

## The Sustainability Question

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Whether you are CEO, CFO, corporate counsel, or the head of Environment, Health & Safety (EH&S) you are undoubtedly on the receiving end of a growing pile of requests about your company's sustainability. These requests are typically surrounded by an evolving language and a series of acronyms, such as:

- ▼ CSR—corporate social responsibility,
- ▼ CC—corporate citizenship,
- ▼ TBL—triple bottom line, or
- ▼ ESG—environmental, social & governance.

For purposes of this article we will use the phrase *sustainability performance* as we examine how companies are handling all of these concepts.

Requests for sustainability performance information are increasing in both number and type, and are coming from an ever-widening range of stakeholders. It is becoming an important issue to address. In fact, it is quickly expanding into the area of corporate governance. Why? Because a growing number of shareholders are busy comparing and contrasting your company's performance against your competitor's performance using a well-defined (and quantifiable) set of sustainability criteria.

Just as shareholders examine executive compensation or board independence and diversity, they are now scrutinizing companies' emissions to air, land, and water. Knowing what is being reported by and about

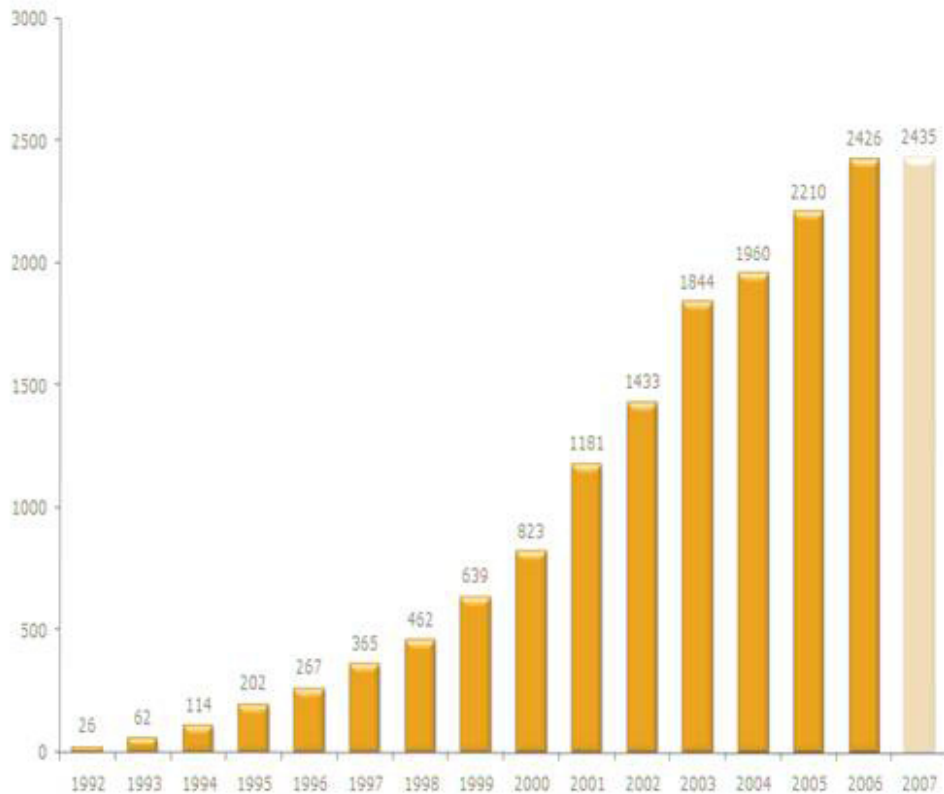
your company's sustainability performance is therefore an integral part of a successful business strategy in today's global marketplace.

### ◀▶ Increasing Disclosure = Unexpected Comparability Consequences

EH&S departments often serve as broad catchalls for most sustainability issues. They are already collecting and disseminating a wide range of environmental data to local, state and national regulatory bodies (i.e., information on spills and releases for the Toxics Release Inventory, violations, hazardous materials, etc.). Simultaneously, voluntary corporate disclosures in the form of CSR Reports, Sustainability Reports, and Environmental Reports are offering accessible and comparable data sets. What companies often fail to realize is that this publicly available information is being reviewed, compared, and contrasted by external stakeholders and summarized into reports and/or industry ratings and rankings. The result is a growing ability to compare competitors within industries, detect gaps in information, and identify reports that are not telling an accurate story about a company's sustainability performance.

The following graphic provides a snapshot of the growing number of voluntary sustainability reports since 1992.

## Global Sustainability Reporting Output by Year



Source: Corporate Register

The Corporate Register compiles this data to provide the world's most comprehensive collection of corporate sustainability, CSR, citizenship, and environmental reports. As of early 2008, the site includes links to over 16,000 CSR-related reports from over 4,000 companies in 91 countries. Staff at the site estimate that by combining the voluntary submissions of reporting companies with their own searches, they capture 90% of reporting companies. Any user can access this site and quickly search by country, industry sector, and company to determine whether a company has produced a sustainability report. Additional statistics on trends in CSR reporting are available at [www.corporateregister.com/charts/charts.pl](http://www.corporateregister.com/charts/charts.pl).

### ◀▶ The Corporate Governance Connection

The increasing availability of quantified sustainability data has made it possible to establish international performance benchmarks for greenhouse gas emissions (GHG), CO<sub>2</sub> emissions, water and energy consumption,

and waste generation. Many multi-national corporations are actively measuring and reporting this data. When other companies fail to follow this lead, shareholders and other influential stakeholders question the absence of transparency on these important and material issues.

For example, if you are the only company in your industry that isn't reporting sustainability performance in quantified terms, what messages are you sending to interested and influential stakeholders? If you are being asked directly and repeatedly by shareholders about your sustainability performance and you are not responding, what message are you conveying?

- ▼ *your questions aren't important,*
- ▼ *you're not important,*
- ▼ *we don't have time to deal with such issues,*
- ▼ *we can't deal with such issues,*
- ▼ *these issues aren't relevant to our industry,*
- ▼ *these issues are not important to us.*

What if your largest customer asks all its suppliers to report sustainability information? If you are the only

supplier unable to supply relevant data, what is your customer to think?

## **Interest from the Financial Services Industry**

The most influential stakeholders paying closest attention to your answers are in the financial service sector, such as shareholders, lenders, auditors, and finance-oriented non-governmental organizations (NGOs). These stakeholders are comparing your sustainability performance to that of your competitors, as well as to other companies. As they become more aware of the issues and connect sustainability performance to traditional corporate governance criteria such as transparency, these groups are becoming increasingly active and influential.

These engaged stakeholders have created a new type of due diligence. As a result of their requests—through dialogue, proxy voting initiatives, and shareholder resolutions—companies are being pushed to measure, track, report, and reduce impacts, as well as to adopt strategic positions that will allow the company to prosper and profit as new regulatory programs are introduced. For example, last year, shareholders owning over 31 percent (\$120 billion) of Exxon Mobil stock supported a resolution requesting that the Board of Directors adopt quantitative goals based on current technologies for reducing total GHG emissions from the company's products and operations. Allegheny Energy shareholders gave record high support to a resolution filed by the New York City Pension Funds requesting the Pennsylvania-based power company produce a report on how it plans to reduce GHG emissions.

## **Sustainability Researchers**

Awareness of—and demand for—sustainability performance information has spurred the growth of specialized research organizations that actively review corporate information and assess sustainability performance. These firms range from departments within Wall Street's most respected financial institutions to independent research companies. They use various information sources to rate a company's sustainability performance. They may contact you directly, asking specific questions regarding corporate sustainability, or they may conduct their research exclusively from outside your four walls, reviewing all public sources of information produced by your company. Your reports on sustainability, environmental concerns, health and safety, annual financial reports, as well as other forms

of company information such as public databases, your website, press releases, articles about your company, brochures, and external documentation are all grist for the mill. Researchers will take note of information that contradicts your company's claims, or claims from different company sources that contradict each other. The researchers deliver their findings to the global markets in the form of specialized reports, press releases, Indexes, and/or listings/ratings. Ratings are regularly reflected in international listings such as the Dow Jones Sustainability Index and FTSE4Good. Such global Indexes track the sustainability and financial performance of these leading companies, and are used by investors who are looking to direct their investment capital toward sustainable companies. Therefore, it is critical that all company information is internally coordinated among offices and departments, to ensure that your company's sustainability story is told clearly, in a timely manner, and without contradiction.

## **Shareholder Coalitions and Initiatives**

In addition, international coalitions of shareholders are coordinating their research on sustainability-related issues. These shareholder groups add new momentum and have significant influence in the sustainability arena.

Two influential groups to put on your radar are the Carbon Disclosure Project (CDP) and the Investor Network on Climate Risk (INCR). Both groups are comprised of networks of institutional investors and financial institutions that are working to promote corporate disclosure of the opportunities and challenges presented by climate change.

### ▼ Carbon Disclosure Project

- Started 2002 with 35 signatory investors representing \$4.5 Trillion
- Currently 385 signatory investors representing over \$57 Trillion in investment capital

### ▼ Investor Network on Climate Risk

- Started 2003 with 10 members representing \$600 Million
- Currently 65 members representing over \$4 Trillion in investment capital

CDP investors include household names such as Merrill-Lynch, Goldman Sachs, HSBC, and Morgan Stanley. The INCR facilitates state pension plans' actions on carbon and environmental issues and its investor groups include large public pension funds from dozens of U.S. states.

Other groups that are active in this arena include:<sup>1</sup>

- ▼ Principles for Responsible Investment
  - Started 2006 with 20 signatories representing \$2 Trillion
  - Currently 235 signatories representing over \$10 Trillion in investment capital
- ▼ Institutional Investors Group on Climate Change
  - Started 2001
  - Currently 42 members representing over \$5.4 Trillion in investment capital
- ▼ Interfaith Center on Corporate Responsibility
  - Started 1972
  - Currently 275 members representing over \$100 Billion

A number of members or signatories belong to more than one of these groups, creating overlapping spheres of interest and influence. For example, the nation's two largest public pension funds, the California Public Employees' Retirement System (CalPERS) and the California State Teachers Retirement System (CalSTRS) belong to PRI, INCR, and CDP.

All this activity related to researching and ranking corporations has several important results. First, by working together, organizations such as INCR place pressure on the regulatory agencies such as the Securities and Exchange Commission (SEC) to enforce corporate disclosure on material environmental issues. Second, members of these organizations are increasingly analyzing the relationship between sustainability and financial performance. In fact, a Goldman Sachs study found that among six sectors reviewed—energy, mining, steel, food, beverages, and media—companies that are considered leaders in implementing environmental, social, and governance (ESG) policies have outperformed the general stock market by 25 percent since August 2005. In addition, 72 percent of these companies have outperformed their peers over the same period.

### ◀▶ Measuring Your Carbon Footprint

Even if your company is not ready to tackle the entire suite of sustainability issues, the carbon issue is one that needs to be addressed sooner rather than later. Carbon and GHG emissions can be quantified using globally accepted standards for GHG accounting and verification. The first of these standards was the GHG Protocol, established in 2004 by the World Resources Institute (WRI) and the World Business Council on Sustainable Development (WBCSD). ISO published its similarly directed 14064 Standard in 2006, and at the end of 2007 the three organizations agreed to work

together to increase convergence of these standards. Multinational firms that are using these standards include Exxon-Mobil, Alcoa, Coca Cola, Dow, and Hewlett-Packard. Early 2008 also saw the launch of The Climate Registry, a program of national scope that is modeled after the California Climate Action Registry. Both registries draw from the GHG Protocol to help Registry participants understand, measure, and report GHG emissions in a standardized form. The Climate Registry includes the majority of U.S. states, as well as several Canadian provinces, Mexican states, and tribes. Its aim is to develop and manage a common reporting system for GHG emissions, supported by infrastructure for accounting and verification.

### ◀▶ Addressing the Sustainability Question

First, understanding external stakeholders, their interests, and their information sources is key in preparing for the sustainability question. The challenge for most businesses is to identify key stakeholders and respond to their concerns while developing constructive relationships with them. The boon for business is that even as external stakeholders push for change, they can contribute positively to corporate decision making by acting as external eyes and ears to identify emerging sustainability issues. Second, it is crucial to know what is being reported by your company, through which departments, and to what level of detail and accuracy. Whether you realize it or not, your company is probably collecting and reporting sustainability information to respond to local, state, and federal requirements. For instance, EH&S programs often have sustainability components already embedded, such as a recycling program or an environmental management system. Human resources, public and government affairs, and corporate foundations are also areas within companies where sustainability activities often exist, but are unrecognized. Statistics such as worker health and safety, employee attraction and retention, charitable contributions, political contributions, and donations to non-profit initiatives all have sustainability significance. Many companies are also voluntarily responding to surveys and questionnaires from external stakeholders. It is vital, however, to coordinate these disclosures. In essence, all these pieces of information create a sustainability story whether or not your company is actively producing

one. It is essential, then, to review operations and management systems through a sustainability lens. Third, it is time to consider the creation of a sustainability coordinator, initiative, and/or program to facilitate accurate and timely reporting on the most important issues. In some instances, companies assign members of the Board of Directors to head up such programs, while in other companies EH&S or other operational departments serve as the lead on such initiatives. Some companies create working groups and internal teams to handle sustainability-related activities, while others create brand new positions. There is no single approach that serves all organizations and situations. An effective and efficient sustainability program is one that fits with the company's culture, industry-specific issues, and available resources.

### **Carbon Accounting**

At the beginning of February 2008 the CDP launched its 6th annual survey of the world's largest corporations. The CEOs of over 3,000 companies received a letter and survey from this group, focusing on determining "actual absolute Greenhouse Gas Emissions" for each company surveyed. Although this survey is sent to the CEO, it often gets routed through other departments

such as Investor Relations, Legal, CFO, and/or Public Affairs. Even if your company chooses to ignore the CDP request, it is important to be aware of carbon-related information other departments are releasing because stakeholders will in effect use that information to complete the survey for you. Realize, too, that your lack of official response will send an inconsistent message to external stakeholders, as well as indicating a weakness in governance on this issue. Even companies that do not receive this survey directly are feeling the ripple effect. For instance, some of the world's largest companies have initiated similar carbon surveys through their global supply chains so suppliers in all sectors and of all sizes are having to account for their emissions. Understanding, measuring, and managing your carbon footprint is becoming an essential part of doing business in a globalized economy. Effectively preparing for and responding to the CDP and other similar requests can be a useful exercise in developing a strategic sustainability program.

### **Endnotes**

<sup>1</sup> To find the latest information on these groups and their members, see: <http://www.wallacepartners.net/>



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— [www.wallacepartners.net](http://www.wallacepartners.net)

**Wallace Partners advises organizations on the development, implementation and integration of strategic sustainability initiatives.**

### **Websites for More Information**

Carbon Disclosure Project (CDP): [www.cdproject.net/](http://www.cdproject.net/)

On the behalf of institutional investors with combined assets of over \$57 Trillion under management, the CDP seeks information on the business risks and opportunities presented by climate change and GHG emissions data from the world's largest companies: 3,000 in 2008. The CDP website is the largest repository of corporate GHG emissions data in the world, and information requested of and provided by corporations is publicly available.

Investor Network on Climate Risk (INCR):

**[www.incr.com](http://www.incr.com)**

INCR is a network of institutional investors and financial institutions that promotes better understanding of the financial risks and investment opportunities posed by climate change. It has published the Global Framework for Climate Risk Disclosure, a standardized set of guidelines for improving corporate disclosure on the risks and opportunities for climate change. The framework was developed in collaboration with investors worldwide.

Interfaith Center on Corporate Responsibility (ICCR): **[www.iccr.org/](http://www.iccr.org/)**

ICCR's membership is comprised of 275 faith-based institutional investors, including national denominations, religious communities, pension funds, foundations, hospital corporations, economic development funds, asset management companies, colleges, and unions. ICCR and its members press companies to be socially and environmentally responsible. Each year ICCR- member religious institutional investors sponsor over 200 shareholder resolutions on major social and environmental issues.

Institutional Investors Group on Climate Change (IIGCC): **[www.iigcc.org/](http://www.iigcc.org/)**

IIGCC is a forum for collaboration between pension funds and other institutional investors on issues related to climate change. One of its goals is to encourage companies and markets in which IIGCC members invest to address any material risks and opportunities to their businesses associated with climate change and a shift to a lower carbon economy.

Principles for Responsible Investment (PRI):

**[www.unpri.org/](http://www.unpri.org/)**

PRI provides a framework for considering the environmental, social, and corporate governance (ESG) issues that can affect the performance of investment portfolios.

Dow Jones Sustainability Indexes:

**[www.sustainability-indexes.com/](http://www.sustainability-indexes.com/)**

Launched in 1999, the Dow Jones Sustainability Indexes are the first global indexes tracking the financial performance of the leading sustainability-driven companies worldwide. Based on the cooperation of Dow Jones Indexes, STOXX Limited and SAM, they provide asset managers with reliable and objective benchmarks to manage sustainability portfolios.

FTSE4Good Index Series: **[www.ftse.com/Indices/FTSE4Good\\_Index\\_Series/](http://www.ftse.com/Indices/FTSE4Good_Index_Series/)**

The FTSE4Good Index Series has been designed to measure the performance of companies that meet globally recognized corporate responsibility standards, and to facilitate investment in those companies.

GHG Protocol Website: **[www.ghgprotocol.org](http://www.ghgprotocol.org)**

The GHG Protocol is the most widely used international accounting tool for government and business leaders to understand, quantify, and manage GHG emissions. It provides the accounting framework for nearly every GHG standard and program in the world—from the International Standards Organization to the EU Emissions Trading Scheme to The Climate Registry—as well as hundreds of GHG inventories prepared by individual companies.

The Climate Registry: **[www.theclimateregistry.org](http://www.theclimateregistry.org)**

California Climate Action Registry:

**[www.climateregistry.org](http://www.climateregistry.org)**

The Climate Registry is collaboration between over 40 states, provinces, and tribes in the United States, Canada, and Mexico to develop and manage a common and unified GHG emissions reporting system. The Climate Registry is designed to support various GHG emission reporting and reduction policies for its members. The Registry provides a voluntary entity-wide reporting program and infrastructure to collect and track GHG data reported to state mandatory and regulatory programs.

The Climate Registry is founded on the GHG Protocol Corporate Accounting and Reporting Standard. It is intended to unify existing state registries based on the GHG Protocol, including the California Climate Action Registry, the first state-level corporate GHG registry in the U.S. with current participation from 300 reporting companies, and the Eastern Climate Registry, a joint project of several Northeast states.