

Corporate Sustainability Management

A Context-Based Approach

By Mark W. McElroy, Ph.D.
Founder and Executive Director
Center for Sustainable Organizations

October 2021 (v3.2)
(First Published June 2013)



Introduction

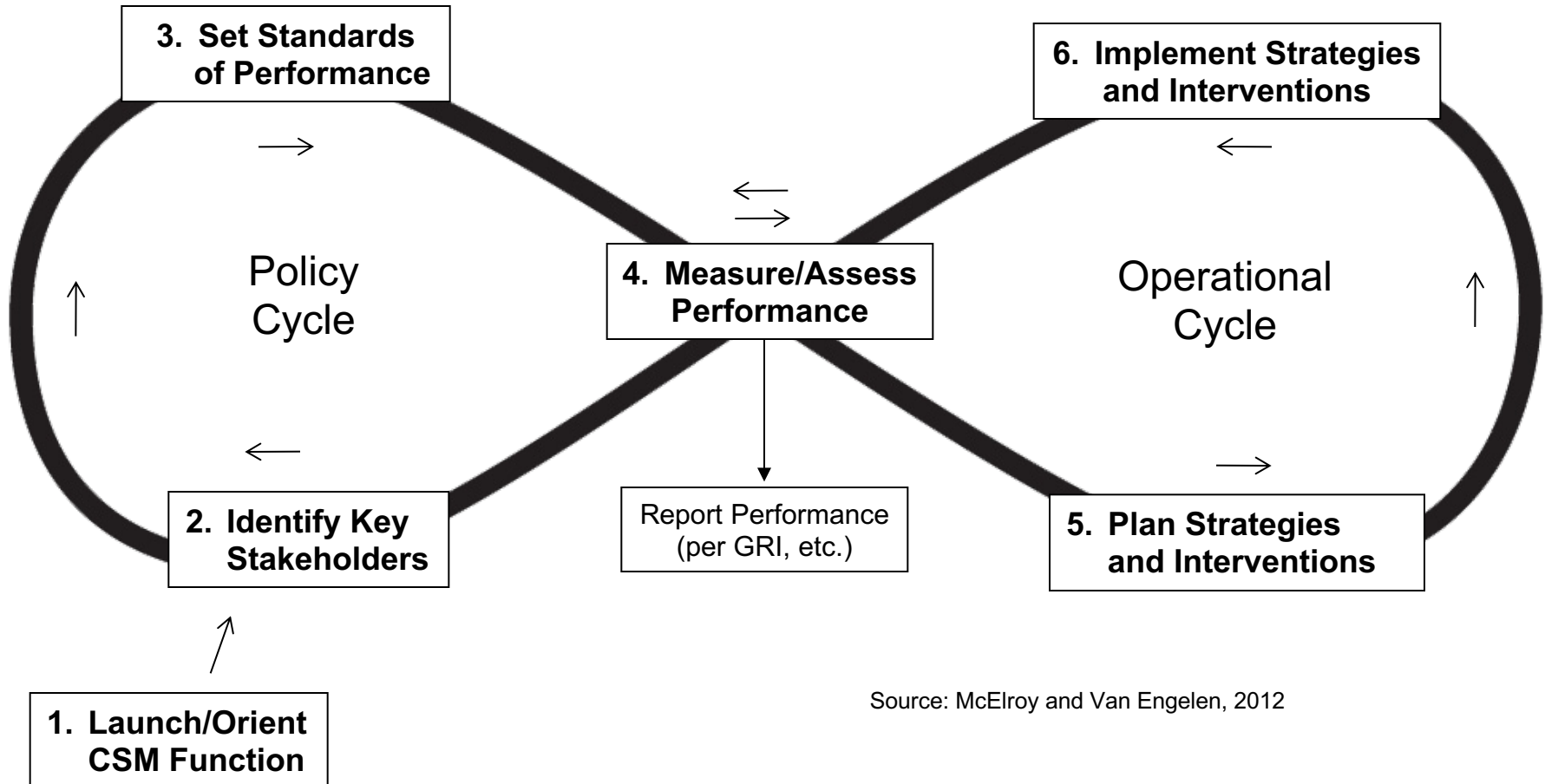
- * This is a summary of the practice of Context-Based Sustainability
 - Involves the measurement, management and reporting of sustainability performance in terms of impacts on vital capital resources that stakeholders rely on for their well-being
 - Interprets the sustainability performance of an organization as a function of how its impacts on such resources compare to norms, standards or thresholds for what they would have to be in order to be sustainable
 - Both actual and normative impacts expressed relative to the *carrying capacities of vital capitals*
 - Generally follows a process called the *Corporate Sustainability Management (CSM) Cycle*

Corporate 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 CSM Cycle



Source: McElroy and Van Engelen, 2012



Steps 1 through 3

1. Launch/Orient the CSM Function

- * Amounts to initializing CSM
- * Involves making conceptual commitments:
 - To stakeholder well-being
 - To maintaining quality and sufficiency (i.e., carrying capacities) of vital capitals for stakeholder well-being
 - To the Triple Bottom Line (not just environmental)
- * Also involves choosing an approach to metrics that is:
 - Context-based and not just incrementalist
 - Reflective of sustainability norms, standards, or thresholds
 - Geared to sustainability, not just eco-efficiency
- * Embraces the CSM Cycle

2. Identify Stakeholders

- * Identify parties to whom the organization owes duties and obligations based on:
 - Legal or contractual considerations
 - Impacts the organization is already having on capital resources of importance to human/non-human well-being
 - Impacts the organization *ought to be* having on capital resources in ways that can affect human/non-human well-being
- * Stakeholder definition:
 - A stakeholder is anyone to whom a duty or obligation is owed to manage one's impacts on vital capitals in ways that can affect their well-being

3. Set Standards of Performance

* Vital capitals and the Triple Bottom Line

- The sustainability performance of an organization is a function of its impacts on the carrying capacities of vital capitals, as such capitals may be 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 manage 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 context-based metrics



Context-Based 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)

Denominators reflect norms, standards or thresholds for what an organization's impacts on the carrying capacities of vital capitals must be in order to be sustainable

Another Way of Saying It

The Sustainability Quotient*

A General Specification for Context-Based Metrics

$$\text{Sustainability Performance} = \frac{\text{Actual Impact on the Carrying Capacity of a Vital Capital}}{\text{Norm, Standard or Threshold for What the Impact on the Carrying Capacity of the Same Vital Capital Must Be in Order to Be Sustainable}}$$

Sample Context-Based Metrics

* Environmental

- Greenhouse gas emissions (numerator) measured against science-based reduction targets (denominator) tied to the reversal of climate change and the stabilization of GHGs in the atmosphere to safe levels (e.g., 350 ppm CO₂)
- Water consumption (numerator) measured against an allocation of available renewable supplies (denominator)

* Social

- Gender balance in governance (numerator) measured against a norm of no less than 40 percent of either gender on a board of directors (denominator)

* Economic

- Returns on equity (numerator) measured against a residual income norm of zero when set to reflect a level of earnings that are sufficient (not maximized) to cover the cost of capital in a particular sector (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, and measures of the size of gaps between actual performance and normative performance, be they positive or negative

5. Plan Strategies & Interventions

- * In cases where negative gaps or deficiencies in performance are found through measurement, CSM strategies and interventions must be developed to help close them
 - This is the purpose of context-based metrics – to reveal whether or not an organization is meeting its duties and obligations to have/not have impacts on the carrying capacities of vital capitals at levels required to ensure stakeholder well-being
- * In practice, a CSM function may measure performance once a year, and then spend the rest of the year closing gaps discovered through measurement

6. Implement Strategies & Interventions

- * Closing gaps
 - This is the step of taking action in order to close gaps discovered in step 5
 - Or can be aimed at simply *maintaining* performance in cases where there are no gaps, or where gaps are marginal or positive
- * Examples of strategies and interventions
 - Reducing energy, water, and materials use, and also emissions, in order to achieve environmental sustainability
 - Increasing investments in internal human, social and constructed capital in order to fulfill social and economic duties and obligations owed to employees, customers and suppliers

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 determine whether gaps have been closed as intended
 - 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, steps 4 through 6 should be repeated 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 well-being
- * As a process, CSM generally follows the logic of a gap analysis
 - Target performance is defined (as impacts on capitals)
 - Actual performance is then measured, and gaps, if any, between target impacts and actual impacts are noted
 - Gaps (i.e., negative ones) between target impacts and actual impacts then lead to strategies and interventions designed to close them
 - Actual performance is then measured again, and the cycle repeats



Thank you!

For more information, contact us at:

Mark W. McElroy, Ph.D.
Executive Director
Center for Sustainable Organizations
mmcelroy@vermontel.net
(802) 457-4222

www.sustainableorganizations.org