

## Corporate and Institutional Sustainability

*“The context of business is clearly changing. We are now confronting the limits of our ecological system, and at the same time societal expectations of business are widening....In effect what’s happening, unbeknownst to many corporate leaders, is that the goalposts for their businesses’ license to operate have moved.”*

- David Blood, Former CEO Goldman Sachs Asset Management, 2007

The earth has a finite capacity to provide resources and to absorb waste. Human demands already exceed that capacity. Current lifestyles in the developed world, to which many people in the developing world also aspire, rely on depleting natural capital for social and economic gains. There is extensive evidence that shows the current rate this is proceeding at is unsustainable. The United Nations has stated, in the *Millennium Declaration*, that "current unsustainable patterns of production and consumption **must** be changed".

*Sustainability* is an often used phrase to describe a process known as sustainable development.

Although there are many definitions, the most commonly accepted one is that of the *Brundtland Commission* of the United Nations on March 20, 1987, which defined sustainability as:

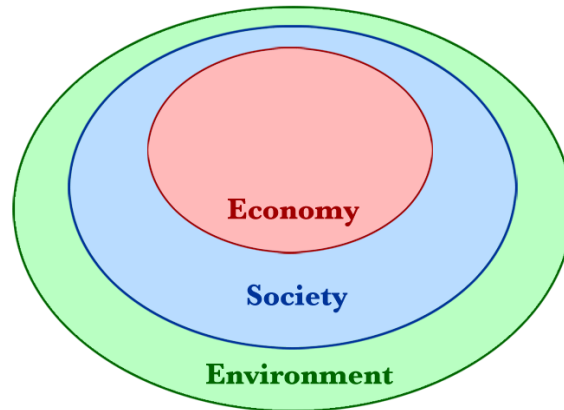
*“Development that meets the needs of the present, without compromising the ability of future generations to meet their own needs.”*

At the 2005 World Summit, it was noted that this requires the reconciliation of **environmental**, **social** and **economic** demands. Combined, these are known as the "three pillars" of sustainability.

Historically there has been a close correlation between economic growth and environmental degradation: as communities grow, so the environment declines. The downfall of many ancient civilizations was largely due to the over-depletion of their vital resources base. This recurring trend has promoted the idea that economics is a subsystem of human society, which itself is a subsystem of the surrounding environment. Any permanent loss in this crucial **primary environmental system** will have far reaching consequences in the other two subsystems. There is concern that, unless resource use is checked, modern global civilization will follow the path of those ancient civilizations that collapsed because of overexploitation of their resource base.

The *World Business Council for Sustainable Development* (WBCSD) states that "business cannot succeed in societies that *fail*".

Therefore, for any corporate *growth* or *development* to be **sustainable**, it must coincide with proper environmental management.



**Figure 1** - A representation of sustainability showing how both economy and society are constrained by environmental limits.

## Corporate Sustainability – Environmental Management

Corporate sustainability constitutes a firm's efficient use of its share of *natural capital*. Natural capital is perceived as the stock of natural ecosystems that yields a flow of valuable ecosystem goods or services into the future, providing the raw materials and clean up services that would otherwise require artificial stimulus from social and economic sources.

*Sustainable Natural Capitalism* takes the view that *Industrial Capitalism*

*"Does not fully conform to its own accounting principles. It liquidates its capital and calls it income. It neglects to assign any value to the largest stocks of capital it employs - the natural resources and living systems, as well as the social and cultural systems that are the basis of human capital."*

- Hawken, Lovins & Lovins, 1999

How well a corporate entity manages its *natural capital* is known as a firm's "eco-efficiency" and is usually calculated as the economic value added by a firm in relation to its aggregated ecological impact.

This idea has been popularized by the WBCSD under the following definition:

*"Eco-efficiency is achieved by the delivery of competitively priced goods and services that satisfy human needs and bring quality of life, while progressively reducing ecological impacts and resource intensity, throughout the life-cycle, to a level at least in line with the earth's carrying capacity."*

- DeSimone and Popoff, 1997

Government legislation in the USA has brought Greenhouse Gas (GHG) emissions to the center of attention in 2010 by requiring large emitters of heat-trapping emissions to begin collecting GHG data under a new reporting system. This new program will cover approximately 85 percent of the nation's GHG emissions and apply to roughly 10,000 facilities.

This GHG management system is one small part of an overall corporate, eco-efficiency management strategy that also includes:

- Energy efficiency
- Waste reduction
- Green-product development
- Water conservation

Correct environmental management analyzes ways to reduce the amount of resources needed for the production, consumption and disposal of a unit of good or service. These can be achieved from improved economic management, product design and implementation of new technologies.

By correctly managing these crucial impacting areas, corporate entities can be sure that they will comply with regulations, maintain ethical practices, meet their industry standards and be capable of proving a fully transparent measurement and reporting process.

Additional benefits include savings from reduced disposal costs, fewer environmental penalties, improved public image and reduced liability insurance. All of these lead to a greater market share.

*“The first principle [of corporate sustainability] is that it is [the] best practice to take a long-term approach to investing. [Focussing] on “short termism” in the marketplace is detrimental to economies, detrimental to value creation, detrimental to capital markets, and a bad investment strategy. **It’s common corporate-finance knowledge that something on the order of 60 to 80 percent of the value of a business lies in its long-term cash flows.** And if you’re investing with a short-term horizon you’re giving up the value creation of a business.”*

- David Blood, Former CEO Goldman Sachs Asset Management, 2007

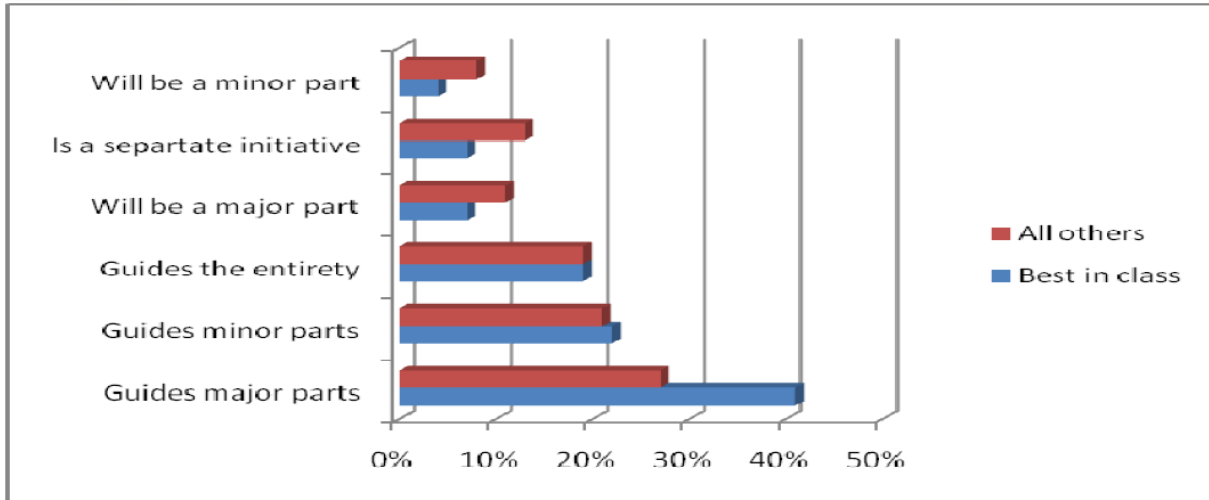
## Corporate Sustainability – Implementing a Sustainability Program

In order to implement a successful sustainability program in a corporate environment, Pike Research (February 2010) outline three key stepping stones:

1. Executive buy-in from the start
2. Creation of an effective sustainability committee
3. The establishment of clear and measurable sustainability goals

### 1. Executive buy-in

A recent survey by McKinsey (February 2010) shows that 76 percent of executives across a broad range of industries say that sustainability contributes positively to shareholder value in the long term and 50 percent say that it makes a positive short term contribution.



**Figure 2 – Role of sustainability in corporate strategy (Aberdeen Group, May 2009)**

Additionally, more than 50 percent of executives consider sustainability “very” or “extremely” important in a wide range of areas, including new-product development, reputation building, and overall corporate strategy.

Just over 6 percent of executives say that sustainability is a top-three priority in their CEOs’ agendas, meaning it is formally embedded in their company’s business practices, and that their companies are “extremely” or “very effective” at managing it. These engaged companies actively seek opportunities to invest in sustainability: 88 percent of the respondents in this group say so, compared with 23 percent of others.

Further, a strong majority consider sustainability important in a wide range of areas: developing and marketing products and services, planning investments, managing internal operations, developing regulatory strategy, managing corporate reputation and brands, and overall corporate strategy.

If the company sees the top executive branch spearheading the initiative, this will place sustainability high on the list of priorities within the company’s strategic plan. Correctly assigning the necessary resources to the corporation’s sustainability will also communicate the message effectively that the organization is dedicated to achieving a sustainable corporate existence.

Regardless of the size of the company, the message needs to be communicated internally so that everyone within the organization understands the direction that is been taken with regards to sustainability. Once a decision has been made on a direction, then goals need to be set and this information needs to filter down to managers of various departments and business units.

Progress on the various sustainability initiatives then needs to be communicated back to the executive level and to all stakeholders.

## 2. Creation of a sustainability committee

Only about 35 percent of executives say their companies have quantified the potential impact of environmental and social regulation on their businesses. Additionally, only 40 percent feel prepared to deal with regulation in the next three to five years and are personally confident about handling climate change issues. This is largely influenced by the fact that maintaining corporate sustainability can be an overwhelming task, especially for organizations with multiple locations.

In order to successfully manage a sustainability program, it is crucial to set up a committee made up of high level managers, department heads and operation managers from various business units.

This committee is required to ensure that the initiative receives full support from all levels of management and to effectively implement the procedures laid out as part of the sustainability program. This committee will also ensure accurate gathering of information regarding the program and to correctly measure, monitor and apply any refining measures needed for the overall success of the sustainability program.

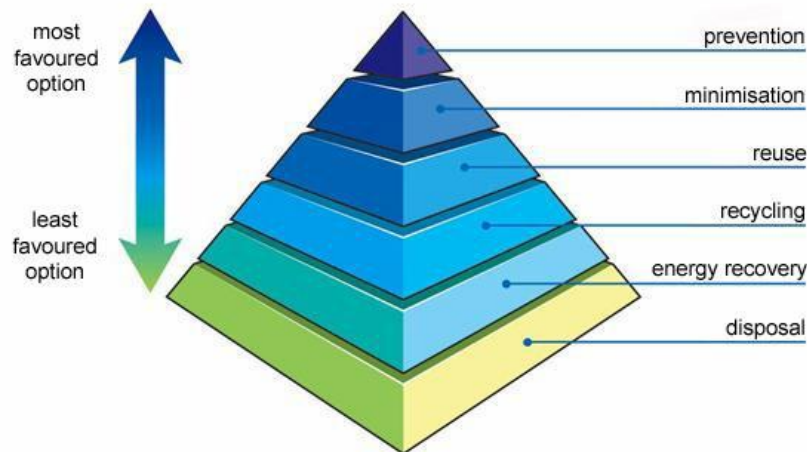
Reliable communication and accurate monitoring are vital for any committee that wishes to oversee the progress of any sustainability program. The committee will need to identify projects across the organization, establish procedures, and monitor the ongoing participation and data collection of various departments, buildings and locations from across their organization. In order for such a program to advance, it is necessary to keep all members of such a committee up to date on the overall view of the corporation's situation. This can become increasingly burdensome as the size of an organization increases. Therefore a powerful and accessible information management system is required to ensure all members of the committee and all levels of management are up to date regarding the goals and objectives that have been laid out

## 3. Establishing sustainability goals

Once a sustainability committee has been established, it is essential to set **clear** and **measurable** goals for how the company will progress towards a more sustainable existence. Adopting certain sustainable values into the company's philosophy is often seen as the initial first step.

While there are many ways to integrate sustainability into an overall corporate strategy, three main approaches are regularly used when establishing goals:

- A) The 3Rs (Reduce, Reuse, Recycle)
- B) The Triple Bottom Line
- C) Impact Assessment



**Figure 3** – A graphical representation of the waste hierarchy, displaying methods of waste management in order of preference.

### A) The 3Rs - Reduce, Reuse, Recycle.

Also known as the waste hierarchy (see figure 3), this approach classifies waste management strategies according to their desirability, with prevention and minimization being the most desirable. It is primarily connected to efficient natural capital management by extracting maximum practical benefits from products and generating the minimum amount of waste.

**Reduce** – Often referred to as waste minimization, reducing waste usually requires detailed knowledge of the production process, cradle-to-grave analysis (tracking of materials from their extraction, to their return to earth) and detailed knowledge of the composition of the waste. Once this knowledge has been acquired it can then be applied in areas such as:

- Resource optimization
- Reuse of manufacturing scrap material
- Improving quality control and process monitoring
  - *Keeps number of reject batches to a minimum*
- Waste exchanges
  - *Waste from one process becomes raw material for another*
- Shipping to point of use
  - *Minimizes handling and the use of protective wrappings/enclosures*

**Reuse** – By taking useful products and exchanging them, without reprocessing, reusing helps save time, money, energy, and resources. This includes conventional reuse where the item is used again for the same function. It also includes new-life reuse, where it is used for a new function. In broader economic terms, reuse offers quality products to people and organizations with limited means, while generating jobs and business activity that contribute to the economy.

Potential advantages from reuse include:

- Energy and raw materials savings
  - *Replacing many single use products with one reusable one*
- Reduced disposal needs and costs
- Refurbishment can bring sophisticated, sustainable, well paid jobs to underdeveloped economies
- Cost savings for business and consumers
  - *Reusable products are often cheaper than the many single use products*

One particularly effective reuse strategy is employing 'Closed Loop Programs' wherever possible. A typical example of such a program is where a company is involved in the regular transportation of goods from a central manufacturing facility to warehouses or warehouses to retail outlets. In these cases there is considerable benefit to using reusable "transport packaging" such as plastic crates or pallets. Tesco (UK) has established a series of nine recycling service units that wash returnable plastic trays. It is estimated that this operations saves around 50,000 tonnes of packaging per annum. Marks and Spencer (UK) also operate a similar scheme with 90% reuse or recycle of transit packaging. 65% of their foods are transported on reusable plastic trays saving 25,000 tonnes of cardboard per year; they also have a 3 year plan to eliminate transit packaging on textiles and home furnishing product lines saving another 28,000 tonnes per annum. Marks & Spencer also started a coat hanger reuse scheme in 1993 and now reuse over 20 million of these annually saving 1,200 tonnes of plastic.

**Recycle** – In contrast to reusing, recycling is the breaking down of the used items into raw materials which are used to make new items. It is seen as beneficial as it reduces the consumption of fresh raw materials, reduces energy usage, and lowers greenhouse gas emissions as compared to virgin production. It also reduces air pollution from incineration and water pollution from landfilling by reducing the need for "conventional" waste disposal.

Recyclable materials include many kinds of glass, paper, metal, plastic, textiles, and electronics.

There has been some controversy and debate regarding the cost-benefit of recycling in recent times and whether it is an economically efficient practice. A study conducted by the Technical University of Denmark found that in 83% of cases, recycling is the most efficient method to dispose of household waste. However, a 2004 assessment by the Danish Environmental Assessment Institute concluded that incineration was the most effective method for disposing of drink containers, even aluminum ones.

Without mechanisms such as taxes or subsidies to internalize externalities, businesses will ignore the benefits of recycling despite the costs imposed on society. To make such non-fiscal benefits economically relevant, advocates have pushed for legislative action to increase the demand for recycled materials.

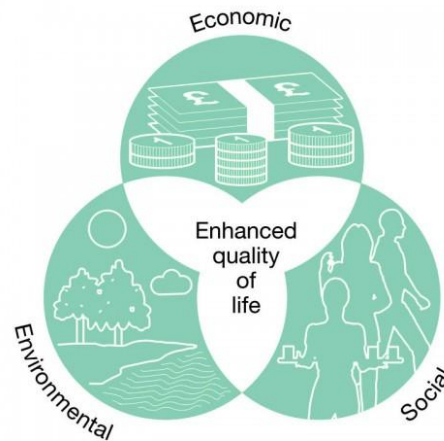
The United States Environmental Protection Agency (EPA) has concluded in favor of recycling, saying that recycling efforts reduced the country's carbon emissions by a net 49 million metric tonnes in 2005. In the United Kingdom, the Waste and Resources Action Programme stated that Great Britain's recycling efforts reduce CO<sub>2</sub> emissions by 10-15 million tonnes a year.

## B) The Triple Bottom Line

The triple bottom line (TBL) refers to each of the three pillars of sustainable development – social, economic and environmental. It is also known as the 3Ps – People, Planet, Profit.

It captures an expanded spectrum of values and criteria for measuring organizational success by considering the value of natural, social and economic capital. Legislation permitting corporations to adopt a triple bottom line is under consideration in some jurisdictions, including Minnesota and Oregon.

In the private sector, a commitment to corporate social responsibility implies a commitment to some form of TBL Capital reporting. As such, it is important to record, track and account for all three areas of capital.



**Figure 4** – A graphical representation of the triple bottom line approach, which integrates social, economic and environmental gains for an overall enhanced quality of life for all concerned parties.

**Human Capital** – The social aspect of the TBL pertains to fair and beneficial business practices toward labor, the community and the region in which a corporation conducts its business. A TBL company conceives a reciprocal social structure in which the well-being of corporate, labor and other stakeholder interests are *interdependent*. A TBL enterprise seeks to benefit many constituencies, not exploit or endanger any group of them. While quantifying this bottom line is relatively new, problematic and often subjective, the Global Reporting Initiative (GRI) has developed guidelines to enable corporations and NGOs alike to comparably report on the social impact of a business.

**Natural Capital** – When considering the environmental side of the TBL, it is widely accepted that this refers to sustainable environmental practices. A TBL company endeavors to benefit the natural order as much as possible or at the least curtail environmental impact to within acceptable levels. A TBL endeavor reduces its ecological footprint by, among other things, carefully managing its consumption of energy and non-renewables and reducing manufacturing waste, as well as minimizing toxicity of waste prior to safe and legal disposal. This area of capital management is easily quantifiable, though it requires a powerful data management tool, particularly for large multi-site organizations.



**Economic Capital** – A common misconception is that a TBL approach can be interpreted as simply traditional corporate capital accounting *plus* social and environmental impacts. This is an inaccurate ascertain of the TBL approach. Economic capital is created by the organization after deducting the cost of all inputs, including the cost of the capital tied up. It therefore differs from traditional accounting definitions of profit. In the original concept, within a sustainability framework, the "profit" aspect needs to be seen as the real economic benefit enjoyed by the host society. It is the real economic impact the organization has on its economic environment. This is often confused to be limited to the internal profit made by a company or organization (which nevertheless remains an essential starting point for the computation). Therefore, an original TBL approach cannot be interpreted as simply traditional corporate accounting profit *plus* social and environmental impacts, unless the "profits" of other entities are included as a social benefits.

### **C) Impact Assessment**

Impact assessment is a strategy aimed at structuring and supporting the development of policies or projects. It identifies and assesses the problem at stake and the objectives pursued. It is quite often used in conjunction with the Triple Bottom Line approach, so that **all** potential impacts are assessed. This is to reduce the potential for unseen liability into the future.

Impact assessment is also used to evaluate various options and alternatives of execution once a project has been selected. It identifies the main options for achieving the objective and analyses their likely impacts in the economic, environmental and social fields. This allows it to outline the advantages and disadvantages of each option and examine possible synergies and trade-offs.

In order to achieve an effective assessment of the various influencing factors, it is important to establish an expert and experienced assessment panel that comprises of members from the sustainability committee, experts in the field of areas being assessed, representatives from any social groups that may be affected, representatives from any NGOs of concern and any other affected parties.

## Conclusion

A successful sustainability strategy will improve operational efficiencies, brand value, and social and environmental performance.

A recent report from the 2010 Academic and Business Research Institute (AABRI) Conference held in Orlando, Florida, stated that:

*“Senior leaders across many industries in the U.S. today are concerned about sustainability due to the perception that it will add to their cost and will not deliver immediate benefits. CEOs and Board of Directors are concerned that producing “green” products will put them at a relative disadvantage compared to their rivals in developing countries that do not face the same pressures. Executives act as though they must choose between the huge social benefits of offering sustainable products or processes and the financial impact of doing so, but this is not true. The reality is sustainability development can potentially lead to lower costs as companies end up reducing input materials and create increased revenue from an improved product offering.”*



### References:

1. [Investing in sustainability: An interview with Al Gore and David Blood](#)
2. [How companies manage sustainability: McKinsey Global Survey results](#)
3. [Natural Capitalism](#)
4. [Pike Research - Successful Corporate Sustainability Programs Share a Common Foundation](#)
5. [A Global Corporate Sustainability Model](#)

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