

Sustainability: What does it mean for Business?¹

Introduction

Awareness of the sustainability challenge facing businesses, and of 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 a determination to act.

The author recently completed a document that, along with a narrative, annotates over 350 references as well as more than 100 news reports and, in addition to government sites, over 50 web sites related to this subject. An overwhelming proportion of the references dates from the last few years.²

Besides the obvious anchor in the business perspective, wherever possible the selection of references and the annotations sought out what pertained to small and medium-sized enterprises (SMEs). Canadian data, if any, were always noted. The agricultural sector was not covered nor were sources in languages other than English.

This paper summarizes the main findings and provides related key references. A few suggestions for future research are at the end.

Main findings

The global picture

- 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.

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Business conduct

Where can businesses that want to adopt more sustainable practices turn for guidance? There are many general frameworks and guides to choose from, Natural Capitalism and The Natural Step among them. The work of Lynn Johannson for both Canadian and international audiences stands out as an excellent guide expressly applicable to small and very small businesses. Further guidance can be obtained from writings on eco-efficiency, standards, and environmental management systems (EMSs). An important future given is that, whether through cap-and-trade or as a carbon tax, or both, carbon and other greenhouse gas emissions will soon carry a price.

- Triple-bottom-line thinking (Environmental, Social, Economic) and adoption of some form of EMS is applicable to all manner and every size of business. A large OECD survey finds that formal EMSs become more attractive the larger the firm, if the firm is profitable, and if there is effective regulation.
- From a review of initiatives, progress reports, tools and analyses spanning 20 industry sectors³ one may conclude that, in many instances, 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.

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 - *Eco-mapping*, Brussels, Belgium - ref. www.ecomapping.org/en/index.html.
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The business case

Is sustainable behaviour 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.

- The resource theory of the firm, which explains profitability as a function of firm attributes in the context of external conditions, appears best placed to identify winners and losers.
- However, the general case that it pays to be 'green' has long been made. The current need is for development of solid metrics for corporate applications of sustainability initiatives.

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Corporate Social Responsibility (CSR)

The main drivers for adopting CSR, and reporting on it, appear to be the presence of regulation, risk management or risk reduction, motivating employees, 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.

- 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' (environmental, social, & governance) performance.

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Stock market returns

Does the stock market reward sustainable behaviour? Important contexts for this question are the duty to disclose 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.
- Fifteen recent studies were selected that examine the relationship between some measure of sustainable behaviour and stock prices. With just one exception, each in its own way points to a positive relationship between sustainability performance and stock market returns. Several recent and older review studies confirm a similarly strong trend. One study finds that, in the recent downturn, firms included in two well-known Sustainability portfolios did better than average.
- It would appear, therefore, that there is a sustainability premium: Companies that score well on ESG factors produce higher Total Returns.
- Responsible Investment practices have evolved from negative screening initially, 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. (Short-termism, and the obsession with quarterly earnings, is an ailment well beyond the realm of sustainability-sensitive investment practices.)

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The role of governments

Scholars in both Canada and Australia have called on governments to engage in ‘new thinking’ in response to the sustainability imperative. Also from Australia comes a rare analysis of what works and what doesn’t in environmental regulation of SMEs. Governments and others spend much effort on measuring progress. The European Union has produced a report that identifies best practices in encouraging SMEs to adopt an environmental management system.

- 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.
- The OECD’s Key Environmental Indicators are impressive in combining fact with measuring issues, policy challenges, trends, etc.
- Here is a possible taxonomy of the role of governments in helping businesses to become more sustainable:
 - 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.

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Future research

Three gaps in our knowledge stand out, suggesting potential topics for future research:

- 1- The relevance and feasibility of high-quality industry-specific standards such as are established 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.
- 2- Carefully constructed backcasting studies of Responsible Investment performance that are transparently reported.
- 3- The employment implications of a 'green' economy.

In addition, as noted, there is a need to develop generally accepted metrics for corporate initiatives in support of greater sustainability. These would undoubtedly lead to better reporting, which in turn would be welcomed by security regulators (ref. OSC, Staff Notice 51-716, 27 February 2008).

Endnotes

1. An earlier version of this paper has been accepted for the Summer Conference 2010 of the Ontario International Development Agency at Laurentian University in Sudbury (22-25 June).
2. The work was performed for the Small Business Policy Branch (as it was then called, now the Small Business and Tourism Branch), Small Business and Marketplace Services Sector, Industry Canada. The full text and illustrations are available at <http://web.ncf.ca/ct976/>. Paper copies, bound and tabbed, are available at cost (\$30.00 + postage). All opinions expressed are his own and should not be understood as representing those of the Branch or of the Government of Canada. The author may be contacted via the web site.
3. The industries reviewed are: chemicals, banking, bio-based products and technologies, cement, construction, electricity utilities, food, beverage and consumer products, forest products, information and communications technology, insurance, manufacturing, mining, mobility, ports, postal services, railways, steel, tires, tourism, and vinyl.