

BUSINESS LAW TODAY

The Business Case for Environmental Sustainability

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A corporation's main objective, and many would agree, legal obligation, is to make money and maximize profits for its shareholders, but should more be asked or required of today's successful businesses? For an ever increasing segment of society, the answer without a doubt is "yes." The concept, commonly referred to as corporate social responsibility (CSR), extends beyond compliance with legal mandates or even charitable donations and good deeds. CSR advocates believe a company has a clear duty of care to all stakeholders connected to or impacted by a company's operation.

A number of green issues are emerging as key components in a more global initiative to hold corporations socially, and if possible, financially responsible for their actions and inactions. Sustainable development, as a critical component of CSR, takes into account social, economic, environmental, and natural resource issues potentially affected by business. With growing awareness worldwide of environmental concerns, the CSR component of sustainability is focused on environmental sustainability. Environmental sustainability generally addresses how the needs of the present can be met without compromising the ability of future generations to meet their own needs

with emphasis on protection of natural resources and the environment.

CSR and environmental sustainability at first blush appear newer, more trendy philosophies, but in reality are deeply rooted in the kinds of challenges companies have confronted over the last century such as pollution, corruption, child labor, and poor worker conditions. Similar challenges exist today as companies seek new international markets and expand globally into areas that present not only business opportunities but also more operational risk. This is particularly evident in the environmental arena where critical business needs for water, energy, and raw products must coincide and be balanced with care for stakeholders and the environment. How companies manage these modern-day challenges does matter, as evidenced in a new study by Nielsen. This year's Nielsen Global Survey on Corporate Social Responsibility polled 30,000 consumers in 60 countries to understand how passionate consumers are about sustainable practices when it comes to purchase considerations; which consumer segments are most supportive of ecological or other socially responsible efforts; and, which social issues/causes are attracting the most concern. One key finding is that

55 percent of global online customers are willing to pay more for products and services provided by companies that are committed to positive social and environmental impact.

This article will examine environmental sustainability and why it matters for business. The authors will detail key environmental sustainability focus areas and outline a roadmap of essential considerations companies should incorporate into any environmental stewardship initiatives. Lastly, we conclude that there is a business case for environmental sustainability that will improve financial performance.

What is Environmental Sustainability?

The terms "environmental sustainability" or "sustainable development" are widely used, but the United Nations World Commission on the Environment and Development is credited with developing these concepts in its 1987 report titled *Our Common Future*. In that report, the World Commission defined "sustainable development" as development which "meets the needs of the present without compromising the ability of future generations to meet their own needs." The greening of the U.S. economy has focused increased scrutiny on environ-

mental issues, laws, and policies and focused much more attention and emphasis on environmental sustainability initiatives. In a recent report titled *Taking Flight: Environmental Sustainability Proposals Gain More Attention*, it is interesting to note that Ernst & Young found the three largest sustainability topics were all environmental issues including climate change/sustainability, energy efficiency/recycling, and energy extraction risks.

While environmental sustainability appears a new concept, it really has roots in conservation, land management, and protection of natural resources which are age-old mandates in the United States. In 1966, Lyndon B. Johnson commented on environmental conditions and even on the sustainability of the environment: “. . . To sustain an environment suitable for man, we must fight one-thousand battlefields. Despite all of our wealth and knowledge, we cannot create a redwood forest, a wild river or a gleaming seashore. But we can keep these we have.”

Understanding what environmental sustainability means, its priorities, and how the same are measured remain an ongoing challenge. The Global Reporting Initiative (GRI), a well-known leader in developing a sustainability reporting framework, incorporates key environmental performance indicators into its sustainability guidelines:

Materials

- Materials used by weight or volume.
- Percentage of materials used that are recycled input materials.

Energy

- Direct energy consumption by primary energy source.
- Indirect energy consumption by primary source.
- Energy saved due to conservation and efficiency improvements.
- Initiatives to provide energy efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives.
- Initiatives to reduce indirect energy consumption and reductions achieved.

Water

- Total water withdrawal by source.
- Water sources significantly affected by withdrawal of water.
- Percentage and total volume of water recycled and reused.
- Total weight of waste by type and disposal method.
- Total number and volume of significant spills.
- Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.
- Identify size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization’s discharges of water and runoff.

Biodiversity

- Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.
- Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.
- Habitats protected or restored.
- Strategies current actions and future plans for managing impacts on biodiversity.
- Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.

Emissions, Effluents, and Waste

- Total direct and indirect greenhouse gas emissions by weight.
- Other relevant indirect greenhouse gas emissions by weight.
- Initiatives to reduce greenhouse gas emissions and reductions achieved.
- Emissions of ozone-depleting substances by weight.
- NO, SO, and other significant air emissions by type and weight.
- Total water discharge by quality and destination.

Products and Services

- Initiatives to mitigate environmental impact of products and services, and extent of impact mitigation.
- Percentage of products sold and their packaging materials that are reclaimed by category.

Transport

- Significant environmental impacts of transporting products and other goods and materials used for the organization’s operations, and transporting members of the workforce.

Compliance

- Monetary value of significant fines and total number of nonmonetary sanctions for noncompliance with environmental laws and regulations.

Overall

- Total environmental protection expenditures and investments by type.

These environmental performance indicators serve as an important reference for an interpretation and understanding of environmental sustainability concepts.

The Importance of Environmental Sustainability

For businesses, being a good corporate citizen certainly is part of the CSR philosophy encouraging companies to give back in the communities where they live and work. CSR and environmental sustainability go beyond the “good corporate citizen” approach, however, and motivate companies to develop environmental and community outreach initiatives and to establish related policies applicable not only to company personnel but downstream suppliers and other vendors.

Almost three-quarters of the U.S. companies on the S&P 500 publish corporate sustainability reports according to research from the Governance & Accountability Institute. Despite growing pressure from green investor groups and organizations like the GRI, sustainability reporting in any meaningful way remains a largely volun-

tary effort on the part of American companies. New European Union requirements for sustainability reporting going into effect in 2017 will convert these voluntary efforts into legally mandated ones. These new reporting requirements will apply to 6,000 companies in the EU and will impact a number of U.S. businesses. The GRI sustainability reporting framework has been recommended as a possible platform for the EU reporting obligations. Similar to GRI reporting requirements, the EU directive will seek disclosure on policies, risks, and impacts regarding human rights, diversity, environmental matters, and other social considerations.

Increased or legally mandated sustainability reporting may actually help promote and enhance performance measures for companies that have made environmental sustainability a core element of their business strategies. A recent GreenBiz blog by Daniel Esty highlights the common disconnect between sustainability-related competitive strengths versus improved shareholder value – a concern that better sustainability reporting might improve. In his blog, Mr. Esty identifies several problems that need to be addressed regarding environmental, social, and governance (ESG) data currently available.

1. “Value” investors in the past wanted to exclude polluting companies and other bad actors from their portfolios. A wider range of investors today are interested in sustainability-driven growth, productivity gains, and risk reduction. The new “value” investors need a different set of sustainability metrics, including indicators tightly focused on financial results.
2. The sprawling nature of data available lacks clarity on what is important or possibly material. Mr. Esty notes “. . . What is critical to engaging the broad investor community are metrics that are meaningful from an investor perspective rather than from an environmentalist point of view. Thus, we argue for a ‘value driven model’ that centers on a core set of sustainability

metrics cast in language familiar to the Wall Street world.”

3. Existing ESG data is not action or results oriented in a manner useful to investors.
4. Concern exists over the quality of data often self-reported by companies.

Significant research exists supporting the competitive advantage benefits of environmental sustainability. Commonly cited improvements include enhanced corporate reputation, better employee retention and engagement, cost effectiveness, risk avoidance and mitigation, innovation, market expansion and greater access to capital. While these benefits appear impressive, a new language must be developed to translate these impacts into positive financial results if environmental sustainability efforts are to gain marketplace traction.

Key Environmental Sustainability Areas – What Matters?

The environmental sustainability journey is not one-size-fits-all. Each business needs to be clear on why it is making the effort, what it hopes to accomplish, and the scale of its commitment. Having said that, there are a number of typical focus areas. Comparable to most business initiatives, what we measure gets managed. Key performance indicators (KPIs) should be customized to the business needs. Common environmental sustainability concerns include the following.

Energy/Greenhouse Gases/Climate Change

Many businesses have chosen energy use as their first “toe in the water” on the environmental sustainability journey. Energy reduction is usually a “win-win” due to the positive impact on overhead, cost, return on investment (ROI), and commensurate reduction of greenhouse gas emissions. Utility, local, and state incentives are often available and can make the ROI even more attractive.

Energy use is frequently considered in terms of direct and indirect energy or energy used or generated on site and energy used or generated offsite.

Successful energy reduction programs are best started with an energy audit. This can be performed by competent internal facilities personnel, but is more commonly performed by outside consultants or utility representatives. The resulting report should document information on each identified issue including potential cost savings, incentives available, and cost to implement.

Greenhouse gas reductions go hand-in-hand with most energy-reduction strategies. For many manufacturing operations, releases of greenhouse gases from the manufacturing processes are a significant proportion of the overall footprint. As such, a reduction in the amount of energy used has a direct effect on the amount of greenhouse gases resulting from operations.

When deciding on how to approach identification, tracking, and goal setting on greenhouse gases, decisions will need to be made on what to count. Some businesses choose to only count those greenhouse gases arising from operations within their four walls. Others look at issues as far reaching as employee travel, fleet emissions, and life cycle product impacts. Numerous vendors provide greenhouse gas tracking software, which assists in the conversions of different types of energy uses into carbon dioxide equivalents.

Water Use

Water use is an environmental sustainability concern that has recently taken on increased relevance. Drought conditions and the prospects for increased weather severity has caused communities, industry, and regulators to place additional efforts into conservation strategies. Water resources have become increasingly stressed by population growth, contamination of resources, and depletion of groundwater supplies.

Conservation strategies have included closed-loop water cooling, low-flow fixtures, onsite treatment and reuse, gray water collection for irrigation, and xeriscaping.

Water use KPIs include total water used, water used per production unit, water used as a percentage of sales, and percent water reduction.

Waste Reduction/Product Inputs Reduction/Recycling

Products and processes require resource inputs. Furthermore, processes are never 100 percent efficient, so there is waste. Some excess can be reused in product, some can be profitably sold to other businesses, some can be given away or sold at a loss, and some will have to be disposed.

The company on the sustainability journey will seek to improve their resource use to product conversion ratio. A hierarchy of environmental preference can be established to guide the process. It is generally easiest to start with reuse and recycling of materials. Large gains can also be made by working with the supply chain on the reduction of packaging materials being received. Additionally, the types of packaging materials can be specified in order to reduce the volume, improve recyclability, and support reuse for outgoing shipments.

Common measurements may include percent waste recycled, waste per production unit, and total waste disposed to landfill.

Toxics Use Reduction or Elimination

Toxic materials are used to make and are found in many products. There are a host of reasons for reducing the toxicity or minimizing toxic materials, including workers exposure, emissions from our factories, and, ultimately, the health of our customers. This is an area that continues to see traction and has resulted in such things as the organic foods movement and calls for regulating plasticizers in children's toys. Eliminating toxins can be an admirable goal, may be essential to compete, and may also be challenging. Companies can choose to substitute less toxic materials in both the process and the product. This has also become an area of regulatory exposure as the European Union has implemented regulations such as REACH.

Emissions and Effluents

Toxic air emissions and contaminated wastewater are common byproducts of manufacturing. While they may be legal and released under a permit, they still have impact and are increasing the level of pollutants in the environment. Industry is re-

quired to do an annual assessment of these releases and submit reports to their environmental regulators. These reports are public information and are often scrutinized by stakeholders as one indication of a company's environmental performance. Many companies have made a significant effort to reduce emissions to be below reporting thresholds, or at least to be able to show progress on protecting the environment.

Common KPIs are tons released, tons per dollars of sales, and pounds per production unit.

Reduction strategies include substitution or elimination of toxic materials in process and product and process efficiency improvements.

Normalizing KPIs

It is key when selecting normalizing factors that they enhance understanding of performance, not obfuscate it. The clearer the correlation with processes or products, the better. An example from the automotive industry would be KPI per auto produced. Other common normalizing factors are employee hours, sales, or earnings.

Getting Goals Right

Goals drive performance. Properly designed goals have a positive impact on an organization in that they inform the employees that management has selected priorities, provide a frequent reminder of progress, and flow down in a way that identifies the role of each individual in meeting the objective. Where goals often fail is the lack of a plan to achieve them. The plan needs to define actions, individual responsibilities, and timeframes.

KPIs also need to be well defined so that results across the organization are based on the same data inputs. For example, a water use KPI could include water embedded in the product, used for cooling machinery, sanitary facilities, or growing crops.

It is important to make sure that goals are contextually meaningful. KPIs and goals for some facility locations may not have the same relevance and importance as another. Back to the water example again: facilities in the arid regions of the Ameri-

can Southwest and facilities on the shore of a large lake may not warrant the same use reduction objectives.

A Simplified Road Map to Implementation

Start with a shared vision: Each enterprise needs to start with the development of their environmental sustainability vision. As stated earlier, this requires that top management identify their level of commitment to the sustainability journey. This will be influenced by the business culture (or the culture they are trying to achieve), stakeholder interest, the potential to strengthen brand, personal values of leadership, and considerations of moral or ethical positions.

Communicate the vision: Leadership is responsible for the culture in any business and it is no exception for implementing a sustainability program. A successful sustainability program launch requires commitment to communication.

Develop an implementation strategy: It's a project, so manage it with the same rigor you would manage any other important initiative. Identify personnel, resources, objectives, targets, schedule and milestones.

Decide what is important: Once there is a vision, a materiality inventory will help direct the implementation strategy. A company may find that it has very low reportable air emissions, but produce large amounts of toxic waste. The air emissions may not be material and the toxic waste is likely material. There is no requirement that a company work on all material impacts concurrently. A strategy of focusing on the most material issues can be an effective approach.

Determine what to measure and how to measure performance: What are your key performance indicators? How will you normalize? What is your reporting frequency and how will you share this information? Data will need to be collected on each of the target areas. This can get challenging for some aspects, but is commonly available for energy, water, wastewater, hazardous waste, and recyclables. Also be aware that this data should be of a quality that could be audited if you will be communicating it externally.

Develop strategies for each KPI: Affecting the KPIs requires actions. Appropriate teams for each KPI can develop and implement plans to achieve the desired results.

Spend the money but spend it consistent with your values: Nothing can put the brakes on a sustainability program faster than a lack of appropriate resources. Having said that, many businesses look at ROI for various projects. Hurdle rates are sometimes relaxed for projects that have significant brand, employee morale, or stakeholder importance.

Start winning: Early success breeds enthusiasm. As one sustainability director at a large corporation said, “Simple wins are gateway drugs.”

Communicate: There is a theme here – it is pretty hard to overcommunicate when engaged in change. Of course, there is ineffective communication. Do not expect high levels of readership for sustainability e-mails and newsletters. Internal communications are best done at all appropriate levels of management by management.

Continually improve: Turn your implementation into an annual cycle with a goal of improving each year.

Communicate: Will you share your environmental sustainability progress outside your organization? Most companies publish

a sustainability report or a CSR report. Get familiar with organizations which are involved in reporting on environmental performance. As discussed earlier, the GRI, the Carbon Disclosure Project, and the Dow Jones Sustainability Index are examples from a growing list of organizations that have sustainability reporting standards.

Conclusion

According to the United Nations Principles for Responsible Investment (UNPRI), over \$34 trillion (approximately 15 percent) of the world’s investment assets are managed by signatories to the UNPRI who have committed to adopting policies and procedures that factor ESG issues into investment decisions. While not all investors and financial market analysts are convinced that environmental sustainability delivers shareholder value, there is growing belief that companies that are successful in avoiding environmental risks while taking advantage of ESG opportunities will outperform over the long term. The UNPRI economic marketplace statistics support this investment trend.

Moving toward environmental sustainability should work for even the most prudent or conservative business leaders, as implementing environmental sustain-

ability practices present few if any risks to business operations. Moreover, early start-up initiatives easily can be managed in house including identification of key environmental sustainability areas important to your business, assessing sustainability reporting opportunities and other means of communicating environmental sustainability efforts to stakeholders, and development of KPIs and financial performance impacts.

It appears a virtual certainty that environmental sustainability will increasingly move from voluntary to legally mandated initiatives, including sustainability reporting requirements. The critical inquiry for business is no longer if, but how and when to launch a meaningful environmental sustainability program. There is a growing business case for environmental sustainability. It is an added bonus that addressing these business challenges not only will enhance financial performance over time, but is simply the right thing to do as well.

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