SUSTAINABILITY AND BOARDS

PRACTICAL Sustainability and the BOARDROOM

Where should boards start if they want to go green? by Iain McCormick

IT seems more corporate boards are going green – according to Joann Lublin of the *Wall Street Journal* (August 11, 2008). Despite the credit crunch a growing number of boards are concerned about climate change and depleting natural resources. About 25 percent of Fortune 500 companies now have a board committee overseeing the environment, compared with fewer than 10 percent five years ago, says Lublin. These committees monitor sustainability efforts such as new environmentally friendly projects like wind power, compliance with environmental regulations and related business risks.

Sustainability is defined by the US Environmental Protection Agency as meeting the needs of the present generation without compromising the ability of future generations to meet their own needs.

The idea of sustainability has been embraced by business leaders in New Zealand, such as Stephen Tindall, one of the founding members of the NZ Business Council for Sustainable Development. However, there is certainly not a critical mass of organisations embracing the concept. One of the reasons for the reluctance is the lack of practical and realistic steps that ordinary board members feel they can take to address the issue. Some are concerned about being labelled with 'greenwashing' – the unjustified claim of environmental virtue by an organisation to create a pro-environmental image in order sell a product or build a brand.

The problem of sustainability is important and urgent. The extraordinary success of the industrial age has left humankind with a legacy of huge amounts of industrial, consumer and commercial waste and toxicity as well as rapidly depleting natural resources. For example, more than 90 percent of computers, TVs, video and audio recorders, PDAs, and other consumer and commercial electronics end up in landfills, according to the US Geological Survey. The problem is evident, but the solution is not.

Peter Senge, senior lecturer at MIT and well-known management author of books such as *The Fifth Discipline*, has a range of practical suggestions in his new book *The Necessary Revolution*.

He sets out a 'sustainable value framework' which can help boards to understand their organisation's sustainability activities and to plan new ones. The framework indicates there are a range of activities that any organisation can do immediately (today) and other actions which need planning and systematic implementation and so must be done later (tomorrow). Some activities require action inside the organisation, while others require collaboration with external parties.

SUSTAINABLE VALUE FRAMEWORK
(adapted from Senge, P. *The Necessary Revolution* p122)

From this framework, four key strategies can be seen.

POLLUTION PREVENTION

This is the typical first sustainability step that boards think about and it involves minimising waste and emissions. Useful tactics may involve setting printer defaults from colour to black and white, changing to duplex printing, moving to low-emission diesel vehicles, automatically turning off lights and appliances when these are not needed. The pay-off is reduced costs and risks. The advantage is that it is relatively simple to implement and it does not involve collaboration with other parties. While this can be a useful strategy for any organisation, clearly the pay-offs are modest. Metrics for this strategy may include reducing greenhouse gasses by 15 percent from a 2007 base, or reducing water consumption by 10 percent and so on.

CLEAN TECHNOLOGY UTILISATION

This step involves boards thinking about the future and how the organisation can develop new innovative ways of dealing with sustainability. Clearly the next century will involve a move from fossil fuels to biofuels and from chemical feedstocks to natural feedstocks. Useful tactics may include the organisation moving from posting invoices to emailing them. A leading provider in this area, Calcium Software has developed a range of products to ensure that customers actually receive their online bills and provides very detailed tracking for companies. Managing director Cory Williams said: "The move from paper to electronic invoicing is part of a global digital tidal wave. Those of us who receive invoices and statements electronically will increase from the current 10 percent to 50 percent over the next three years."

The pay-off for this strategy is enhanced innovation. The advantage of this strategy is that it can lead to permanent improvements in the business and to the organisation repositioning itself in the market as a critical innovator. In this quadrant the pay-offs can be significant. Metrics may include the number of new clean technologies developed or implemented.

PRODUCT STEWARDSHIP

This is a bolder board strategy which involves engaging with outside stakeholders – community groups, NGOs and regulators. This engagement may involve a wide range of environmental groups such as those represented by the Environment and Conservation Organisations of New Zealand (see *http://www.rmalink.org.nz/*). Boards and senior managers engaging with conservation groups may seem fraught and unproductive. However, Peter Senge describes how Du Pont, which traditionally had a defensive and combative relationship with Greenpeace, went on to engage Paul Gilding, the former executive director of Greenpeace International, as a director adviser to the CEO and senior management on sustainability issues.

Effective engagement with outside parties can be a cathartic experience that brings in much new knowledge and innovation.

The pay-off for this strategy is enhanced reputation and legitimacy. The advantage of this strategy is that it can lead to radical changes and improvement in the business as stakeholder views are integrated into business processes.

Senge cites the example of Coca-Cola which formed an alliance with the World Wildlife Fund to find ways to sustainably manage water use. In this quadrant the pay-offs can be huge. WWF had board knowledge of ecosystems and water usage. Coke had huge global resources and reach. Together they are not to just improve water-use efficiency but to look at the total use of water in products, clearing, transport and all the products ingredients. Metrics may include not just the number of litres of water required to make a litre of Coke, about three, but to look at the whole supply chain and understand that it requires 200 litres of water or more to grow the ingredients that go into the drink, such as the sugar.

SUSTAINABLE VISION

This is the boldest strategy and involves not just engaging stakeholders but also thinking through long-term implications. The aim is to create sustainable value and provide the company with high value sustainable products and services. DuPont has sets goals such as: grow annual revenues by at least $2 billion from products that create energy efficiency and/or significant greenhouse gas reduction for customers; nearly double revenue from non-depletable resources to at least $8 billion.

To achieve these goals the company is looking at better serving the four billion people who live on less than $4 per day and provide products that better serve their basic needs. This will involve the shift to bio-feedstocks including the use of crop and other waste streams. The advantage of this strategy is that it can lead to sustainable high value growth. In this quadrant the pay-offs can be vast. Metrics may include the percentage of profit from new sustainably produced products.

In a study on sustainability in the boardroom of Dow Jones Index companies, Joan Ricart and colleagues from the IESE Business School at the University of Navarra identified the following:

1. Adopting corporate values such as sustainability, responsibility, integrity, dialogue with stakeholders and innovation.
2. Having one or more directors knowledgeable about sustainable development.
3. Holding an induction training for new board members to include material on sustainable development.
4. Having a formal sustainable development board committee or other method to integrate sustainability into strategy.
5. Including sustainable development strategy as a formal discussion for boards up to four times a year.
6. Using a clear effective mechanism to engage stakeholders, local communities, government, suppliers, NGOs in the area of sustainable development.
7. Embedding sustainable development in strategy development.
8. Internalising sustainable development values and principles through codes of conduct for all employees and suppliers.
9. Having management implement communication and training policies to reinforce the understanding of sustainable development.
10. Ensuring there is linking compliance with the code of conduct with remuneration.
11. Having management offer awards for teams and individuals that demonstrate excellence in the area.
12. Including that area into employee, customer and suppliers surveys.

At the simplest level all boards should adopt a policy in the area and work towards practical implementation of sustainability.

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