White Paper

HUSCH BLACKWELL

Corporate Sustainability: Aligning Diverse Responsibilities to Maximize Value

Kirstin P. Salzman
May 2012

The face of corporate responsibility is changing. In the wake of corporate scandals and bail-outs, investors, employees, regulators and customers are looking for assurances that companies are committed to lasting corporate citizenship. It is no longer enough for organizations to tout their efforts to "Go Green" every Earth Day or pledge to support local philanthropic causes once or twice a year. The new look is more sophisticated and comprehensive. It reaches from boardroom ethics and sound employment practices to carbon footprints and human rights. And, its buzz word is "sustainability."

Corporate sustainability is the next phase in the evolution of corporate social responsibility. It expands the narrow, short-term emphasis on curbing a company's negative impacts on the social or natural environment to include sound governance, employment policies and practices, and community investment and incorporates all factors into a strategic, long-term growth rationale that is aligned with creating shareholder value. Rejecting the notion that financial results and ecological and social outcomes are mutually exclusive, the new approach seeks to balance these interests while lowering costs and improving profitability.[1] Although some business sectors have embraced the sustainability framework, the value shifts prompted by its adoption will eventually affect all companies in related and dependent segments.[2]

No single factor is responsible for driving corporate sustainability to the forefront of discussion in many boardrooms across the country. Governments, investors, advisors, interest groups, consumers, purchasers and suppliers, as well as current and prospective employees, have all contributed to the rapid development. The most significant proponents are those organizations that discovered ways to lower costs and improve profitability with sustainability-driven choices, sometimes unexpectedly, and now require entities up and down the supply chain to adopt similar standards.[3]

Investors and regulators are increasingly interested in sustainability issues and how companies report their performance. The Global Reporting Initiative developed and published the most widely recognized guidelines for companies to report environmental, social and governance performance and has experienced 300 percent growth in their adoption and use since 2005.[4] Bloomberg and Thomson Reuters gather performance results from company GRI reports and distribute the information to interested investors around the world.[5] The NASDAQ exchange created its own Global Sustainability Index based on GRI guidelines and subsequently removed Microsoft, Cisco and Oracle from the index for failing to disclose the minimum 40 percent of core GRI metrics required to qualify.[6]

Broad recognition concerning the value of and demand for sustainability policies and practices coupled with rapid growth in the number of companies that report their performance emphasizes the need for active board involvement in the issue. The Conference Board's 2010 survey on board oversight of sustainability-related activity indicates that nearly 70 percent of the boards surveyed claim to supervise sustainability issues and integrate them into the company's business strategy and governance practices.[7] Yet, the results indicate that most of the public companies surveyed had not integrated sustainability programs into their corporate governance structure.

The Conference Board report highlights three factors lacking in the surveyed companies' current governance structure relative to those that supported sound oversight:

1. **Most organizations lack an enterprise-wide sustainability program with adequate operational tools to integrate sustainability objectives into daily business activities.**[8] Effective integration requires "a clear mission statement, a dedicated functional department, and proper metrics to link executive pay and accomplishment in social or environmental activities."[9] The report notes that successful integration of sustainability initiatives requires integration as part of the business strategies that the board of directors oversees.

2. **Rather than relying on an independent set of sources from which to educate board members about sustainability issues and developments, most boards looked to senior executives within the company to provide information.**[10] The Conference Board recommends that directors avail themselves of independent resources such as peer-company benchmarks, securities analyst reports, director education programs and outside consultants that will enable them to "critically verify and analyze any internally produced information on these matters."[11]

3. **Active attention to sustainability issues at the board level is an important structural component and practice to develop and maintain in order to deter or effectively respond to shareholder activism in the field.** As previously noted, investors are increasingly interested in sustainability issues. Whether under the guise of environmental and social responsibility or concern for board diversity or pay disparity, shareholders are focusing on evolving market trends and emerging standards that they believe will impact the long-term value of their investment. Corporate boards of directors must be equally vigilant in staying abreast of the issues and proactively supervising the integration of sustainable initiatives into everyday business practices.

Conclusion

The evolution of corporate responsibility from environmentally friendly policies and practices to a more holistic approach of measuring a company's long-term growth, development and value of which environmental issues is but one of several considerations is under way. An effective response depends on the successful integration and oversight of an authentic and straight forward set of initiatives. When done well, corporate sustainability becomes its own value proposition.

1. “Corporate Sustainability Today,” David J. Vidal, The Conference Board (June 7, 2010).

2. *Id.* at 9 (noting that Wal-Mart’s requirement that 100,000 of its global suppliers report on their sustainability practices is likely to have far reaching effects that will cascade through the network of other *Fortune* companies that count Wal-Mart as their biggest customer).

3. *See id.* At 9 (quoting Lee Scott, Chairman of the Executive Committee of the Board of Directors, Wal-Mart Stores, “What has been amazing to me is what I thought was going to be a defensive strategy . . . is turning out to be entirely opposite. This is an offensive strategy. This is a strategy about merchandise. This is a strategy about attracting and retaining the best people and the most creative minds.”; see also Xerox Corporation 2009 report on Global Citizenship, “We were an early leader in the sustainability movement because we thought it was the right thing to do for the environment. But we discovered something else along the way. Every one of our innovations ended up either saving us money or creating new markets and new revenue. We found, in other words, that we don’t have to choose between the environment and profit. We can do both.” Anne Mulcahy, Chairman, and Ursula Burns, CEO, (2009).

4. The GRI report has become the benchmark for corporate sustainability reporting. See “About Sustainability Reporting,” Global Reporting Initiative, https://www.globalreporting.org/information/sustainability-reporting/Pages/default.aspx.

5. “The Global Reporting Initiative (GRI) and the Future of Integrated Reporting,” The Conference Board (June 7, 2010).

6. *Id.*

7. “Emerging Sustainability Practices,” Matteo Tonello, included in “Sustainability Matters: Why and How Corporate Boards Should Become Involved,” Research Report of the Conference Board Center for Sustainability, The Confernce Board, p. 37 (2011).

8. *Id.*

9. *Id.*

10. *Id.* at 36.

11. *Id.* at 40.

For more information concerning information governance, contact:

Kirstin P. Salzman
kirstin.salzman@huschblackwell.com
816.983.8316

huschblackwell.com