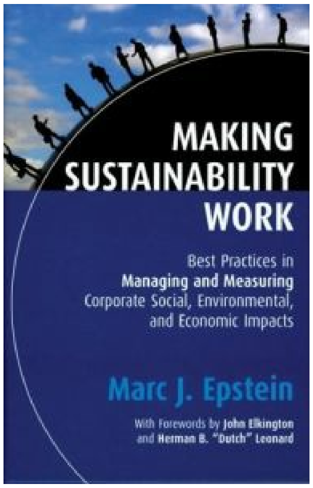

Book Making Sustainability Work

Best Practices in Managing and Measuring Corporate Social, Environmental, and Economic Impacts

Marc J. Epstein
Berrett-Koehler, 2008
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Recommendation

Management professor Mark J. Epstein conducted extensive academic research into the best social and environmental – that is, sustainability – practices of 100 companies worldwide. Drawing on that knowledge, he developed a "Corporate Sustainability Model" to show business leaders how to implement the right organizational processes to create, measure and promote corporate social responsibility (CSR) and "corporate social opportunity." The book is quite dense and academic, with much of its information packed into evocative but complex charts, so it seeks a professional audience. *BooksInShort* recommends it to corporate decision makers as a well-informed, thorough manual.

Take-Aways

- Corporate social responsibility, good environmental practices and financial profitability are not mutually exclusive.
- Sustainability drives profits and is integral to strategic planning.
- Companies often begin sustainability programs to comply with regulations.
- They continue such programming to gain an edge and to reap social, economic and environmental advantages.
- The "Corporate Sustainability Model" identifies, measures and integrates a firm's social, environmental and financial processes and results.
- A corporate culture should support sustainability in its day-to-day decision making.
- Accurate data measurement fuels all sustainability initiatives.
- Performance data help you make better decisions about allocating your firm's resources.
- Improved sustainability generates documented payoffs in profits, customer satisfaction, operational resource yield and organizational improvement.
- The effects of sustainability will take time to appear, but they are worth it.

Summary

Improving Social and Financial Performance

Corporate social responsibility (CSR) enables companies to ensure that their social, environmental and economic activities support the "triple bottom line" of sustainable performance. Businesses must assess their CSR activities to make the most of these "unpriced" activities, and to turn them into a competitive advantage. Sustainability programs must address government regulations, industry codes of conduct, community relations, costs and revenue goals, and societal and moral duties.

> "The Corporate Sustainability Model describes the inputs, processes, outputs and outcomes necessary to implement a successful sustainability strategy."

Many companies implement sustainability strategies, but their efforts often fail because sustainability demands simultaneous excellence in three overlapping arenas: social, environmental and financial performance. Corporate sustainability requires a clear strategy based on goals that supersede dollar-driven profits and the full commitment of senior management. It also calls for practical systems that implement sustainability companywide. Corporate support must come from "management control, performance measurement and reward systems as appropriate." To measure performance, first consider how well you perform in nine basic areas: "ethics, governance, transparency, business relationships, financial return, value of products and services, employment practices, protecting the environment," and economic and community development.

Implementing Corporate Sustainability

Companies usually take on and achieve sustainability goals in three stages:

1. **Complying with regulations** – Companies have no choice in this area; they must obey the law. Regulations are often the impetus behind sustainability initiatives.
2. **"Achieving competitive advantage"** – This is necessary if you want your business operations to make a profit.
3. **"Social, economic and environmental integration of sustainability practices"** – Embrace the responsibility of sustainable operations as a best practice beyond the mandates of government or competition.

> "Four main reasons why sustainability...demands our urgent attention [include] regulations, community relations, cost and revenue imperatives, and societal and moral obligations."

Your constituents (stockholders, consumers, vendors, workers, "regulators and communities") care about your sustainability practices. To meet their expectations, you must make business decisions that account for the current and future environmental impact of your products, services, processes and activities. Your leadership challenge is to integrate sustainable environmental practices profitably into your firm's daily decision making – from the factory to the boardroom.

Using the "Corporate Sustainability Model"

This model gives companies a tool for assessing the business impact of their sustainability practices. It permits managers to interpret the reasoning, activities and metrics involved in implementing a companywide sustainability strategy. Using this model provides you with a way to establish accountability, which is crucial to reporting, management, performance and governance.

> "Social and environmental impacts must be included in ROI calculations and managerial decision making at all levels."

Identifying, evaluating and improving your firm's social, environmental and economic impact call for accountability in every area of your operations – from product design and cost to capitalization, information management and execution. Accountability begins with each person and department. Every staffer should be proactive about carrying out the firm's commitment to sustainability as a core value. And each department should assess its contribution in every area. To that end, this model analyzes four areas of business practices necessary to "implement a successful sustainability strategy":

1. **"Inputs"** – What does your company contribute to sustainability in terms of staff and financial resources? Is your business environment conducive to meeting environmental goals? Maintain open communication across hierarchies and departmental silos to foster the information flow needed to make and execute critical sustainability decisions.
2. **"Processes"** – Corporate leaders should establish principles and practices that "institutionalize the concept of sustainability." The board and CEO must develop a sustainability strategy, allocate the necessary resources, and steer appropriate programs and initiatives through the organization. Along with its leaders' commitment, a company needs the right "structures, systems, performance measures, rewards, culture and people" to execute its sustainability strategies.
3. **"Outputs"** – This category of business practices covers the "corporate cost/benefit of actions" for sustainability. It includes stakeholder reactions and sustainability performance (which "may be both an output and an outcome"). When focusing your sustainability activities, consider your organization's culture, your competitive position and your environmental performance. Factor in regulations, market considerations and geographic conditions. Global businesses must align their overall sustainability strategies with the realities of their operating structure, be it centralized – with less local autonomy – or decentralized – with more local autonomy. Seriously consider all the associated risks and benefits before outsourcing sustainability functions to external providers.
4. **"Outcomes"** – What feedback do you receive on sustainability issues? What are your marketplace results? Strong sustainability leads to better product design, production efficiency and good customer service, all of which result in higher profits, increased customer and employee retention, and greater social and environmental benefits. Help your company understand the direct connection between improved sustainability performance and improved financial performance.

"Costing, Capital Investments and the Integration of Social Risk"

The management tools that can help you assess the way you incorporate sustainability programming into your overall strategy include:

- **Capital investment decision systems** – Some 84% of companies fail to consider social and political risk when they make spending decisions related to sustainability, though such risks affect many areas, including product quality, workload capacity, productivity, innovation, cost and revenue.
- **Costing systems** – Rather than using traditional discounted cash flow analysis, some companies achieve better social and environmental cost accounting by using activity-based or life-cycle costing. Firms that use full-cost accounting to evaluate sustainability projects can make simple changes to identify and eliminate environmental expenses and to develop better pricing and customer value.
- **Risk assessment systems** – Identify and quantify background sources of risk. What is the possibility of environmentally related social and political risks actually coming to fruition? Keep this concern in mind as you make decisions.

Performance Evaluation

Building a culture of sustainability requires the right corporate setup, from your leaders' commitment to your "organizational structure and rules, systems, communications, performance measurement, and incentive structure." As you coordinate these factors, measure your firm's individual and group sustainability performance with tools like these:

- **Performance evaluations** – Appraise your sustainability program's results at the corporate, business unit and individual levels.
- **Incentives and rewards** – Recognize excellence, and offer incentives for reporting potential violations of the law or of corporate environmental policy.
- **Accountability for "internal waste"** – Make each business unit responsible for its own discards.
- **"Emissions trading"** – Corporate options include leasing emissions allowances, making offset agreements or balancing pollution against positive environmental contributions.
- **"Strategic management systems"** – Institute administrative structures, such as a balanced scorecard, that provide genuine accountability and managerial control.

Social, Environmental and Economic Impacts

As you collect information about each phase of your sustainability activities, analyze it in financial terms so you have the information to align your corporate financial goals to your sustainability goals. Assess the factors that drive your sustainability performance, including potential risks and benefits, and appraise your social and environmental results. Advances in technology allow improved identification, collection and interpretation of data to help you make better decisions and perform more thorough assessments of sustainability-related issues. Proper evaluation will reveal the links between your firm's activities and its performance in environmental, social and financial matters.

Strategy Adjustment

All your company's activities – not just sustainability – benefit when managers adjust their strategies based on concrete performance indicators. Your measurement systems must include appropriate mechanisms to give feedback to managers, so they can promote knowledge sharing and continuous learning. Feedback allows managers to check their assumptions about earlier plans and to modify them for the long term. Your company can improve its sustainability performance by redesigning products, re-engineering processes, involving the members of its supply chain, rethinking markets, and using organizational learning and life-cycle analysis. Enhance your internal reporting to boost decision making and strategic planning. Use your data to show staffers the value of their contributions.

External Reports

Performance data permit you to make better decisions about allocating your company's resources. But sustainability performance also interests your constituents. Many firms disclose and share such data in their annual reports and publish sustainability reports or online updates. Established in 1997, the Global Reporting Initiative (GRI) created "globally applicable guidelines for reporting on the economic, environmental and social performance of corporations, governments and NGOs." The latest edition of GRI's Sustainability Reporting Guidelines and its Sustainability Reporting Framework help firms make effective disclosures about sustainability and help stakeholders understand them. Such external reports enable better-informed decisions and give companies a vehicle for telling the world about their sustainability. If you need to verify the quality, reliability and relevance of your metrics, formally turn to independent auditors.

Sustainability Benefits

The forces that traditionally drove profitability now must balance with the forces that drive sustainability. Managers and staff should gear their day-to-day decisions toward meeting goals for both sustainability and profits. The Corporate Sustainability Model offers a working structure for delineating activities, creating relationships, and measuring a sustainability program's processes and results, including lower operating costs, increased revenues and the fulfillment of deeply held corporate values. Improved sustainability generates several documented payoffs:

- **"Financial payoffs"** – Profitability is facilitated by lower operating, administrative and capital costs, higher revenues, corporate values, and stock market premiums.
- **"Customer-related payoffs"** – Consumers benefit from greater satisfaction, new products and an increased market share.
- **"Operational payoffs"** – Sustainable practices can lead to innovative processes, increased productivity and "improved resource yields."
- **"Organizational payoffs"** – With the right program, expect less interference from regulators and lower operating risk, as well as happier employees.

> "Recent research has shown a strong and positive link between successful sustainability strategy and corporate value."

Success in sustainability and profitability occurs when leaders, strategy, structure, management systems, performance and continuous learning align. Even if your current efforts may not seem to affect your finances or market performance immediately, your company will feel a positive impact in the future.

About the Author

Rice University professor **Marc J. Epstein** is an expert in designing and implementing corporate strategies and developing their performance metrics.