

Corporate Sustainability Management

A Context-Based Approach

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

Updated June 2013 (v3.1)



Introduction

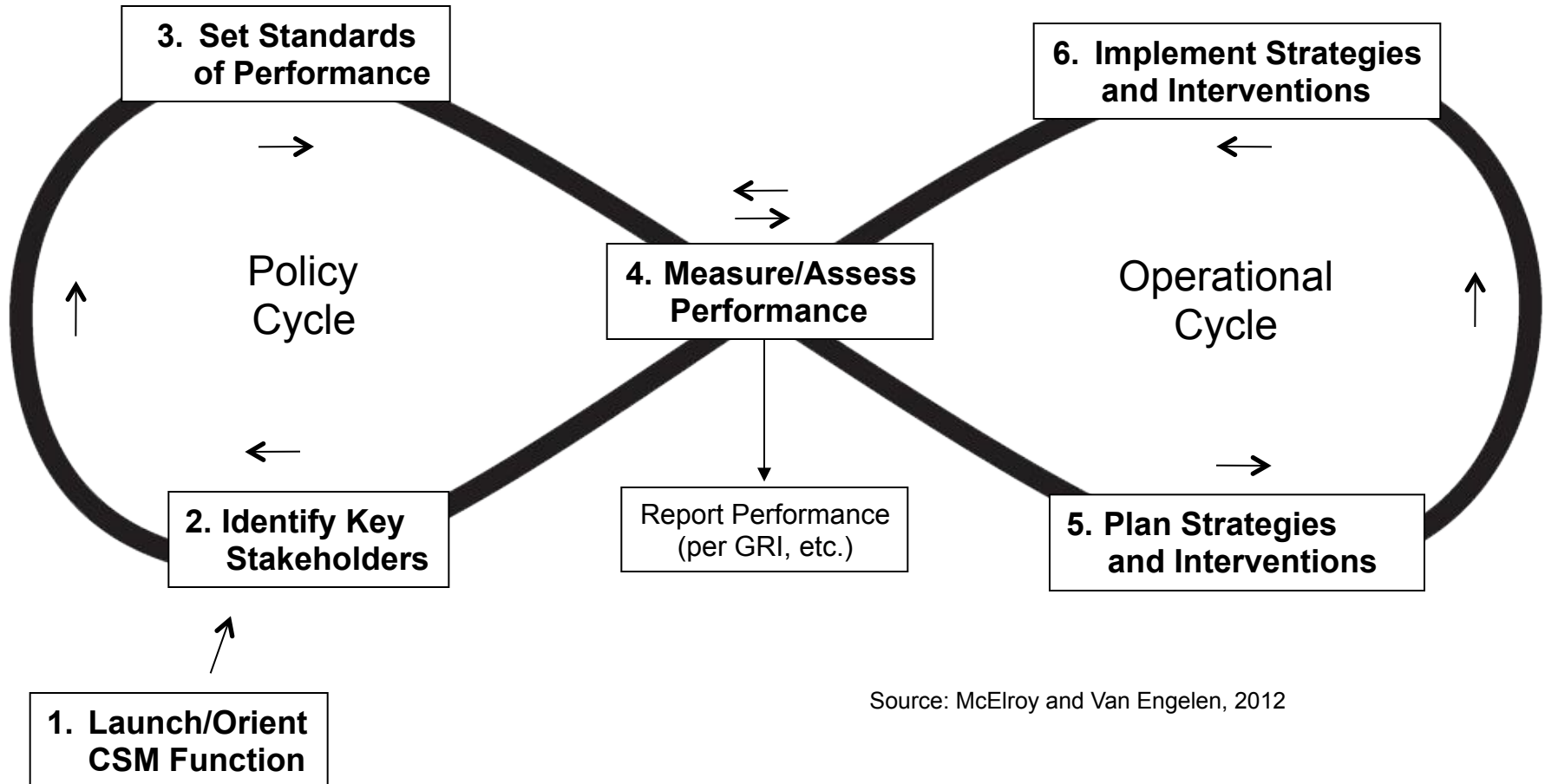
- * This is a summary of the practice of Context-Based Sustainability
 - * Involves the measurement, management and reporting of sustainability performance in terms of impacts on vital capital resources that stakeholders rely on for their well-being
 - * Interprets the sustainability performance of an 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*
 - * 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 versus context-free
 - * Reflective of sustainability norms, standards, or thresholds
 - * Geared to sustainability, not just eco-efficiency
- * Embraces the CSM Cycle

2. Identify Stakeholders

- * Identify parties with whom the organization has relationships, 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* (or not) having on capital resources of importance to human/non-human well-being
- * Stakeholder definition:
 - * “A stakeholder in an organization is anyone to whom the organization believes it owes a duty or obligation to have, manage, or refrain from having impacts on vital capitals of importance to their well-being.”

McElroy, Van Engelen, Thomas, and Baue 2012

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 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

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

$$\text{Sustainability Performance} = \frac{\text{Actual Impact On a Vital Capital}}{\text{What the Impact on the Same Vital Capital Must Be In Order to Be Sustainable*}}$$

*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 year-over-year 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)
 - * Solid waste emissions (numerator) measured against year-over-year reduction targets (denominator) tied to a zero waste goal
 - * Compostable waste emissions (numerator) measured against the assimilative capacity of related ecosystems (denominator)

Full-Quotient Metrics (cont.)

- * Sample metrics for the social bottom line:
 - * Child labor use (numerator) compared to contextually relevant standards or statutes pertaining to such use (denominator)
 - * Product or service safety (numerator) compared to contextually relevant standards or statutes aimed at ensuring *customer* well-being (denominator)
 - * Workplace safety conditions (numerator) compared to contextually relevant standards or statutes aimed at ensuring *employee* well-being (denominator)

Full-Quotient Metrics (cont.)

- * Sample metrics for the economic bottom line:
 - * Employee compensation levels (numerator) compared to contextually relevant living wage standards aimed at ensuring *employee* well-being (denominator)
 - * Fair trade practices (numerator) compared to contextually relevant standards for what such practices must be (denominator) in order to ensure *supplier* well-being
 - * Sustainable procurement levels (numerator) compared to a self-selected standard or threshold for the degree to which a company should be confining its use of suppliers and trading partners to only those who are actively, and effectively, managing their own sustainability performance



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 full-quotient metrics – to determine 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) 785-2293

www.sustainableorganizations.org