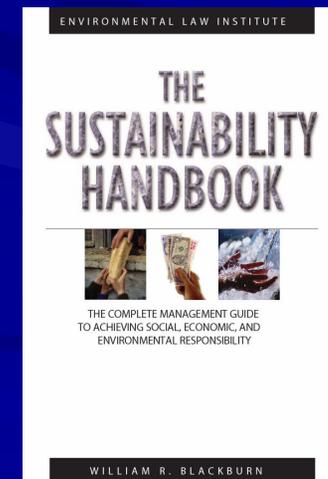


The Sustainability Handbook— The Complete Management Guide to Social, Economic and Environmental Responsibility

By
Bill Blackburn
June 14, 2006

Board Meeting
Environmental Law Institute
Shepherdstown, WV

William Blackburn Consulting, Ltd.
Web: www.WBlackburnConsulting.com
Email: WRB@WBlackburnConsulting.com
Phone: 847.530.4014
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Basis for Book

- 25 years at Baxter (EHS and sustainability leader)
- CERES relationship
- GRI stakeholder counsel and committees
- ISO social responsibility working group
- ABA sustainable development subcomm.
- MBA lecturer/advisor

Creating the Sustainable Company: A Few Topics

1. Operationalizing sustainability
 - Defining the vision
 - Strategic planning
2. Business-NGO relationship

Defining the Vision ?Questions?

- What do we want to achieve?
- How should we achieve it?



A Corporate Commitment to Sustainability

(A Sample Sustainability Policy)

It is within the best interests of our company and society as a whole that our company move along the path to sustainability. To that end, we will strive to achieve the following vision of performance:



1. Economic success: the wise use of financial resources

a. Company Economic Prosperity

Our business is positioned to survive and prosper economically.

b. Community Economic Prosperity

We are helping our community survive and prosper economically.

2. Social responsibility: respect for people

a. Respect for Employees

We treat our employees in a respectful, fair, non-exploitative way, especially with regard to compensation and benefits; promotion; training; open, constructive dialogue with management; involvement in decision-making; working conditions that are safe, healthy and non-coercive; rights of association, collective bargaining and privacy; employment-termination practices; and work-life balance.

b. Diversity, Fair Hiring Practices

We promote diversity and use hiring practices that are fair, responsible, non-discriminatory, and non-exploitative for our employees, board members, and suppliers.

c. Responsible Governance

We manage our risks properly, use our economic power responsibly and operate our business in a way that is ethical and legal.

d. Respect for Stakeholders

We are transparent, respectful and fair to local populations, investors, suppliers and other stakeholders outside our organization who may be affected by our operations. We work collaboratively with our communities to enhance the well-being of others.

e. Fair Dealing With Customers

We are honest and fair with our customers, competing fairly for their business, respecting their privacy, and providing them safe and effective products and services under the conditions we promise.



3. Environmental responsibility: respect for life; the wise management and use of natural resources

a. Resource Conservation

We conserve our use of natural resources to the extent practicable.



b. Waste Prevention and Management

We reduce to the extent practicable the volume and degree of hazard of the wastes we generate from our operations, and handle them in a safe, legal and responsible way to minimize their environmental effects.

c. Environmental Risk Control and Restoration

We minimize the risk of spills and other potentially harmful environmental incidents, restore the environment where damaged by us, and enhance it to better support biodiversity.

d. Supply Chain Impacts

We work with others in our supply chain to help assure environmental impacts and risks associated with our products and services are reduced and properly controlled.

e. Collaboration With Communities

We collaborate with our communities to protect and improve the environment.

Examples of Economic Topics

Sales

Profits

Dividends

Cash flow

R&D investment

Capital expenditures

Debt and interest

Wages

Market share

Retained earnings

Liabilities

Return on investment

Community donations

Taxes

Tax subsidies

Local purchasing

Credit rating

Brand strength

Examples of Social Topics

Ethics
Product usefulness
Product quality
Product safety
Union relations
Producer responsibility
Consumer privacy
Emergency preparedness
Child labor
Forced labor
Disciplinary practices
Flexible work options
Charitable donations
Antitrust practices
Occupational health
Bioterrorism
Indoor air pollution
Legal compliance concerning the above topics

Workplace safety
Corporate governance
Employee relations
Product labeling
Board diversity
Supplier diversity
Employee privacy
Non-discrimination policies
Community outreach
Employment
Transparent public reporting
Dependent care benefits
Bribery and corruption
Securities regulation
Industrial hygiene
Worker violence
Indigenous rights

Employee shared values
Employee work-life balance
Human rights (security policies, etc.)
Fair advertising and labeling
Impacts on local cultures
Employee diversity
Employee training and development
Employee wellness programs
Employee assistance programs
Employee turnover
Employee layoff policies
Anti-sexual harassment policies
Political contributions
Helping the disadvantaged
Food product nutrition
Support for community services
Access to healthcare by the poor

Examples of Environmental Topics

Waste disposal

Chemical spills

Water conservation

Pollution prevention

Packaging reduction

Natural habitat restoration

Animal rights

Precautionary Principle

Endangered species

Compliance with environmental laws and permits

Air pollution

Greenhouse gases

Energy conservation

Recycling

Soil contamination

Wetlands protection

Product energy use

Spill prevention

Soil erosion/depletion

Water pollution

Ozone-depleting substances

Natural resource usage

Biodiversity

Product take-back

Wildlife conservation

Customer disposal of products

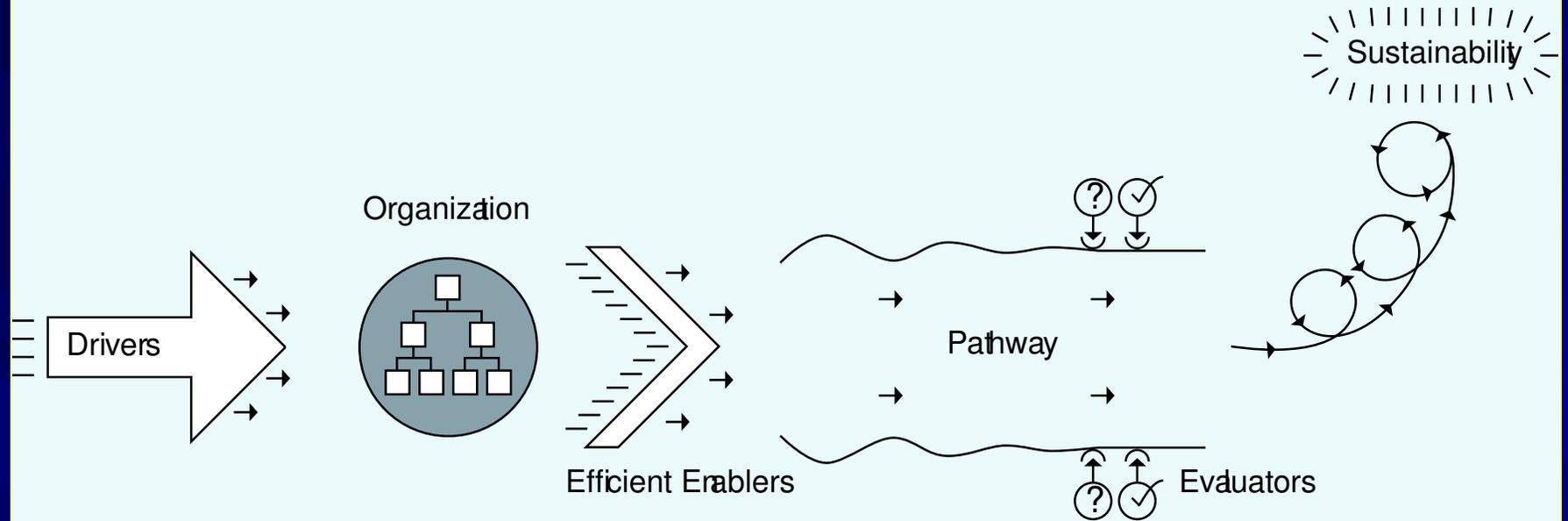
Renewable energy and materials

Environmentally sensitive design

Some Observations About Business and Sustainability

- Sustainability is not about one thing.
- Sustainability is about informed holistic planning (and execution) for long-term survival and well-being to be achieved by focusing on resources and respect (2R's):
 - Resources: wise management of economic and natural resources, and
 - Respect: respect for people and other living things.

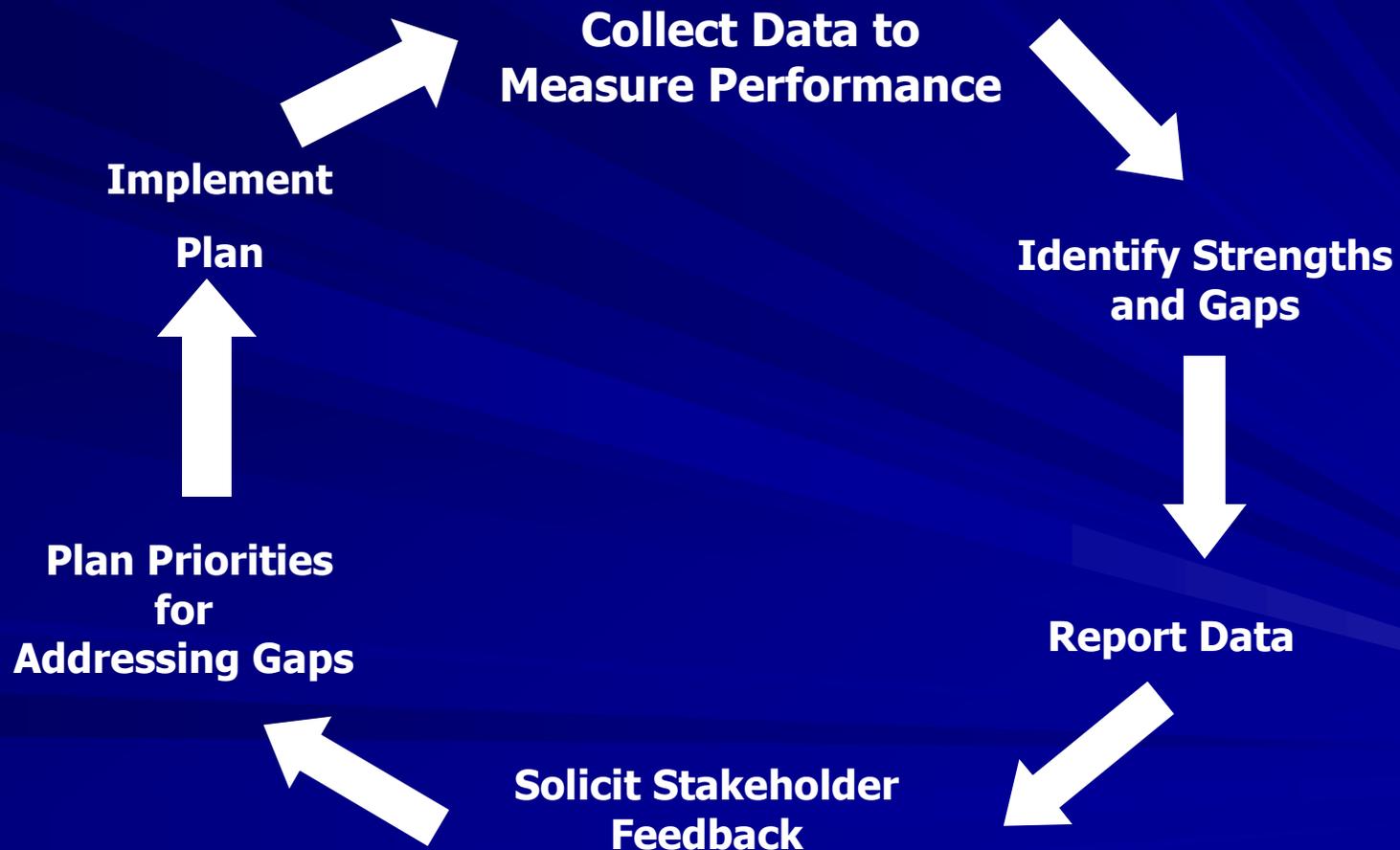
Figure 4.1 Sustainability Operating System (S.O.S.)



The Drivers	The Efficient Enablers	The Pathway	The Evaluators
<p>A champion/leader</p> <p>Approach for selling management on sustainability</p> <p>Accountability mechanisms</p>	<p>Organizational structure</p> <p>Deployment and integration</p>	<p>Vision and policy</p> <p>Operating system standards</p> <p>Strategic planning for aligned priorities</p>	<p>Indicators and goals</p> <p>Measuring and reporting progress</p> <p>Stakeholder engagement and feedback</p>

Continual Improvement Cycle

(Sustainable quantum leap in performance)



Strategic Planning ?Questions?

- Who should be included in the planning process and how should they be organized?
- What information and processes should be considered in planning?



Suggested Structural Elements

- Champion/leader: spokesperson; key promoter, coordinator, and organizer; chair of key teams
- Executive sponsor: coach for leader and teams, advocate among upper management
- Core Team: planning, promotion, education
- Deployment Team: internal rollout and feedback
- Report Distributors Network: external communication and feedback
- Board oversight committee: high level oversight of SOS performance and effectiveness

Groups to Consider

CORE TEAM

Business Planning
Business Practices/Ethics
Charitable Contributions
Communications
Community Relations
Environment, Health & Safety
Finance
Governance
Human Resources
Law
Purchasing/Supply Chain
A few key business units

DEPLOYMENT TEAM

Core Team plus:
Engineering
Manufacturing
Quality
Research & Development
Risk Management
Sales & Marketing/Distribution
Security

REPORT DISTRIBUTORS NETWORK

Business Development
Communications
Government Affairs
Investor Relations

2. Strategic Planning ?Questions?

- Who should be included in the planning process and how should they be organized?
- What information and processes should be considered in planning?



Pre-planning Activities

- Business performance and goals
- Sustainability performance review (goal performance, compliance, audits, risk assessments, etc.)
- Big picture review (sustainability risks and trends, industry projections, scenario planning, etc.)
- Stakeholder and management feedback
- Talent management review and planning

Planning Process

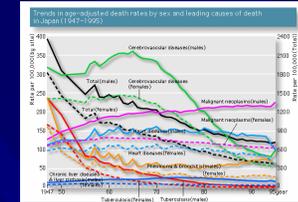
1. SWOT Analysis around sustainability trends; rank importance
2. Rank priority of sustainability topics, objectives and goals to company
3. Incorporate high-priority sustainability initiatives into company strat plan
4. Align planning horizontally and vertically



Common Business Threats & Opportunities

Threats	Opportunities
<ul style="list-style-type: none">-Legal-Financial-Reputational-Competitive-Operational	<ul style="list-style-type: none">-Productivity, cost-Employee relations-Reputation-License to operate, community appeal-Sales, new markets, customer appeal-Innovation, new products and services

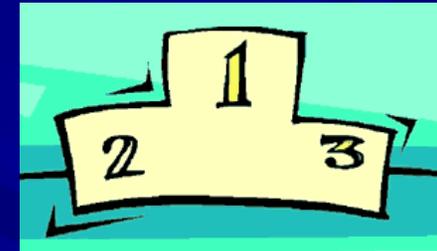
Sustainability Trends



- Growth in Global Business Competition
- Opposition to Globalization
- Speed of Communications/ Digital Divide
- Widening Prosperity Gap (Health, Income, Services)
- Population Growth
- Increased Immigration; Lower Fertility in Industrialized Nations
- Education Needs for the Disenfranchised
- Urbanization
- Over-consumption of Resources
- Fossil Fuel Depletion
- Climate Change
- Deforestation
- Threats to Biodiversity
- Fresh Water Depletion/Water Contamination
- Wetlands Destruction
- Fish Depletion
- Coral Reef Destruction
- Spread of Hazardous Pollutants
- Declining Soil Quality
- Ozone Depletion
- Declining Corporate Credibility
- Extended Producer Responsibility
- Green Products
- Green Marketing/Labeling
- Green Product Certification
- Obesity
- Rise in Socially Responsible Investing
- Investor Concerns about Corporate Governance
- Increased Demands for Transparency/ Public Reporting
- Growing Power of NGOs/CSOs
- Increasing Global Terrorism

Prioritization Factors for Risks, Topics, Objectives

- Importance to business success (controlling threats, seizing opportunities)
- Importance to management
- Consistency with company culture
- Public visibility/pressure to act
- Responsiveness to sustainability trends
- Extent of impact
- Ease of implementation



Sustainable Products & Services

1. Improve the efficient use of natural and economic resources along the product life cycle
2. Provide greater respect and accommodation for the needs of people and other living things along the product life cycle

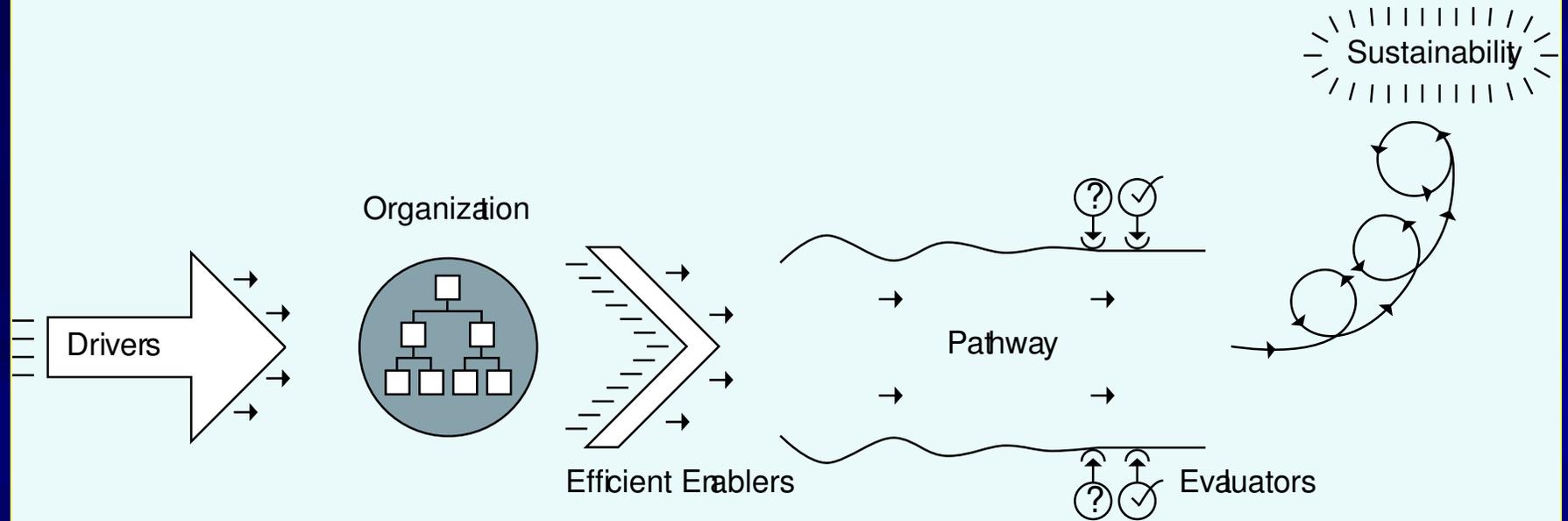


Lessons on Sustainable Products

- Customers will pay more for added safety of food and hygiene- and health-related products, for a more natural living environment, and for lower life-cycle costs.
- Products and services for the poor must break barriers on cost/pricing either through low volume per unit or low-cost operations.
- Many customers will avoid products with a highly publicized social or environmental stigma.
- With those exceptions, a product's social and environmental advantages and cause-based marketing are differentiating factors, not primary factors, to most consumers.



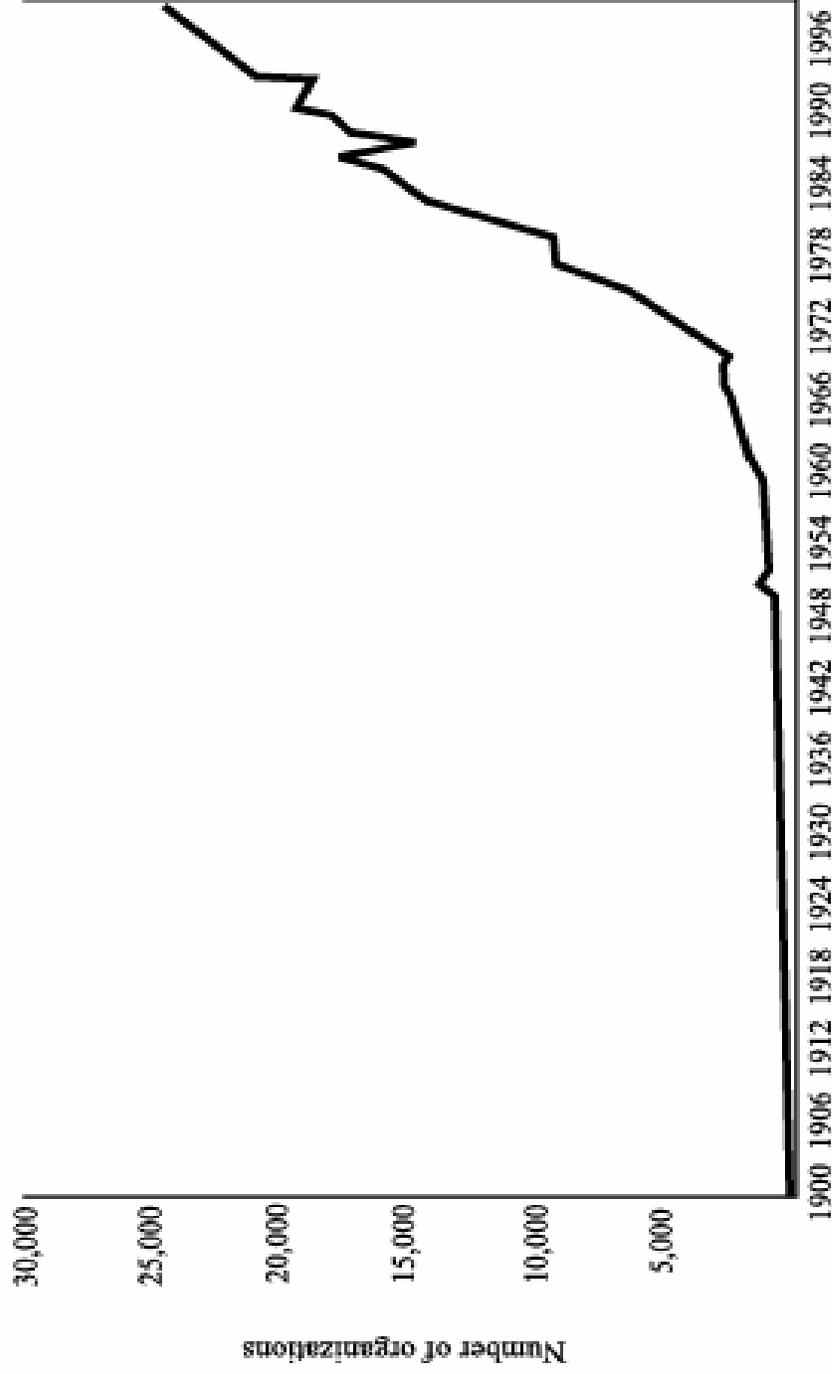
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Business-NGO Relationship

Figure 11.7
Growth of International Nongovernmental Organizations 1900-2000

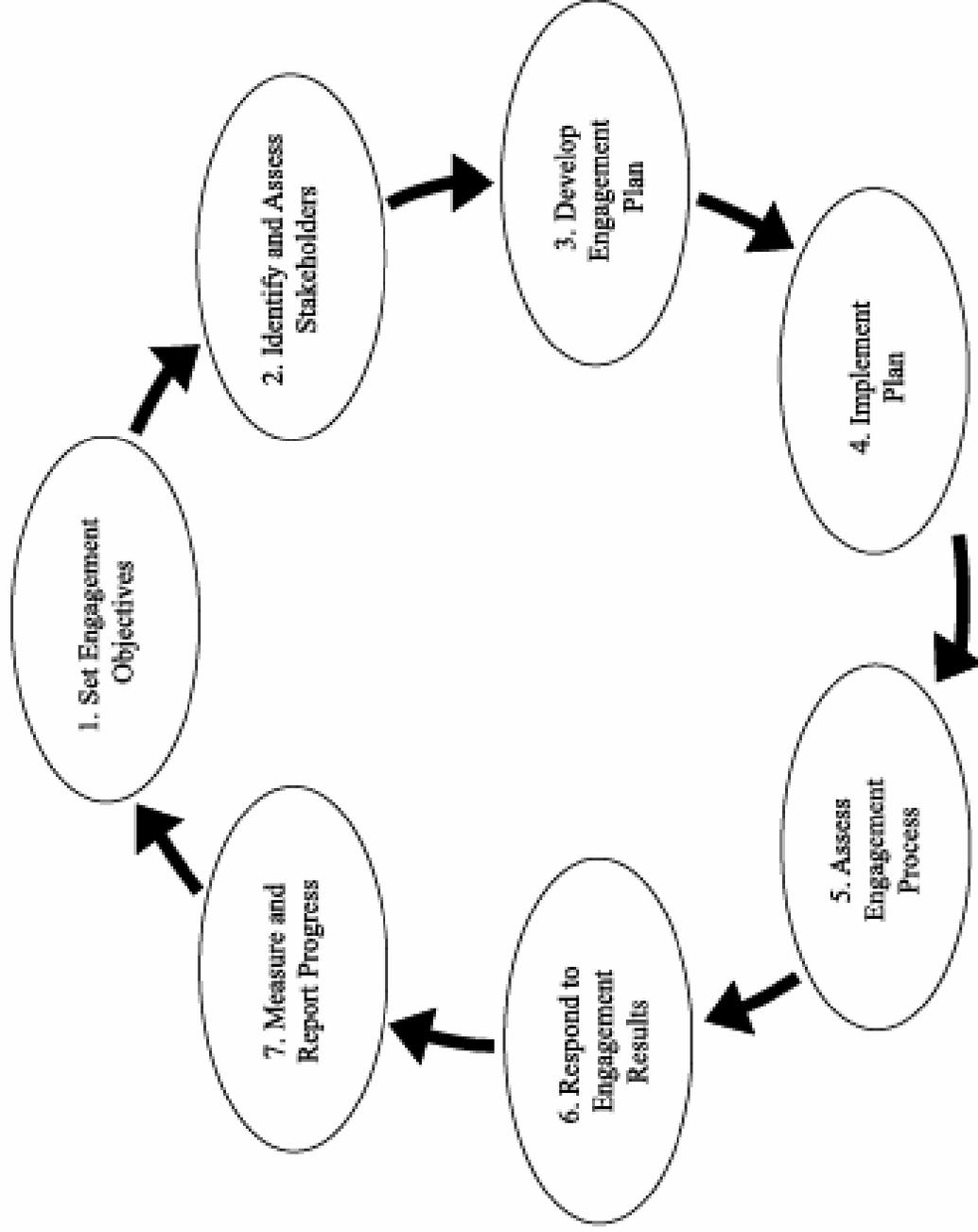


Source: Union of International Organizations³⁴³

Classifying NGOs

- Democratic vs. self-appointed
- Government-supported vs. non-government-supported
- North vs. south
- Direct action vs. indirect action vs. cooperative action
- Campaign vs. operational
- Solo vs. coalition
- Broad scope vs. narrow scope
- Centralized vs. decentralized

Figure 11.4
Stakeholder Engagement Process



Engaging with NGOs

1. Follow model engagement principles

Why Stakeholder Engagement Often Fails: Common Problems with Public Participation on Environmental Issues in the UK

1. Too worried about controlling outcome
2. Poor understanding of engagement techniques
3. Inadequate staged evaluation of process and output
4. Poorly trained facilitators
5. Low awareness of engagement benefits
6. Lack of resources

Figure 11.3 Model Principles of Stakeholder Engagement

The company promotes proactive engagement with its stakeholders as fundamental to improving business performance and fulfilling its commitment as a good corporate citizen. When engaging stakeholders on an issue or proposed action or for general feedback, the company will adhere to the following principles to help ensure the engagement is effective.

1. **Training.** The people planning and administering engagement processes will be properly trained and possess the right knowledge and skills for their duties.
2. **Plan.** A Stakeholder Engagement Plan will be adopted for each significant stakeholder engagement. The plan will identify the objectives of the engagement, the stakeholders to be engaged, the methods of engagement, the workproducts expected from the process, the resources to be devoted to it, and the schedule. If the engagement involves collaboration between the company and a stakeholder organization, the plan shall also consider the terms of dissolution of the collaboration and shall be agreed to by both parties.
3. **Inclusiveness, timeliness.** The company will encourage the participation of relevant stakeholders, that is, those who have an interest in the action or decision under consideration, as well as those who would be affected by it or who may perceive they would be affected by it. Where possible, a variety of engagement methods will be offered so the full range of stakeholders may effectively participate in some way. A special effort will be made to involve effective representatives of important relevant stakeholder groups, especially those that may have a tendency to remain silent or uninvolved. Engagement planners will reflect a bias for inclusiveness in designing the methods of engagement and in defining the roles, responsibilities, and processes for managing the engagement. Of course, that preference may be tempered somewhat by the need for efficiency to assure engagement objectives can be met in a timely manner.
4. **Transparency, clarity.** The company will communicate with its stakeholders in an open and honest way. Potential conflicts of interest will be managed openly. The scope of stakeholder decision-making authority will be discussed early in the engagement process. If a decision has already been made and is non-negotiable, the company will say so. The company will provide stakeholders the information they need to effectively participate in engagement activities. Such information shall be presented in the manner and form that the stakeholders can most readily understand and at a time that allows for adequate review and consideration. Some means will be provided for stakeholders to obtain any needed clarification of the information provided.
5. **Listening.** The company will listen carefully to comments of stakeholders, and will hold itself open to being influenced by them. In the words of Stephen Covey, author of the best-selling *7 Habits of Highly Effective People*, the company will "seek first to understand, then to be understood."¹ It will attempt to comprehend and respond to the emotion as well as the content of the message. If key stakeholders remain quiet, the company will try to discern whether that reflects their approval or means they are intimidated or simply uninterested.
6. **Neutrality, code of conduct.** In situations likely to be highly polarized, the company will strongly consider the use of neutral, independent facilitators or conveners to manage the engagement. At the outset of hearings or other forums where controversy may erupt, the facilitator will discuss-- and if possible, gain consensus on-- rules of engagement or a code of conduct governing the participation of all attendees. The purpose of this code is to assure all participants are treated with respect and that the forum proceeds in a fair, orderly, efficient manner.
7. **Respect, resources.** The company will work with its stakeholders to foster a climate of sincerity and mutual trust and respect. As part of this commitment, the company agrees to devote the time, resources, and priority to stakeholder engagement as needed to fulfill these principles and help make the engagement effective.
8. **Reporting.** The company will provide a timely report to its stakeholders on the results of their engagement, and will periodically communicate with them on the status of the actions to be taken in response.
9. **Ongoing commitment.** The company will provide ongoing opportunities for stakeholders to communicate concerns about the company, its operations, and plans.

Engaging with NGOs

1. Follow model engagement principles
2. Rub elbows

Engaging with NGOs

1. Follow model engagement principles
2. Rub elbows
3. Conduct an NGO Impact Assessment

Engaging with NGOs

1. Follow model engagement principles
2. Rub elbows
3. Conduct an NGO Impact Assessment
4. Evaluate NGO fit

Figure 11.5
Types of Information for Evaluating Stakeholder Organizations
for Long or Potentially Contentious Engagement

1. Size and resources
2. Scope of operations
3. Knowledge and expertise
4. History
5. Organizational objectives
6. Values
7. Credibility
8. Influence
9. Outcomes of past dealings with business
10. Willingness to engage
11. Past relationship with company

12. Connections with company employees
13. Expected position on issues, projects, or other matters which are the subject of the engagement
14. Potential risks their participation may pose to the company
15. Information on the stakeholder's individual representative likely to be involved in the engagement, including her education, experience, skills, assertiveness, integrity, and past experience in engaging with businesses

Engaging with NGOs

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2. Rub elbows
3. Conduct an NGO Impact Assessment
4. Evaluate NGO fit
5. Decide individual NGOs vs. panel

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7. Play to the gallery

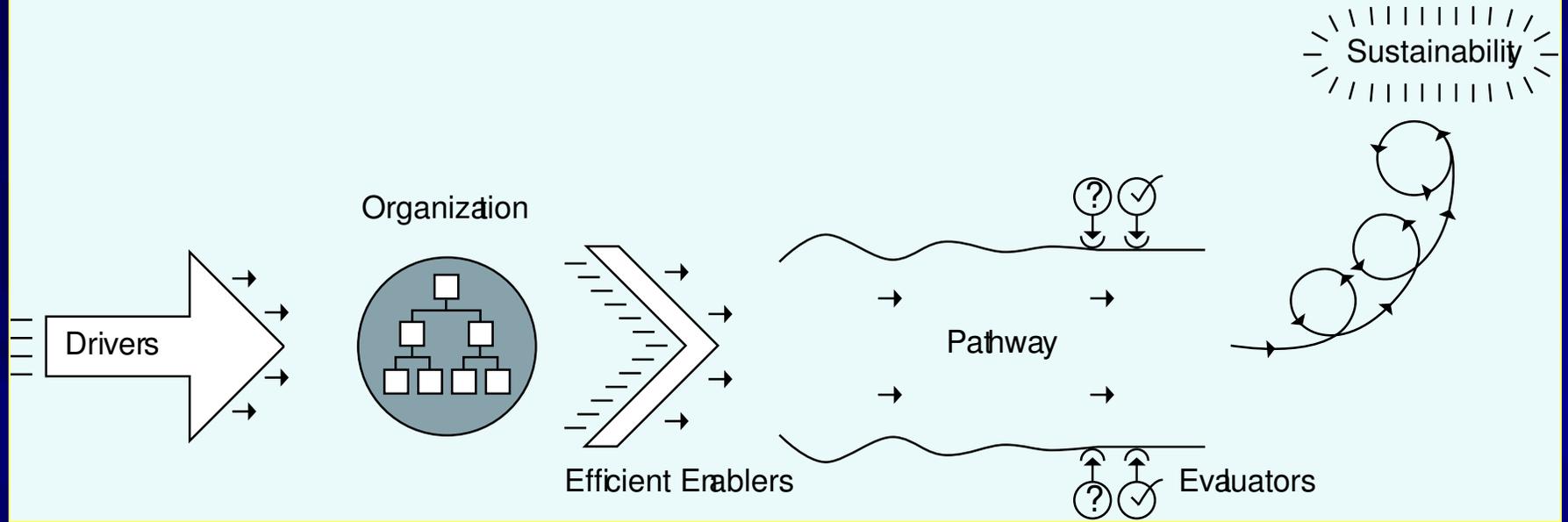
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8. Assess NGO resources

Engaging with NGOs

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2. Rub elbows
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4. Evaluate NGO fit
5. Decide individual NGOs vs. panel
6. Consider relationship with industry peers
7. Play to the gallery
8. Assess NGO resources
9. Manage company expectations

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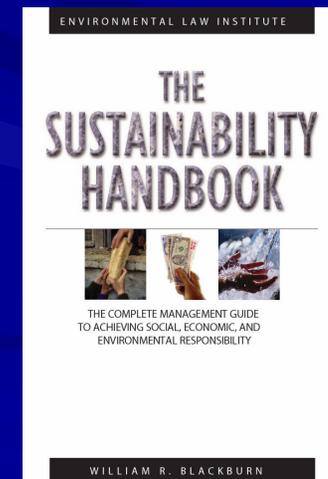
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Web: www.WBlackburnConsulting.com

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2. Strategic and Tactical Planning ?Questions?

- Who should be included in the planning process and how should they be organized?
- What information and processes should be considered in planning?
- How should the plans be designed?



Companywide Balanced Scorecard

Employee Objectives <i>Build the best global team in our industry</i>	Financial (Investor/Lender) Objectives <i>Deliver significant shareholder return</i>	Supply Chain (Customer/Supplier) Objectives <i>Create sustainable win-win customer relationships</i>	Citizenship (Community/Government) Objectives <i>Improve lives in local global communities</i>
Share talent and learning across the company to improve business results	Achieve profitable, sustainable, and capital-efficient growth targets in sales, earnings per share, cash flow and margins	Consistently evaluate and meet agreed customer and product-quality requirements	Establish the company as a community leader
Ensure frequent, open two-way feedback and communication	Invest targeted funds in R& D and capital projects to drive long-term sustainable growth while balancing short-term commitments	Continually identify unmet needs of current and future customers	Facilitate the participation of employees in their communities
Attract, develop and retain the best talent to achieve current and future results	Deliver superior shareholder returns that exceed the average for our industry	Develop and launch innovative products and services to meet customer, product-quality and financial needs	Reduce waste and achieve targeted improved efficiencies in energy, packaging and water use
Create an environment that motivates, develops and rewards individuals for living the company's shared values and achieving results	Improve cost efficiency by achieving targets for days sales outstanding, inventory turns, and costs of supplies and travel		Increase global access to our products so as to improve the quality of lives
Ensure safety in the workplace			Increase the number of foundation grants to new organizations, especially those in new locations

Alignment of Sustainability Issues With Balanced Scorecard Objectives

Sustainability Issues	Balanced Scorecard Objectives			
	Employee	Financial (Investor/ Lender)	Supply Chain (Customer/ Supplier)	Citizenship (Community/ Government)
Economic (Wise use of economic resources)		X		X
Social (Respect for people)	X		X	X
Environmental (Respect for living things; wise use of natural resources)			X	X

Environment, Health and Safety Balanced Scorecard

<p>Employee Objectives <i>Build a more effective EHS program to better protect, develop and respect employees</i></p>	<p>Financial (Investor/Lender) Objectives <i>Improve EHS operational excellence through a risk-based, value-focused approach</i></p>	<p>Supply Chain (Customer/Supplier) Objectives <i>Anticipate and align EHS initiatives with the needs of external customers and suppliers to create better customer outcomes</i></p>	<p>Citizenship (Community/Government) Objectives <i>Reduce the environmental impact of our operations and better engage our key external stakeholders</i></p>
<p>More effectively share best EHS practices across the organization</p>	<p>Implement integrated EHS management systems consistent with ISO 14001 and OHSAS 18001</p>	<p>Strengthen processes for gathering and responding to input from customers on the EHS aspects of our products and services</p>	<p>Achieve targeted improvements in the eco-efficiency of operations regarding energy, water, hazardous and nonhazardous waste, and packaging</p>
<p>Strengthen the assessment and effectiveness of EHS training programs</p>	<p>Strengthen EHS risk management tools and programs</p>	<p>Improve processes and tools for considering EHS in product design and development</p>	<p>Enhance communications to and from internal and external stakeholders</p>
<p>Strengthen programs for developing EHS personnel</p>	<p>Improve speed and effectiveness of EHS processes for integrating new facilities/businesses</p>	<p>Strengthen compliance with European packaging and electronic take-back laws</p>	
<p>Promote a healthy work-life balance</p>	<p>Improve the EHS strategic planning process</p>	<p>Expand programs for assessing and improving supplier sensitivity to EHS issues</p>	
<p>Sustainably improve safety performance and culture to drive toward world class results</p>	<p>Help identify and achieve opportunities for business savings and improved efficiency (see env. objectives)</p>	<p>Improve fulfillment processes for material safety data sheets for supplies and company products</p>	

EHS Tactical Plan

Strategic Objective	Tactic/Project/Activity	Responsible Team/Individual	Schedule
<p>Sustainably improve safety performance and culture to drive toward world class results</p> <p>GOAL: Less than 0.10 lost-time cases and 0.35 recordable cases per 100 full-time employees</p>	1. Improved health and safety risk assessment tools	Risk Assessment Team (Tom Blanco, leader)	Tool development: -Define needs- Feb 1 -Draft tool- May 1 -Final tool- July 1 Tool deployment: -Training mat'ls-Aug.1 -Pilot test-Sept 15 -Communicate final-Nov 1
		Region 1 EHS (Tanya Brown) Business Unit A EHS (Sue Green)	Field implementation: -Regional training- Dec 1 - Site assistance- 25% sites per quarter starting beginning of next year
	2. Review 6 top-opportunity sites against best safety practices	Corporate EHS (Sam Blue)	Develop plan: -Identify sites- Jan 15 -Develop review process- Mar.1 Deploy process: -Train regional and divisional reviewers- April 15
		Site Review Teams (team leaders to be identified by Sam Blue)	Field implementation: -Conduct site reviews- one per month July1-Dec 1