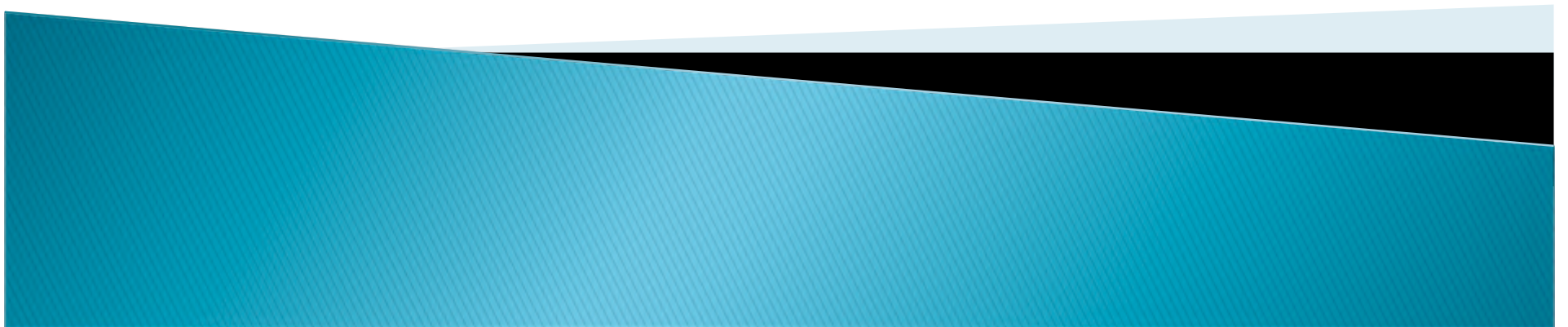


Corporate Sustainability Management (CSM): A Context-Based Approach

Understanding the CSM Cycle

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May 2011 (v2.6)



Introduction

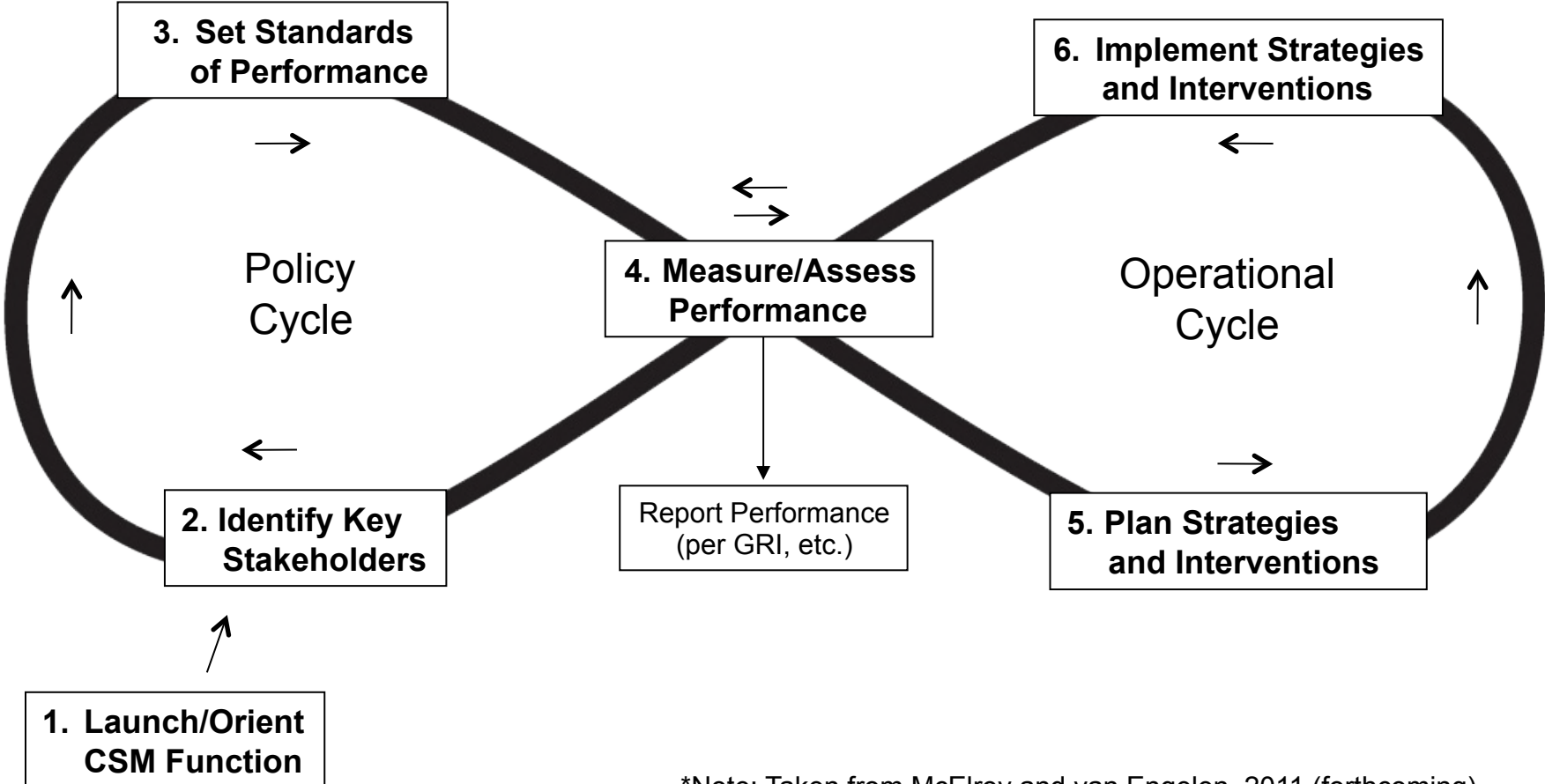
- ▶ This is a summary of the practice of ‘context-based’ Corporate Sustainability Management (CSM)
 - Argues for the measurement, management and reporting of sustainability performance in terms of impacts on vital capital resources in the world that stakeholders rely on for their well-being
 - Interprets the sustainability performance of an organization as a function of how its impacts on such resources compare to stakeholder-driven standards for what they ought to be in order to be sustainable (i.e., assesses impacts *in context*)
 - Constitutes a fully operationalized form of triple bottom line sustainability management

CSM as a Stepwise Process

1. Launch/Orient CSM Function
2. Identify Stakeholders
3. Set Standards of Performance
4. Measure/Assess Performance
5. Plan Strategies & Interventions
6. Implement Strategies & Interventions

Repeat steps 4 through 6 continuously
and/or steps 2 through 6, if needed

The Double-Loop CSM Cycle*



*Note: Taken from McElroy and van Engelen, 2011 (forthcoming)

Steps 1 through 3

1. Launch/Orient the CSM Function

- ▶ Amounts to initializing CSM
- ▶ Involves making conceptual commitments
 - Stakeholder well-being
 - Maintaining quality and sufficiency of vital capitals for stakeholder well-being
 - Triple Bottom Line (not just environmental)
- ▶ Also involves choosing an approach to metrics
 - Context-based versus context-free
 - Full-quotient versus numerator only
 - Eco-efficiency metrics not the same as sustainability metrics
- ▶ And embracing the CSM cycle itself

2. Identify Stakeholders

- ▶ Identify stakeholders with whom the organization has relationships
 - Based on legal or contractual responsibilities
 - Based on impacts the organization has on capital resources of importance to human well-being
 - Based on impacts the organization *ought* to be having on capital resources of importance to human well-being

- ▶ Stakeholder definition:

“A stakeholder in an organization is anyone whose vital capitals – and whose interests and well-being, therefore – are affected by the organization’s actions, or whose vital capitals ought to be so affected by virtue of the relationship that exists between them.”

McElroy and van Engelen, 2011

3. Set Standards of Performance

- ▶ Vital capitals and the Triple Bottom Line (TBL)
 - The sustainability performance of an organization is a function of its impacts on vital capitals, as such capitals are required to ensure human well being
 - The humans of interest in the case of CSM are an organization's stakeholders, as identified in step 2
- ▶ Metrics, measurement and reporting
 - Vital-capital-related duties and obligations to have/not have impacts must be identified for each stakeholder group
 - Metrics must then be defined to help measure whether duties and obligations are being met
 - Duties then reflected in denominators of full-quotient metrics

Full-Quotient Metrics

The Sustainability Quotient

A Formula for Measuring and Reporting
Corporate Sustainability Performance

$$S = A/N$$

Where:

S = Sustainability Performance*

A = Net Actual Impacts on the Carrying Capacities of Vital Capitals

N = Net Normative Impacts on the Carrying Capacities of Vital Capitals

*For Ecological Quotients, S scores of ≤ 1 are sustainable, >1 are unsustainable;
for Societal Quotients, S scores of ≥ 1 are sustainable, <1 are unsustainable

Source: McElroy, 2008

Another Way of Saying It

$$\text{Sustainability Performance} = \frac{\text{Actual Impact On a Vital Capital}}{\text{What the Impact on the Same Vital Capital Should Be to Ensure Stakeholder Well-Being}^*}$$

*Implicit in this formulation is the requirement that impacts should be tied to the carrying capacities of vital capitals, so that they remain sufficient for stakeholder well-being.

Examples of Full-Quotient Metrics

- ▶ Sample metrics for the environmental bottom line:
 - Greenhouse gas emissions (numerator) measured against the assimilative capacity of the atmosphere to absorb such emissions (denominator)
 - Fresh water use (numerator) measured against the availability of renewable fresh water supplies (denominator)
 - Fossil fuel use (numerator) measured against the rate at which renewable alternatives are used (denominator)
 - Compostable waste emissions (numerator) measured against the assimilative capacity of related ecosystems (denominator)

Full-Quotient Metrics (cont.)

- ▶ Sample metrics for the social bottom line:
 - Contributions to climate change mitigation efforts (numerator) measured against standards for what such contributions ought to be (given a company's size and economic resources) in order to ensure human well-being (denominator)
 - Contributions to public health programs (numerator) measured against standards for what such contributions ought to be (given a company's size and economic resources) in order to ensure human well-being (denominator)
 - Contributions to public infrastructure measured against standards for what such contributions ought to be (given a company's size and economic resources) in order to ensure human well-being (denominator)

Full-Quotient Metrics (cont.)

- ▶ Sample metrics for the economic bottom line:
 - Impacts on community economic development programs (numerator) measured against standards for what such impacts ought to be (given a company's size, etc.) in order to ensure community economic well-being (denominator)
 - Impacts on local livable wage standards (numerator) measured against standards for what such impacts ought to be (given a company's size, etc.) in order to ensure employee economic well-being (denominator)
 - Impacts on foreign fair trade practices (numerator) measured against standards for what such impacts ought to be (given a company's size, etc.) in order to ensure supplier economic well-being (denominator)

Steps 4 through 6

4. Measure/Assess Performance

- ▶ This is the act of determining current levels of performance (numerators) relative to normative levels (denominators), as in *actual performance compared to levels of performance required to be sustainable*
- ▶ Provides baseline information in the first go around; then provides feedback on how effective strategies and interventions have been in subsequent rounds
- ▶ Produces numerical sustainability performance scores

5. Plan Strategies & Interventions

- ▶ In cases where gaps or deficiencies in performance are revealed through measurement, CSM strategies and interventions must be developed to help close them
 - This is the purpose of full-quotient metrics – to determine whether or not an organization is meeting its duties and obligations to have/not have impacts on vital capitals as required by its stakeholders for their well-being
 - Note that gaps can either be positive or negative
- ▶ In practice, a CSM function may measure performance once a year, and then spend the rest of the year closing gaps revealed through measurement

6. Implement Strategies & Interventions

- ▶ Closing gaps
 - This is the step of taking action in order close gaps identified in step 5
 - Or can be aimed at simply *maintaining* performance in cases where there are no gaps, or where gaps are marginal
- ▶ Examples of strategies and interventions
 - Reducing energy and materials use and also emissions in order to achieve environmental sustainability
 - Increasing investments in improving the sufficiency of community-based social or economic programs in order to achieve social or economic sustainability

After Step 6 – Repeat the Cycle

- ▶ Revisit measurement and assessment
 - Once strategies and interventions have been made, performance must be measured and assessed again in order to see if the intended effects have been realized
 - This amounts to repeating step 4 again, followed by steps 5 and 6, as well
- ▶ Best practices in CSM therefore boils down to the cyclical repetition of steps 4 through 6, or 2 through 6
 - Occasionally it may be appropriate to double back to step 2, in cases where significant organizational, market, and/or stakeholder changes have occurred
 - Otherwise, repeat steps 4 through 6 cyclically

Summary

- ▶ CSM can be thought of as a cyclical process of managing an organization's impacts on (the carrying capacities of) vital capitals, as such capitals are required by its stakeholders to ensure their own well-being
- ▶ As a process, CSM generally follows the logic of gap analyses
 - Targets for impact are defined
 - Actual impacts are measured, and gaps, if any, are noted
 - Gaps, if any, between targets and gaps then lead to strategies and interventions aimed at closing them
 - Actual impacts are then measured again, and the cycle repeats

Thank You!

For more information, contact us at:

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