more than greening

BY MICHAEL C. KNOWLES, CPA

Corporate Sustainability as a Business Strategy

A growing number of companies are entering the sustainability movement. But what, exactly, are these companies doing to achieve sustainability? Before we can answer that question, we must first ask: What is corporate sustainability?

Many equate sustainability with "going green." But that's only part of the story. Corporate sustainability is not simply a program or initiative—it's a business strategy. While going green can be considered one aspect of such a strategy, sustainability incorporates broad social initiatives, such as employee enrichment and retention, community involvement, and monitoring supplier ethics and employment practices.

Sustainable enterprises also focus on operating efficiently and enhancing long-term value. Because each enterprise has its own purpose, product and culture, each will have its own way of moving toward sustainability.

We will focus on what enterprises are doing to become sustainable, how that leads to better performance and the role CPAs may play in the process.

Sustainable Enterprises Preserve the Environment

Sustainability starts with the premise that a business is interdependent with the communities and environments in which it operates. A sustainable business looks at the bigger picture and takes actions—including preserving the environment—consistent with that picture.

Environmental impact varies by industry, but it's most frequently measured by the total greenhouse gases emitted into the atmosphere, or by waste produced from an enterprise's operations. The first step in managing pollutants or waste is to determine their source and measure the amount emitted.

Greenhouse gas—or one's carbon footprint—includes carbon dioxide, methane, nitrous oxide and other gases. The common unit of measure for greenhouse gas emissions is metric tons of carbon dioxide equivalents, which is a quantity that describes, for a given greenhouse gas, the amount of carbon dioxide that would have the same global warming potential when measured over a specified timescale.

Various resources are available to assist enterprises with measuring greenhouse gas emissions. For example, the Greenhouse Gas Protocol (www.ghgprotocol.org) provides tools and guidance for enterprises that want to measure their carbon footprint. It divides emissions into three categories based on source:

Scope 1: Greenhouse gases emitted directly from sources owned or controlled by the enterprise.

Scope 2: Greenhouse gases indirectly emitted as a result of purchase and consumption of electricity, heat, cooling or steam produced by others.

Scope 3: Greenhouse gases not owned or controlled by the enterprise, but occurring as a result of its activities, such as the greenhouse gases generated by the enterprise's supply chain.

Once measured, some enterprises report their greenhouse gas emissions to stakeholders or to outside parties such as the Carbon Disclosure Project (www.cdproject.net), a nonprofit organization that maintains the world's largest database of corporate climate change information. Information reported to the CDP is used by institutional investors, purchasing organizations and government bodies for financial and policy decision making. When a business reports to the CDP, it also signals to customers, competitors and investors that it is addressing climate change risks.

Once a baseline is set, sustainable enterprises look for ways to strategically reduce greenhouse gas emissions. Some enterprises have set emissions reduction targets based on perceived stakeholder expectations, like matching or beating a competitor target. A better approach is to analyze emissions sources and then model alternative scenarios to establish achievable targets.

For example, we recently assisted a consumer products company by measuring the greenhouse gas emissions produced by its downstream transportation logistics. The company has built considerable brand equity by making sustainability a critical part of its corporate culture and by producing environmentally friendly products. This brand equity could be quickly impaired if, in fact, greenhouse gas emissions generated in the production and transportation of products resulted in a product that was less environmentally friendly than competing brands.

We are now developing a software tool that will allow for continuous monitoring of greenhouse gas emissions along with tracking transportation cost. The dual objectives of reducing shipping costs and curtailing greenhouse gas emissions are consistent with one another. As a case in point, Staples saved $6 million over a two-year period by upgrading to centralized controls for heating and air conditioning in its 1,500 stores.

In many ways, the war on greenhouse gases is a war on inefficiency.

Addressing Corporate Waste

Corporate waste varies by industry, but is generally a byproduct of a production cycle, defective product or excessive packaging. Eliminating waste saves money, reduces consumption of resources and minimizes the burden on landfills. Waste may be measured in volume or weight, and may be addressed by direct reduction or by recycling.

Part of Walmart's giant sustainability initiative, for example, includes zero waste—no dumpsters behind its stores—by 2025. To that end, the company began a massive recycling program. Each month it recycles more than 10 million pounds of packaging and other materials that used to be hauled away to landfill. It also collaborates with suppliers to reduce packaging material that comes in to stores. In addition to reducing the burden on landfills, this initiative has converted a significant operating cost into company profit through the sale of recyclable materials.

Benefits of a Sustainable Approach

Though cost reduction provides a compelling incentive for an enterprise to reduce greenhouse gases and corporate waste, it may not be the most significant incentive for many enterprises. Companies pursuing sustainability are forced to be more innovative and entrepreneurial than competitors who don't pursue this business strategy. Innovation builds a stronger enterprise. The biggest financial incentives are over the long term.

Consumers are becoming increasingly aware of environmental issues, and many prefer buying products or services that incorporate sustainable practices and from enterprises that demonstrate environmental leadership. Sustainable enterprises are winning the trust of this type of consumer and other stakeholders, and this trust will add enormous value to these businesses over the long term. For example, Walmart cited that strengthening its relationship with this type of consumer as a fundamental reason to embark on its sustainability initiative.

Sustainable Enterprises Invest in People and Community

The best people are attracted to companies that are engaged in doing the right thing. A 2007 survey by Ipsos Mori indicates that 81 percent of Americans prefer working for an employer with a good reputation for environmental responsibility. College recruits, in particular, increasingly make employment decisions based on the perceived values of their prospective employers. Health and wellness programs are also important in a sustainability strategy and allow employers to capture cost savings from increased employee productivity. Sustainable enterprises are building a workforce of motivated, healthy and loyal employees who think about sustainability and incorporate it into their daily jobs.

Sustainable enterprises also consider the public interest in corporate decision making. By relating well with surrounding communities, an enterprise builds competitive strength, creates new markets and obtains a license to grow.

There are a number of ways an enterprise may improve community relations. Many organizations initiate or support community volunteerism by company employees. In the second year of our firm's sustainability initiative, we've rolled out a program to support and provide resources so our managers can participate in local nonprofit boards. We're also assembling resources to match our managers' skills and interests with the needs of local nonprofit boards. The result is a program that supports the community, while also enhancing the business maturity of our managers.

Triple Bottom Line

Triple bottom line expands corporate reporting to include ecological,

case in point:

An Example of the Greening Process

VSP Vision Care recently underwent a Leadership in Energy and Environmental Design certification process to green its business, save money and preserve the environment.

LEED, a nationally recognized certification system, measures a building across five areas: sustainable sites; water efficiency; energy and atmosphere; materials and resources; and indoor environmental quality.

After the process, VSP became one of 15 LEED platinum-certified buildings in the nation.

"We found that green business practices increase the bottom line from a cost-reduction prospective, and from the revenue top line," said Patricia Cochran, VSP CFO. "Another unexpected benefit was the increase in employee engagement as a result of their enhanced satisfaction with our support for the environment."

The company owns four buildings in Rancho Cordova totaling 450,000 square feet. The operational green goals included conserving energy, reducing water consumption and reducing waste. Here's what that entailed:

Total Project
- Project total: $434,592
- Simple Payback: 4.96 Years
- VSP team hours: 2,100
- Consultant team hours: 425

Energy Conservation Efforts—Goal: 20%
Energy Reduction Solutions
- Daytime janitorial
- Optimizing lighting and HVAC controls
- Submetering
- Lighting sensors
- Employee education
- Data center retrofits

ROI for Energy Conservation Efforts During LEED Project
- Annual electricity cost: $457,361
- Implementation cost: $123,254
- Savings: $64,030
- Annual energy savings: 14%
- Payback: 2 years

Water Reduction Methods—Goal: Reduce by 50%
Water Efficiency: Domestic Water
- Light-powered, touch-free faucets
- Dual flush valves
- Low-flow water closets and urinals
- 0.5 GPM aerators at lavatories

Water Efficiency: Irrigation
- Replacing shrubs with decomposed granite
- Replacing spray irrigation with bubblers
- Using more water-efficient plants

Annual water-related cost savings: $5,100

Waste Diversion Rate
(Amount of waste diverted from landfill, i.e. recycled)
- Initial audit: 40% of total waste was being diverted from the landfill. Recent audit: 82%
- Eliminated Styrofoam cups: 750,000 cups/year=$52,000 total savings
- Reduced 2 trash hauls per weeks: saved $3,000 a year

social and financial performance. The concept expands corporate responsibility from "shareholder" to "stakeholder," incorporating parties who are influenced—directly or indirectly—by the organization's actions. Being accountable to a triple bottom line moves an enterprise from a short-term economic focus to a longer-term focus that incorporates its impact on society.

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Expanding to a triple bottom line also presents new and interesting reporting challenges, which generates a significant opportunity for CPAs to play an important role in the sustainability movement.

While there are a number of recognized standards, including the Global Reporting Initiative (www.globalreporting.org), these merely provide a framework for reporting and don't address numerous issues that can arise in measuring and disclosing environmental and social matters. As we've learned in our enterprise carbon accounting practice, there are challenges in measuring carbon dioxide emissions in a reliable and repeatable way.

A number of organizations have begun the hard work of developing guidelines to address these challenges. Examples include the Accounting for Sustainability Project (www.accountingforsustainability.org), which was launched in 2006 by the Prince of Wales and has brought together 16 accounting bodies from around the world to develop a framework for reporting sustainability performance.

The Climate Disclosure Standards Board (www.cdsb-global.org) has brought together business and environmental organizations to jointly advocate a principles-based, generally accepted international framework for companies to disclose information about climate change-related risks and opportunities, carbon footprints, carbon-reduction strategies and the implications for shareholder value. The board recently published an exposure draft (www.calcpa.org/CDSBframework) of a framework for reporting on climate change-related information in mainstream financial reports to facilitate investor decision making.

Creating Value

Corporate sustainability is a business strategy that can create long-term shareholder value. By embracing opportunities and managing risks derived from economic, environmental and social developments, sustainable companies are better positioned to meet changing consumer demands and expectations. Measurement is fundamental to a sustainability effort, and CPAs are in the measurement business.

As enterprises seek to report on their economic performance and their environmental and social impacts, CPAs will help to establish and update the company's measurement and reporting protocols to track progress on the road toward sustainability. CPA

Michael C. Knowles, CPA, is a partner at Frank, Rimerman Consulting and a member of the AICPA Sustainability Strategic Advisory Panel. You can reach him at mknowles@frankrimerman.com.