would significantly contribute. Migita, who had a background in public opinion research and marketing, had a different perspective, however, one that she believed was well aligned with Loveman's. The benefits of investing in things like more efficient boilers and air handlers were obvious, but they weren't the sorts of things that got people fired up. "We needed to change the culture," Migita said. "For employees to pay attention, they needed to have a hook." Loveman saw a big upside in encouraging broad participation in activities that reduced the company's footprint, with payoffs coming from happier employees and more satisfied customers.

Some of the same issues surfaced in discussions about the creation of a CodeGreen scorecard. The original idea was to develop a relatively simple scorecard made up of measures based on standards set by the Global Reporting Initiative that would help the company and individual property managers monitor their progress and compare themselves to others. To the extent possible, the goal was to find measures that stakeholders could understand and even influence. But here, too, settling on the specifics was easier said than done. Scorecards from other companies provided little guidance, Migita notes, because they tended to focus narrowly on health and safety, environmental compliance and costs. In categories such as waste reduction, the necessary data didn't even exist within the company; before the data could be tracked, they had to be defined and gathered. Another problem involved inconsistencies within the utility data, which varied from one property to another. Those who thought that CodeGreen should

> Irrespective of initial enthusiasm about CodeGreen, the company couldn't tackle everything at once — it needed to prioritize and break things down into more manageable projects.

be geared toward cost reduction and financial improvements debated issues such as whether to focus on energy consumption or costs. For example, was it fair to compare newer properties to older properties? They also debated whether to use raw data (which would be easier) or to normalize data for colder or warmer weather and variations in hotel occupancy levels (which would require multiple steps but be more meaningful).

Those who thought the scorecard should serve mostly as a tool for promoting employee and customer engagement concentrated on other issues. For example, should the scorecard track the hours resort employees spent participating in CodeGreen projects and survey employee attitudes? Should it measure how hotel guests responded to CodeGreen? If so, how? And how should it reflect recycling and waste reduction in light of the fact that recycling opportunities were severely limited in many locations? "The first thing we needed to do was understand what we wanted to influence and what we were working with in terms of data so we could be strategic with the scorecard," said Dominguez. As a result, the development of the scorecard took longer than expected.

The delay in finalizing the scorecard didn't get in the way of the CodeGreen program building momentum. Several resort managers eagerly embraced the challenge. "As soon as I heard about it, I said I wanted to be involved," recalled Janet Beronio, regional president for Caesars Entertainment and general manager of Harrah's Rincon, near San Diego, California. Beginning in late 2007, her local team of volunteers began holding weekly meetings to target what they called the "low-hanging fruit": energy audits, lighting retrofits in fixtures and signage, energy-efficiency investments in air conditioning and heating systems, and improved waste diversion. Efforts at other properties involved improving the water efficiency of laundry facilities, educating employees about environmental impacts of the properties and encouraging cultural and behavior changes to reduce environmental and social impacts and operating costs of Caesars facilities. As word of successful local initiatives spread, managers and employees at other properties launched similar initiatives, often with their own approaches.

In April of 2008, after months of strategizing, Migita and the other CodeGreen leaders introduced an 18-month program, a visual calendar that focused employees on different aspects of the sustainability initiative. Each month, the so-called "road map" concentrated on a different topic: One month it was energy, another month it was waste and recycling, followed by water and so on. For each topic, leaders provided background information and context about why the specific area was important and what kinds of actions the company and they as individuals and community members could take. The company cycled through the main topics again every few months, with new ideas about how to take things to the next level. The steering committee took the lead in setting the core agenda and sent properties checklists and toolkits to implement the program. (See "A Sample Caesars Checklist," p. 68.) Properties had to meet minimum requirements and had incentives to go "above and beyond" with contests, creative solutions and better practices. The best ideas received awards, and successful local team leaders were sometimes asked to visit other properties. In the spirit of information sharing, Caesars established a central Web portal where managers could tap into toolkits that described best practices from within the company and, in some cases, systematized them into enterprise-wide practices.

Caesars has invested millions of dollars in new lightbulbs and other improvements.

COURTESY OF CAESARS ENTERTAINMENT

Phase 2: Making CodeGreen Stick

One of the most difficult questions was how to balance the grassroots activity at the individual properties with top-down management. As much as senior management welcomed the creativity and passion employees displayed at individual resorts, some saw a lack of structure and coordination as limiting factors. Early on, the company used monthly conference calls in which CodeGreen team leaders from different properties shared their experiences and best practices with peers. Local leaders shared information about recent initiatives — how they developed training materials for house staff, how they organized campaigns to turn off lights and cycle down computers, how they organized employees and local residents to recycle their old batteries and electronics. In general, people thought it would be helpful to have increased coordination among resort managers and clearer communication from management about what was working and what wasn't — in effect, combining the best of top-down and bottom-up.

By late 2009, almost two years after the CodeGreen program was first introduced, the steering committee had finally made some key decisions on the design of the scorecard. Dominguez and other managers who had argued in favor of a cost and

A SAMPLE CAESARS CHECKLIST

Caesars' properties received checklists and toolkits, such as this sample checklist for prioritizing waste reduction activities.

	STANDARD OPERATING CHANGES	PROPERTY-LEVEL ROI ANALYSIS NEEDED
Outdoor	☐ Introduce recycling program and provide containers ☐ Use landscape waste for composting	☐ Invest in new loading-dock storage and handling facilities to manage recycling process
Public Areas	☐ Introduce recycling program and provide containers ☐ Train staff in collecting and sorting for recycling ☐ No landscape waste to be bagged for landfill	☐ Invest in furniture and interior design upgrades using recycled materials ☐ Invest in carpeting replacement for easy cleaning and use recycled materials
Guest Rooms	☐ Introduce recycling program and provide all containers ☐ Introduce "newspaper-optional" program ☐ Introduce "green" cleaning products ☐ Provide recycling containers near elevators	☐ Invest in furniture and fixtures from recycled material ☐ Invest in toiletries dispensers and eliminate use of disposable bottles
Back of House	☐ Introduce recycling program, collection and all storage containers ☐ Audit waste stream for "value" and work with waste management provider to capture value ☐ Recycle carpeting ☐ Recycle remodeling/construction materials ☐ Recycle "at home" program **OFFICE:** ☐ Train staff in recycling program and purchasing of "green" products: recycled or low-impact **KITCHEN:** ☐ Introduce second-use system for food waste ☐ Introduce food donation program for food waste ☐ Introduce recycling program for packaging ☐ Review oil recycling or resale possibilities **LAUNDRY:** ☐ Use old towels and linens for cleanup **HVAC:** ☐ Manage hazardous-waste disposal of air filters	**OFFICE:** ☐ Invest in shredding equipment and trash-compression equipment **KITCHEN:** ☐ Invest in waste-to-energy system for hot water heating ☐ Invest in water-recycling system to capture gray water ☐ Invest in oil-recycling equipment to generate fuel from waste for boilers ☐ Invest in contract for onsite separation equipment and staff **HVAC:** ☐ Invest in systems to recycle water and chemicals **STORAGE & SEPARATION:** ☐ Invest in changes at loading docks to provide storage for separated materials ☐ Invest in partnership with waste management provider or materials recycling facility to invest in materials separation and extraction processes

- (green) Implement change as soon as possible
- (yellow) Low cost/Check with Energy & Environmental Services
- (red) Work with Energy & Environmental Services to develop business case and engineering process

SOURCE: CAESARS ENTERTAINMENT

financial emphasis prevailed. The scorecard included the following measures:

•**Energy savings:** Progress toward reducing environmental impact and spending on energy, measured annually by units of consumption.

•**Customer impact:** Increases in customer awareness of CodeGreen initiatives, as measured by quarterly customer surveys.

•**Employee engagement:** Changes in employee awareness of and engagement in activities, as measured by an employee opinion survey and the number of hours employees volunteered on CodeGreen activities and events.

•**Carbon reduction:** Carbon emission improvements against a baseline. Carbon emissions reflected several factors, including the amount of electricity used and fuel required to operate facilities and equipment, as well as the refrigerants used to cool the buildings. In addition to the environmental benefits of lowering carbon emissions, carbon reduction offered a major opportunity to cut operating costs.

•**Recycling intensity:** Improved efficiencies, waste reduction and cost savings associated with recycling activity.

The first CodeGreen scorecard was released internally in November 2010. It summarized the company's sustainability performance both companywide and by individual resort, allowing property managers to compare their results to those of their peers. Energy savings accounted for 30% of the weighting, customer impact 20%, employee engagement 20%, carbon reduction 15% and recycling intensity 15%. The scorecard gave managers a window into the amount of traction CodeGreen was having. It showed that some properties were taking the initiative to reduce energy and waste and to advance the other, more qualitative goals. The top-performing property was Harrah's Rincon, led by Beronio. Its initial energy and carbon scores were boosted by, among other things, a major redesign of its HVAC system (which reduced energy consumption by 1.5 million kilowatt-hours per year) and a solar energy project (which contributed the equivalent of 2.3 million kilowatt-hours per year). The solar project eliminated more than 1,000 tons of harmful carbon dioxide. Rincon also had an onsite garden that supplied vegetables to the employee dining room and restaurants on the property, as well as an extensive recycling and composting program.

At the same time, the scorecard highlighted significant performance gaps between the properties scoring at the top and those at the bottom. Some of the differences, Migita and other executives explain, were related to the age of the facilities, the location and the climate: Older facilities in the cold Midwest required significantly more heat and were more constrained on space for activities like recycling and composting. "They were inherently inefficient," noted Rick Mazer, Caesars' regional president in Las Vegas. That said, many low-performing properties also were not seizing levers within their control and were doing very little to advance employee awareness and engagement. They didn't seem to be pursuing energy improvements with a sense of urgency, and their efforts to enlist employees in green initiatives were minimal.

The scorecards gave corporate managers an opportunity for conversations with individual property managers about green initiatives. The laggards heard about the best practices their peers were taking and how they could follow suit; they were encouraged to have direct conversations with managers at other properties who had confronted similar problems. The high performers, for their part, were encouraged to step up their efforts to the next level.

Loveman had made it clear that he wanted the scorecard to have a strong social component that captured how the actions and views of employees and hotel customers could make a positive difference. He often referred to the synergy between people's actions and company-driven improvements as "a virtuous circle."

Loveman hoped the scorecard would influence behavior in positive ways, but he opposed using the scores directly as either a carrot *or* a stick for manager compensation. ("I don't think that everything needs a monetary incentive," he explained.) He wanted it to inspire friendly competition among properties and motivate managers and employees to redouble their CodeGreen efforts. "We'd say to managers, 'What can we do to help you improve?'" Loveman said. "Nobody wants to be at the bottom."

Phase 3: Orchestrating Improvement

Over the past nine years, Caesars has invested more than $70 million in energy-efficiency projects at the corporate level, not including local investments by individual property managers. The interest level among Caesars employees continues to be high. "When I meet with employees," Loveman said, "I frequently get more questions about CodeGreen than about the health plan or other benefits." The company published its third sustainability report in the summer of 2012, which featured a letter from Loveman that noted the company was on track to meet sustainability targets related to energy conservation, carbon reduction, water usage, LEED certifications and guest awareness.

Since 2008, management has received regular input and suggestions from TPG, a global equity investment firm that has expertise in procurement and operations and that holds extensive equity in the company. Caesars has also worked with nongovernmental organizations and nonprofits such as the Carbon Disclosure Project and Clean the World. In 2010, Caesars pledged to meet an EPA-approved goal of reducing carbon emissions at its U.S. resorts by 10% in absolute terms from 2007 to 2013 and 15% by 2020. These interactions, executives say, have given people "a vocabulary" and "outside perspective" and have enabled Caesars to capitalize on some of the best practices of other companies.

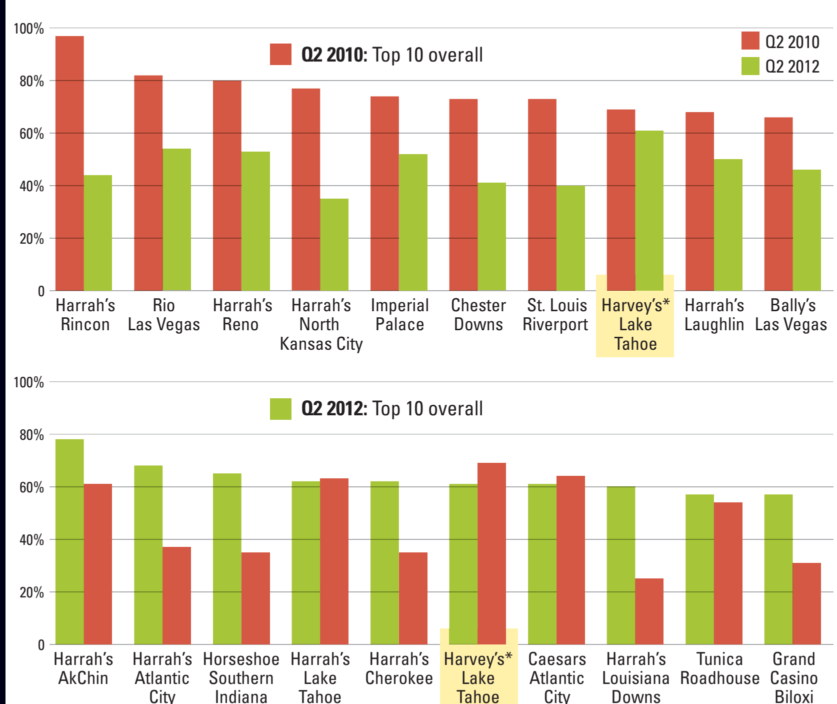
Two years after the first CodeGreen scorecard, management rolled out an updated version in August 2012. The new scorecard, dubbed CodeGreen Scorecard V2.0, was designed to provide property managers with more meaningful information about how their properties were performing.

For example, rather than featuring raw numbers on electricity and gas consumption, the new scorecard reports consumption on a per-square-foot basis and shows how consumption levels have changed compared to prior periods. (The data are captured electronically on a monthly basis, directly from utility bills.) Waste costs and water (which had not been included in the original report) are also presented on a per-square-foot comparative basis. Moreover, since a property's carbon emissions are to a large extent a function of how much electricity and natural gas it uses, the new report no longer includes carbon as a separate category. (The new weightings are energy 35%, water 15%, waste 10%, customer impact 20% and employee engagement 20%.) Overall, the new scorecard allows for more direct apples-to-apples comparisons between properties than the initial version. It does this by weighting core performance by 50% and incremental improvement by 50%. (See "Top Performers on the CodeGreen Scorecard.")

As Mazer explained, "The new scorecard more directly reflects performance we can influence at the property level and the environmental impact we're having." Yet it raises some issues as well. Rincon, for example, which used to be at or near the top with the original scorecard, now scores in the middle of the pack because of the changed improvement weighting. "Once you address the low-hanging fruit, incorporate changes from commissioning and audits and effectively implement capital investments in energy efficiency, the big gains are captured. Movement forward is going to be through incremental change," explained Beronio. She said employees understand that the overall goal is to celebrate successes and systematize innovative and best practices across the entire company, but acknowledged that accurately

TOP PERFORMERS ON THE CODEGREEN SCORECARD

In 2012, Caesars rolled out an updated version of its CodeGreen scorecard.



*Note that only Harvey's Lake Tahoe made it onto the 2012 list from 2010.

Note that the new metrics are based on CodeGreen ScoreCard V2.0.

SOURCE: CAESARS ENTERTAINMENT

reflecting the realities of the CodeGreen program in a scorecard on a complicated issue.

Despite its achievements to date, at the end of 2012 Caesars' CodeGreen program was a work in progress. Even as management develops new tools for improving performance from the top down, it continues to look for ways to invigorate grassroots participation throughout the organization. In an effort to speed up improvements throughout the company, the CodeGreen steering committee has assumed a bigger, more strategic role. In November 2011, it gave resort managers a list of "non-negotiable" policies, including having property-specific CodeGreen plans that are tied in with the corporate plan, environmentally friendly purchasing, programs for turning off lights and equipment when not in use and water-sensitive policies for laundering guest linens. Caesars also launched a certification program for training its meeting professionals in how to plan and implement more environmentally friendly meetings and events.

Management encourages individual resorts to publicize their own successes and apply for awards from outside organizations. In 2010, for example, two of the company's Las Vegas properties received the EPA's WasteWise New Partner Gold Achievement Award, and Caesars Palace Las Vegas's convention center expansion received LEED Silver certification. "The recognition is good for employee morale, and properties that do well get a lot of play out of it," Migita said.

Looking Ahead

Migita, who was promoted in 2012 to vice president of sustainability and community affairs, says that one of the biggest internal challenges Caesars currently faces is training and developing the staff to support the breadth and depth of the CodeGreen program as it has unfolded. "It's not just about having targets and metrics and webinars," she said. "It really feeds into everything we do, from strategic sourcing and continuous improvement to using resources efficiently to marketing." Failing to meet the new challenges, Migita worries, will give rise to cynicism.

Within Caesars, few people doubt that CodeGreen has breathed new life into the company and generated increased pride among employees. "We communicate that throughout our guest experience," Loveman noted. "Employees like that we're being recognized for what we're doing and that we've given them a way to connect with one of the leading issues of the day." However, it remains an open question as to whether new efficiency gains and cost cutting will become more difficult to achieve and less exciting. What happens then?

More broadly, what will the next stage of sustainability look like at Caesars? Could the CodeGreen scorecard spur greater savings and stronger employee engagement by further refinement, or will it need to be tied to financial incentives? Is the scorecard the best mechanism around which to build the sustainability initiative? While Caesars has made significant progress on many fronts in the past five years, how will its sustainability efforts change in order to meet its next set of goals? (See "Caesars Entertainment's Major Sustainability Goals Through 2025.") And are these even the right goals for the company to meet?

CAESARS ENTERTAINMENT'S MAJOR SUSTAINABILITY GOALS THROUGH 2025

While Caesars has made significant progress on many fronts in the past five years, how will its sustainability efforts change in order to meet its next set of goals?

TYPE OF ACTIVITY	GOALS
Reduce Energy Consumption	Reduce fossil fuel consumption per air-conditioned square foot by 20% from the 2007 level by 2015
Increase Renewable Energy Consumption	Increase renewable energy by 15% from its 2007 baseline by 2020
Reduce Carbon Emissions	Reduce carbon emissions by 40% from the 2007 level by 2025
Increase Use of Alternative Fuels	Meet 50% of the fuel needed for its own vehicles with alternative fuels by 2020
Reduce Water Consumption	Reduce water consumption per air-conditioned square foot by 10% between 2008 and 2015
Reduce Landfill Waste	Divert 35% of waste from landfills by 2014
Impact Reduction Planning	Develop environmental impact reduction plans with top suppliers

SOURCE: CAESARS ENTERTAINMENT

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WHAT THE EXPERTS SAY

MIT Sloan Management Review asked two professors who are sustainability experts to comment on Caesars' progress thus far — as well as possible next steps for the company. Here are the experts' perspectives.

MICHAEL W. TOFFEL
Associate professor of business administration at Harvard Business School in Boston, Massachusetts.

Caesars Entertainment's experience reminds me of many sustainability programs I've seen evolve at companies. Often started by enthusiastic employees who create environmental initiatives in their spare time, such programs typically begin with projects that are highly visible to employees and provide both environmental improvements and cost savings ("win-wins"). Picking this low-hanging fruit first makes a lot of sense to gain traction, build momentum and achieve some quick successes. And Caesars went beyond its behind-the-scenes facility operations to also focus on customer-facing activities, cleverly leveraging the power of defaults by switching off refrigerators in guest rooms and requiring customers to opt in if they wanted their linens changed daily.

Caesars' CodeGreen scorecard incorporates some outcome metrics (such as carbon emission reductions) as well as some process metrics (such as employee engagement) that presumably are meant to be leading indicators of improved outcomes. While environmental indicators should be reported as both total and normalized rates, some of the rates being used — like waste costs and water usage per facility square foot — might not be the most meaningful rates. For example, if daily water usage is a function of the outside temperature and the number of customers and operating hours that day, each of these factors should be incorporated when reporting normalized water usage. Only then can you discern the extent to which improvement programs, whether equipment- or behavior-based, are actually improving performance.

While I believe Caesars needs to embed sustainability program responsibilities into job descriptions and move away from relying on employees' volunteer efforts, I agree with Loveman's opposition to using the CodeGreen scorecard as an input to manager compensation. There's a big difference between a benchmarking tool meant to help managers identify potential opportunities — some of which won't be relevant or feasible across all facilities — and an assessment tool meant to rate the extent to which managers are effectively leading their facilities to reach their environmental performance targets. Equally aggressive improvement targets will differ across facilities, depending on their most salient environmental issues, their location and age, business growth, customer concerns and available budget. Managers' effectiveness should thus be judged based on their ability to achieve their customized goals, and not based on a contest that likely would compare facilities facing very different situations.

What should Caesars do next? Caesars' management appears to be considering how to identify more opportunities in internal operations. It's hard to know whether this is the best place to focus. I think Caesars should conduct a comprehensive analysis of the environmental impacts of its business, perhaps by engaging an experienced consultant. This analysis should include not only the internal operations, but also the impacts of employee travel, customer travel and the company's supply chain. For many companies that have already picked their internal low-hanging fruit, shifting their focus to procurement and suppliers can bring about more substantial environmental performance improvements than further incremental investments in internal operations.

Would implementing a series of win-win projects in their internal operations and supply chains be enough to say that Caesars has won its "bet on sustainability"? If Caesars continues investing in environmental initiatives until it exhausts its positive net present value opportunities, the company might well win sustainability awards and perform well in corporate environmental rankings. But would the company be environmentally sustainable? Not if its pollution levels continue to exceed the assimilation capacity of the ecosystems its operations depend on, and not if its uses of renewable resources like water exceed their replenishment rates. As climate change manifests around the world, it is just not good enough to continue to refer to companies as sustainable if they merely slow the pace at which they diminish ecosystems and deplete renewable resources.

Because sustainability issues like aquifer depletion and climate change are too big for individual companies to solve, companies have to leverage their efforts by, for example, publicly supporting a progressive climate policy and insisting that their industry associations do so as well, partnering with nongovernmental organizations promoting low-carbon initiatives, and educating and engaging their customers about environmental issues. Caesars can seize the opportunity to leverage its impressive efforts to scale its impact, which can help bring about the system-level changes that are actually required to achieve sustainability. That would be an impressive Phase 4 for Caesars.

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We often think of sustainability in manufacturing operations with big environmental footprints, but the majority of the U.S. labor force is engaged in service industries like Caesars Entertainment, making this case a valuable counterexample. Caesars has successfully gone after the tangible gains from its sustainability efforts and, as is usually the case, the concrete improvements have been found primarily in the environmental realm. Measures of energy use, water use, waste generation and so on lend themselves to quantifiable and measurable targets that most managers trained in traditional financial accounting methods find comfortable and familiar.

Caesars has also gone after the intangibles of sustainability, which include reputation, brand equity and employee productivity. Caesars' sustainability efforts clearly improved employee loyalty and motivation and probably lifted the company's reputation with conference planners. But while improving tangible assets and increasing efficiencies tends to improve sustainability-related intangibles like corporate reputation and employee enthusiasm in the short term, it is likely that future announcements of an additional 10% reduction in water use or another LEED Silver certification will generate diminishing returns in intangible assets like brand loyalty — something Caesars' management should be prepared for.

Since what's measured influences managerial behavior, the choice of specific metrics is not only an important motivational question but is also an inherently political decision within an organization. Because Caesars has so many properties in diverse geographies, it's not surprising that managers at different properties would lobby for metrics that favored their facilities. The CodeGreen scorecard reflects this in that it continues to be weighted toward tangible environmental performance metrics: energy, carbon and recycling. Because these lead to efficiency improvements and thus tangible financial gains, the emphasis on physical facilities may be right for Caesars. But labor costs and marketing are also important expenses, and it may be that a scorecard that emphasizes to a greater degree the intangible benefits of sustainability for employees and customers could foster greater indirect financial gains in terms of employee recruitment, retention, loyalty and motivation along with customer goodwill and brand enhancement. The challenge, of course, is that these benefits are harder to measure and thus more difficult for a scorecard approach.

Caesars has made substantial progress on its own internal operations and can now also begin to focus on opportunities beyond the company's property lines. Exploring sustainability gains that can be had by reaching into the business ecosystem and engaging with suppliers and other business partners can demonstrate sustainability leadership and extend impacts. For example, encouraging sustainable design thinking in gaming equipment such as slot machines can benefit Caesars as well as the entire industry.

There is an opportunity, and perhaps a responsibility, for executives to lead not just their own company, but their partners and peers as well. Though not mentioned in the case, Caesars is already doing just this through its Commitment to Responsible Gaming. Here Caesars is recognizing the adverse consequences of gambling on society and is publicly working to mitigate them. This type of leadership is arguably in the long-term interest of Caesars and the industry, as well as society.

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