

Sustainability and Business

A Narrative and Annotated Bibliography

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Erwin A.J. Dreessen, Ph.D.

Foreword

At the request of the Small Business Policy Branch as it was then called (now the Small Business and Tourism Branch of the Small Business and Marketplace Services Sector, Industry Canada) I have spent much of the time available since March 2006 informing myself about sustainability and what it means for business. My sincere thanks go to Nancy Graham, then Director of Policy and Liaison at the Branch, for having suggested this investigation as a project suitable for a partial return to work during my recovery from illness. I am also grateful to Denis Martel, Director - Research & Analysis at the Branch, for re-hiring me post-retirement as a 'casual employee' so that this project could be completed.

I thank my colleagues at the former interdepartmental Working Group on SMEs & Sustainability for much initial material and friendly personnel at the IC Library and Knowledge Centre who retrieved many references for me. I am grateful to Louise Gravel for her technical assistance.

An earlier version of this work was distributed in July 2008 and presented at two workshops for government officials on September 3, 2008. I am grateful for all comments received from participants in the workshops and from recipients of that and later drafts. I remain to blame, of course, for all remaining errors and omissions. All opinions expressed are my own and should not be understood as representing those of the Branch or of the Government of Canada. The work is "Reproduced with the permission of the Minister of Public Works and Government Services, 2009."

The current text aims to be up to date to October 1, 2008, though some later developments are at least referenced – a dozen have a 2009 date.

The Summary was intended for publication on a Branch web site. It largely merges, in a somewhat expanded form, the Introduction and Epilogue of the present document. The full document text and related Figures are available at <http://web.ncf.ca/ct976/>.

Feedback on the document or inquiries about works cited are welcome. Please contact me at <erwin [underscore] dreessen [at] ncf [dot] ca> or (613) 739-0727, fax (613) 739-1197.

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Summary

This document is intended for both the general reader in government and research economists or policy analysts anywhere. Awareness of the sustainability challenge and the related business opportunity is still low, though the recent confirmation of human-generated climate change has led to significant progress in both awareness and the determination to act. Within the federal government, the assertion-in-principle in the mid-1990s that sustainable development (SD) was a central policy tenet has resulted in few roots, let alone implementation, in departmental actions. For the general reader in government, therefore, the intent of this document is nothing more or less than to further raise awareness about the significance of a sustainability orientation for businesses.

At the same time, it is hoped that the document will prove useful for policy analysts and researchers in the field, as a reference and perhaps as a source of ideas or warnings about pitfalls in their own work.

Besides the obvious anchor in the business perspective, wherever possible the selection of references and the annotations seek out what pertains to small and medium-sized enterprises (SMEs). They always note the inclusion of Canadian data, if there are any. For descriptive reports, an idea is provided of what is covered, without summarizing the substantive content. For analytical reports, the aim was to capture the source of data, the methodology employed and the main results. In two dozen cases, the annotation ends with a Comment.

Overall, nearly 400 references are annotated, in addition to over 100 news reports and, excluding government sites, over 50 web sites. An overwhelming proportion of the references dates from the last few years.

Scope and main findings

The narrative begins by putting the sustainability challenge in a global context, primarily with the help of the 2005 United Nations (UN) Millennium Assessments reports and the United Kingdom's Stern Review. These studies make the link to business considerations very explicit, leaving no doubt that environmental degradation and climate change pose both risks and opportunities for businesses. The rest of Section 1 annotates the UN's Global Compact initiative (launched in 2002) to engage business leaders on Human Rights, Labour Practices, the Environment and the fight against Corruption; and notes a number of business voices in Canada and abroad that advocate change. The Section concludes with a thought-provoking 2007 report by SustainAbility Ltd. It portrays the sustainability issue as the value creator/destroyer of the 21st century and sketches out four scenarios over the next 20 years in which either the environment, or society, or both, win or lose.

- By the best evidence, climate change is only part of a more widespread degradation of the planet's ecosystems on which all life – and business! – depends. Mitigation opens manifold opportunities for new businesses to spring up.

A Sidebar following Section 1 briefly deals with definitions. The “triple bottom line” (Environmental, Social, Economic) is recognized as the standard concept today, though the “ESG” acronym (for Environmental, Social and Governance issues, factors or risk exposures) is also prevalent, especially in financial circles.

Sections 2 and 3 deal with what a change to more sustainable conduct entails. Section 2 first reviews general frameworks and guidebooks. Special attention is paid to the work of Lynn Johansson for both Canadian and international audiences, because it is the best guide found that is expressly applicable to small and very small businesses. A dozen other general guides are also annotated. Then follow five special topics including annotations on eco-efficiency, standards and environmental management systems (EMSs), and carbon pricing.

- Triple-bottom-line thinking, and adoption of some form of EMS, is applicable to all manner and every size of business. Studies based on a large Organisation for Economic Co-operation and Development (OECD) survey suggest that formal EMSs become more attractive the larger the firm, if the firm is profitable, and if there is effective regulation.
- Whether through cap-in-trade or as a carbon tax, or both, carbon emissions will soon carry a price.

Section 3 references initiatives, progress reports, tools etc. in 20 industry sectors, starting with Canada's own Responsible Care® program in the chemical industry.

- In many instances, in sector initiatives as well as more broadly, an elite group of very large corporations is the most advanced in integrating triple-bottom-line thinking into its decision making. This will affect smaller firms if they are part of the supply chain to these large firms.

A brief Section 4 reviews the business case for more sustainable behaviour, interpreted as responding to the question whether such change is profitable. Surprisingly few studies were found that offer a rigorous answer to the question, though a majority do conclude that it pays to be green or sustainable. There are also annotations on ways of making the business case.

- The resource theory of the firm appears best placed to identify winners and losers. Essentially however, the case that it pays to be ‘green’ has long been proven and perhaps it's time to move on to developing solid metrics for corporate applications of sustainability initiatives.

Section 5 references the literature on Corporate Social Responsibility (CSR), highlighting the international CSR Implementation Guide – slightly modified from the Canadian original. A separate section is devoted to what drives firms to disclose sustainability-related information and what the uptake is in Canada and worldwide. The main drivers for reporting appear to be regulation, risk management or reduction, employee motivation, the rise of ethical consumerism, brand reputation management, and pressure from the Responsible Investment community. By last count, about 100 firms in Canada produced sustainability reports.

The Section concludes with brief annotations on the Global Reporting Initiative (GRI), the Carbon Disclosure Project (CDP), and various scorecards and awards. The GRI has formulated the gold standard of sustainability reporting practices; some 1000 corporations around the world adhere fully to the GRI guidelines while many more seek inspiration in it. The CDP surveys the 2400 largest corporations in the world on volumes and management of their greenhouse gas emissions.

- While the practice is spreading, triple-bottom-line reporting is still long from being mainstream, especially in North America.
- There is a close correlation between good reporting and good ESG performance.

Section 6 asks whether the stock market rewards sustainable behaviour. First is a discussion of the legal requirement to disclose material facts and the interpretation of fiduciary duty. It would seem that corporations probably should disclose more than they do, and that investment advisors must at least consider such ‘non-financial’ information. A Sidebar offers an overview of efforts made to supply investors with sustainability-relevant information. Then follows, under three headings, a review of a selection of 15 studies that have examined the relationship between some measure of sustainable behaviour and stock prices: simulations, backcasting studies, and economic models. With one exception, each study in its own way points to the positive relationship between sustainability performance and stock market returns. The same strong trend is evident in several review studies, which are annotated next. Brief references follow to sustainability-sensitive investment vehicles currently on the market.

- It would appear that there is a sustainability premium. Companies that score well on ESG factors produce higher Total Returns, even in the current downturn.

Section 6 ends with a review of financial industry practices. Here are highlighted, first, the UN-sponsored Principles for Responsible Investment, which aim to mainstream the integration of ESG issues into investment decision making. Next we look at policies on Responsible Investment by the Canada Pension Plan Investment Board and other pension funds. Responsible Investment practices have evolved from negative screening to selection of best-in-class to constructive engagement with individual firms. In the financial industry as a whole, consideration of ESG factors is increasing but is not yet a mainstream practice. In fact, short-termism seems to have gained more ground recently.

- In line with the research results found earlier, the financial industry is gradually recognizing that favouring corporations that perform well on ESG criteria also helps improve financial performance.
- Short-termism, and the obsession with quarterly earnings, is – well beyond the realm of sustainable-sensitive investing – an ailment that is not in the best interest of most stakeholders.

The narrative and annotations in the final Section, on the role of governments, stay purposely short of surveying current or recent government policies. Instead, the Section begins with calls for ‘new thinking’ in response to the sustainability imperative, emanating from work in both Canada and Australia. The Section situates Canada’s 1995 amendment to the *Auditor General Act* that created the Commissioner of the Environment and Sustainable Development as an early manifestation of the central importance of the SD perspective – an initiative now complemented by the *Federal Sustainable Development Act (2008)*.

Literature pertaining to seven policy domains are annotated next, starting with, again out of Australia, an analysis of what works and what doesn’t in environmental regulation of SMEs. The history of ‘ecological’ fiscal policy advice in the 1990s in Canada is documented. Two reports compile what governments around the world are doing about Sustainable Consumption.

- Governments are indispensable partners if businesses are to succeed in becoming more sustainable.
- Government leadership is particularly indicated regarding policies on Sustainable Consumption and Production.

Significant attention is paid to the thriving field of indicators – both principles and theories, and what actual indicators are available. The now largely archived “National Environmental Indicator Series 2003” by Environment Canada is documented. Apart from an abortive attempt by the National Round Table on the Environment and the Economy in 1997-99 to measure eco-efficiency, there are no SD indicators that specifically track business sector performance. Brief reviews of studies about governance and of commentary on energy policy conclude the list of specific topics.

- The OECD’s Key Environmental Indicators are impressive in combining fact with measuring issues, policy challenges, trends, etc.

Finally, advice from very diverse quarters is presented on what governments could do better to help businesses, and especially SMEs, engage in better environmental practices. For example, from the European Union comes a report that identifies best practices to encourage SMEs to adopt an environmental management system.

More generally, the role of governments in helping businesses to become more sustainable may be categorized as follows:

- 1- establish framework conditions through laws, regulations and creation of institutions;
- 2- adopt policies, including fiscal policies and adoption of international treaties;
- 3- provide incentives or subsidies;
- 4- provide information (including technical assistance) and support information networks and partnerships;
- 5- support research and research networks; and
- 6- support pre-commercial pilot projects.

What could follow

The Narrative aims to increase awareness of the significance of more sustainable conduct on the part of businesses of all sizes. It is hoped that it will lead to governments placing higher priority on facilitating businesses' transition to greater sustainability.

Researchers and policy analysts – the other audience for which especially these Annotations are intended – hopefully will make a few discoveries, gain some insights and receive guidance for their own work.

Future SME-related research could usefully examine the relevance and feasibility of high-quality industry-specific standards such as in chemicals and mining – standards that are binding on the majors – for the several thousand smaller firms that populate these industries but are not members of the association of majors.

There also is a dearth of carefully constructed backcasting studies of Responsible Investment performance that are transparently reported.

Finally, the employment implications of a 'green' economy appear to be severely under-researched.

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