Responsible Business Summit:
Making Business Sense of Sustainability/Business Responsibility …A Changing World

by

Bill Blackburn

University of Iowa

Tippie School of Management

Pappajohn Entrepreneur Center

Iowa City, IA

May 10-11, 2018

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“Human history becomes more and more a race between education and catastrophe….”

--H.G. Wells

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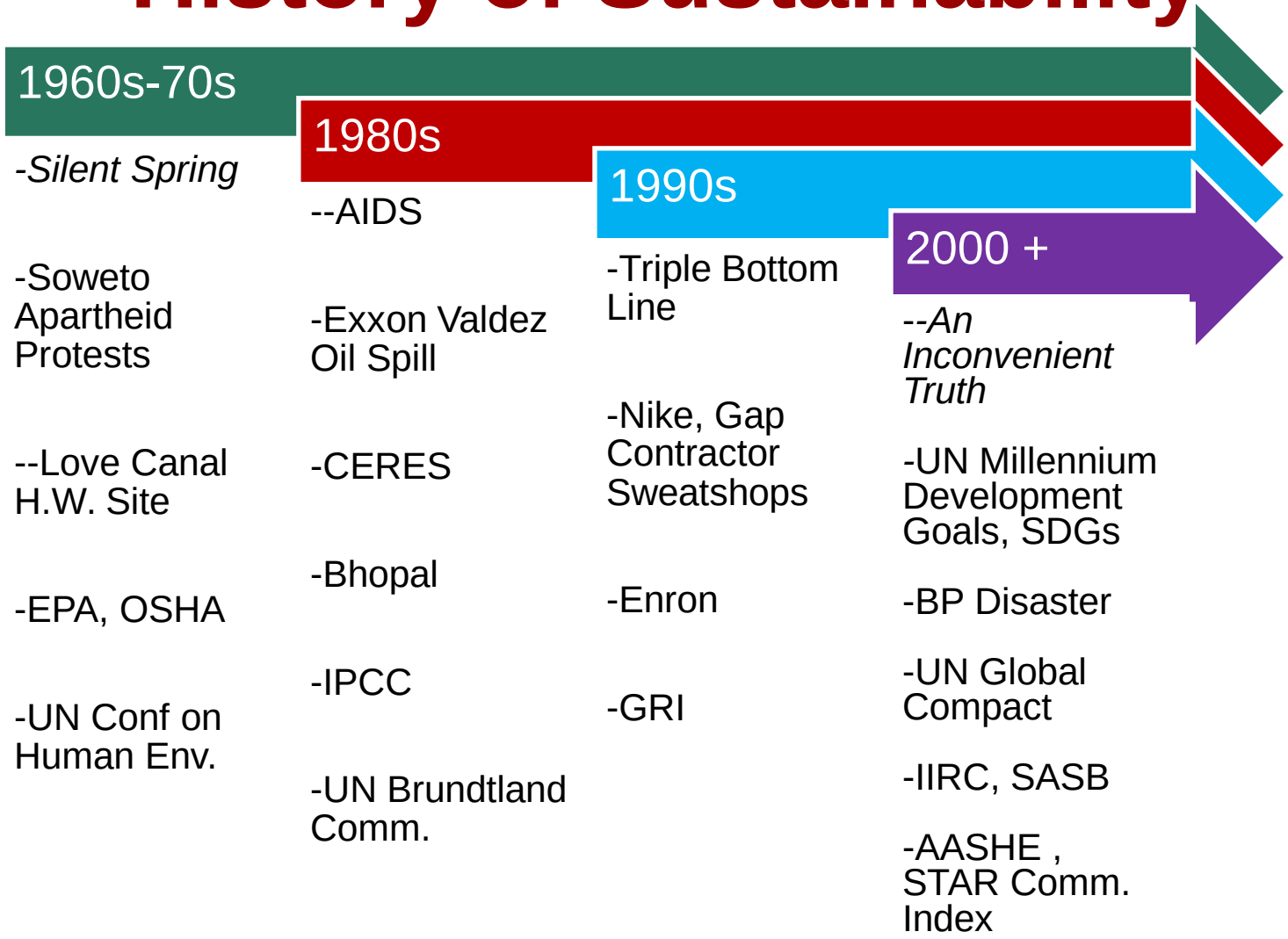
History of Sustainability



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Changes for Review

Business Changes

1. Democratization: *Stakeholders as Key Drivers*
2. Globalization
3. Transparency

Key Environmental & Social Changes

4. Resource Consumption & Population
5. Energy & Climate
6. Water
7. Prosperity Gap

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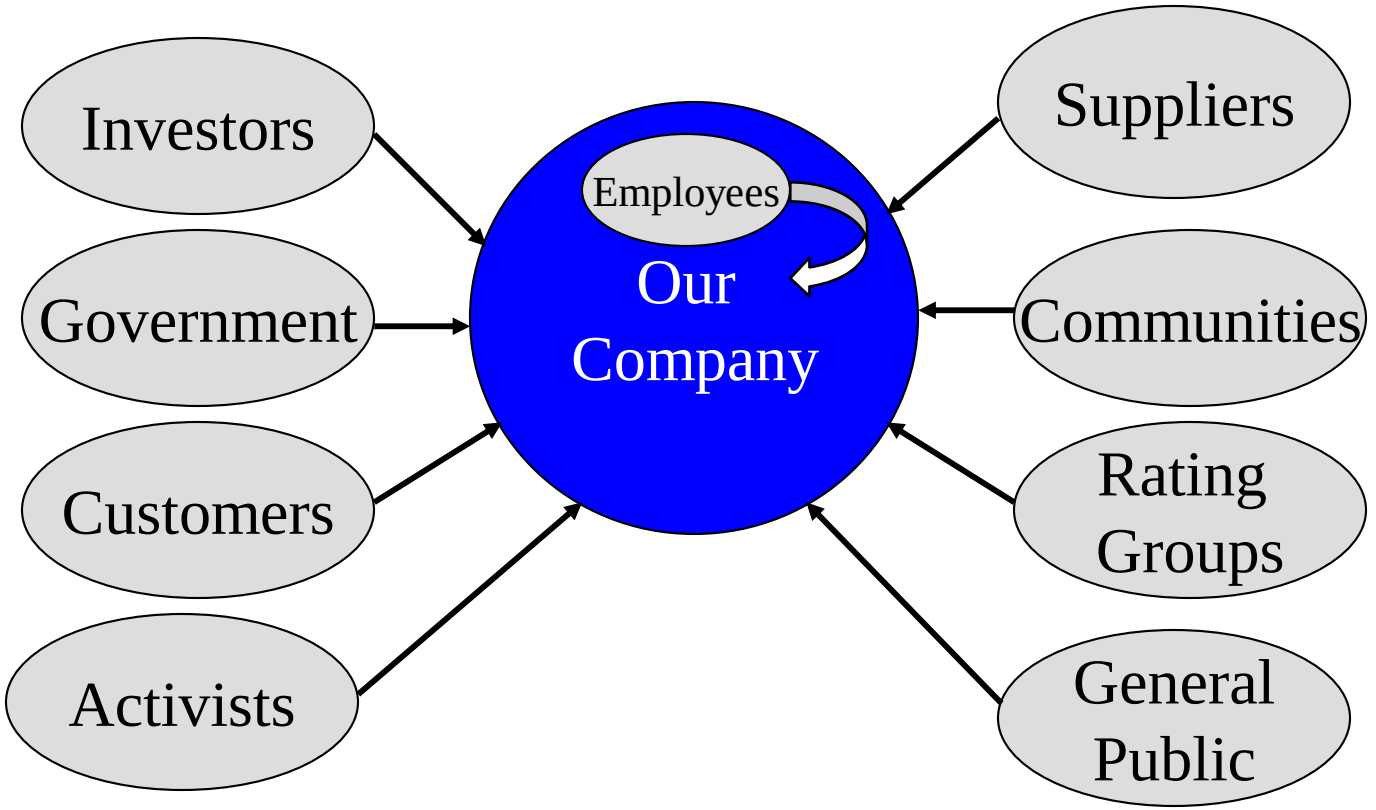
1. "Democratization" of Business: Stakeholders as Key Drivers



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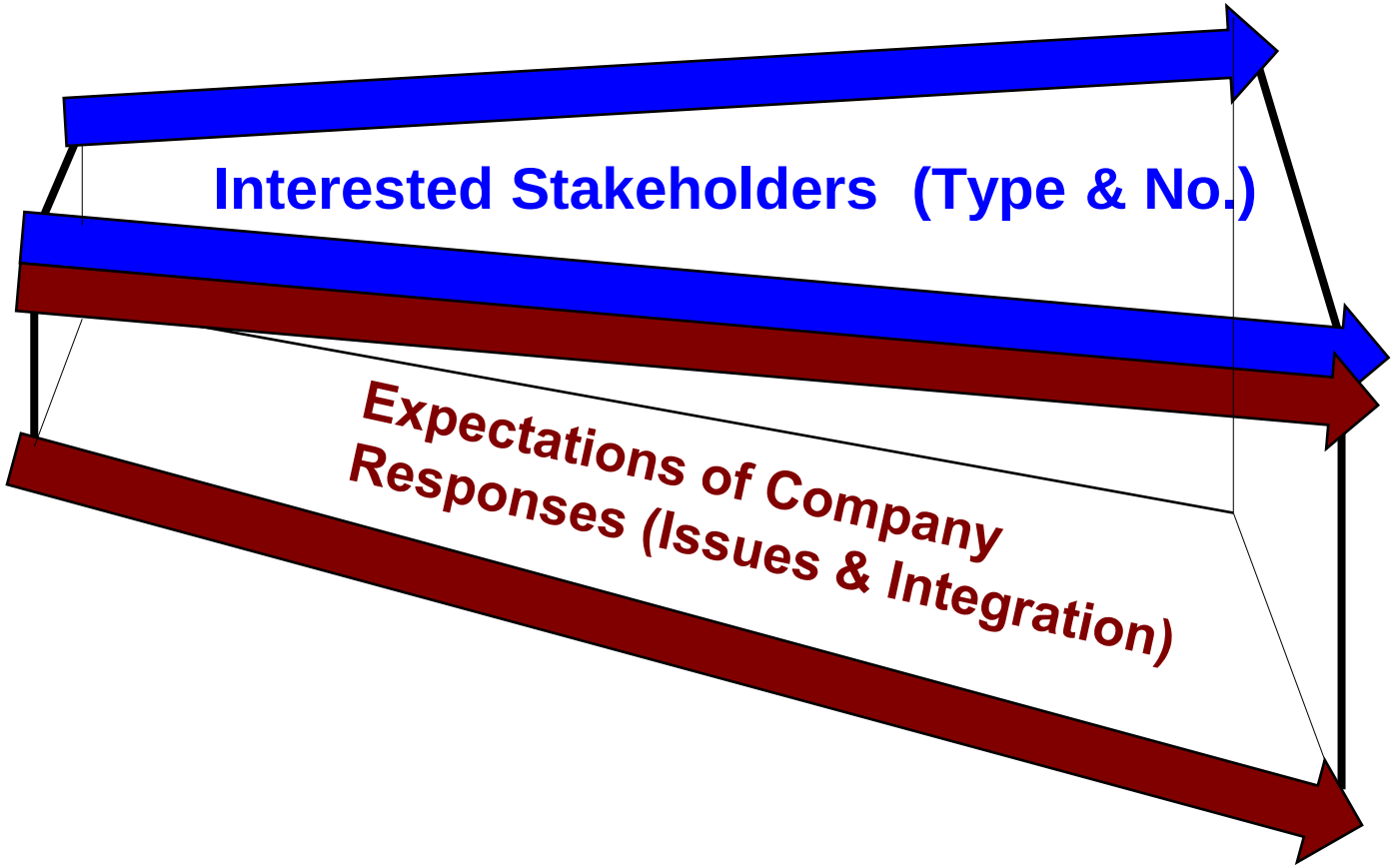
Stakeholder Expectations Deepening and Widening



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Regulators Still Drive Much Company Environmental & Social Conduct

- Environment (air, water, waste, products)
- Safety (workplace, products)
- Endangered species
- Nondiscrimination (EEO, etc.)
- Conflict Minerals in supply chain (SEC)
- CA Transparency in Supply Chain Act (abusive labor practices)
- Sarbanes Oxley (governance)
- Antitrust
- ESG + financial reporting (UK, France, S. Africa, et al.)

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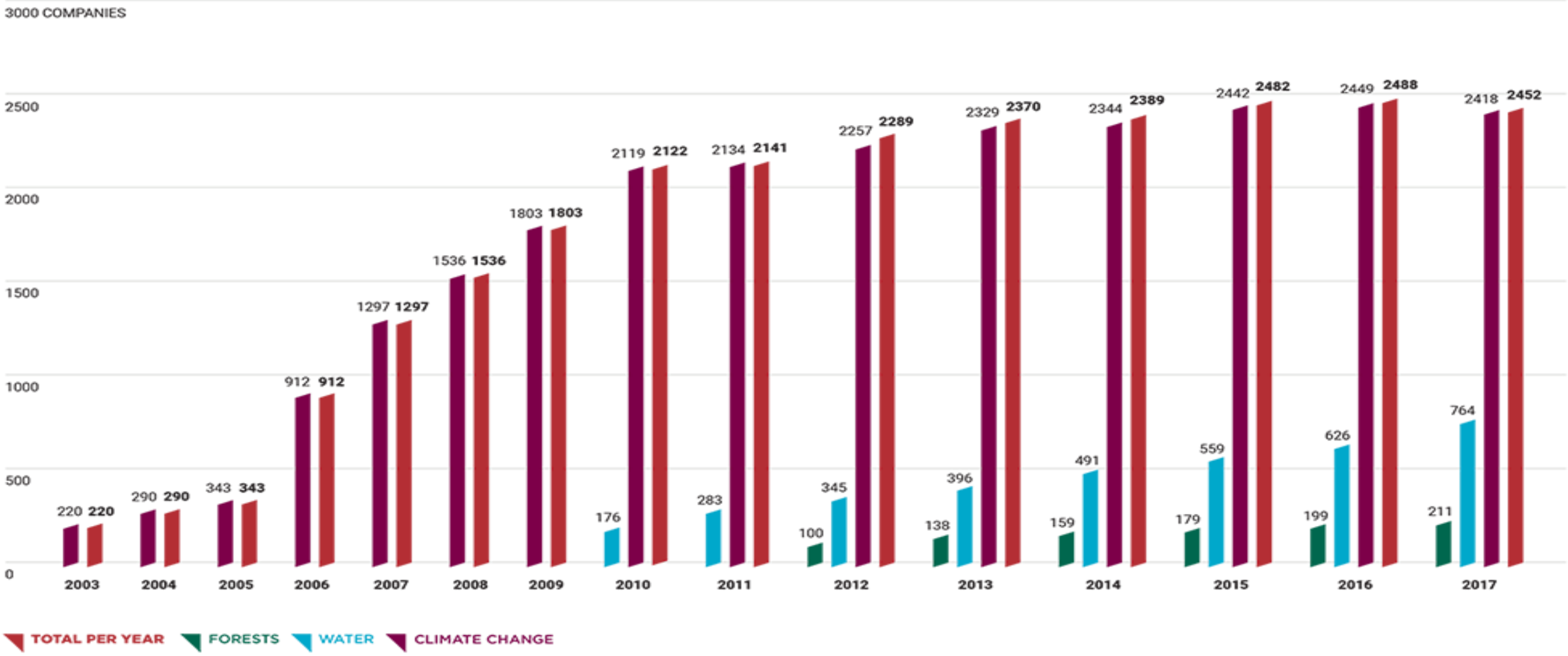
800 Inst. Investors ($100 Trillion) Driving The Carbon Disclosure Project

GROWTH IN DISCLOSING COMPANIES SINCE 2003



Notes

Figures for each programme do not include 'See Another' (SA) companies (i.e. subsidiary companies whose response is covered by their parent company's response)
Figures for 'Total discosing companies' are unique (i.e. companies responding to multiple programmes are counted only once)

Customers Driving "Green" Products ~$3.5 Trillion (2017)

– Global Industry Analysts Inc.

6 million +

~85% of Market by 2030

$200 Billion by 2020

Grameen Bank

$12 Billion Loans to Poor

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Sustainability/BR Topics that Stakeholders Expect Companies to Address?

(Per GRI, ISO 26000, UN Global Compact, UN SD Goals,)

- **Environmental Issues** (pollution, energy and resource conservation, biodiversity, etc.)
- **Labor Practices** (wages, safety, working conditions, etc.)
- **Human Rights** (civil rights, nondiscrimination, antiharassment, Bill of Rights, etc.)
- **Community Involvement & Development**
- **Consumer/customer Issues** (fair marketing, consumer safety, product compliance, privacy, etc.)
- **Fair Operating Practices** (anti-corruption, fair competition, etc.)
- **Governance** (oversight structures and systems for legal and ethical compliance and risk control on sustainability topics for organization and its supply chain)
- **Economic Viability of the Organization**

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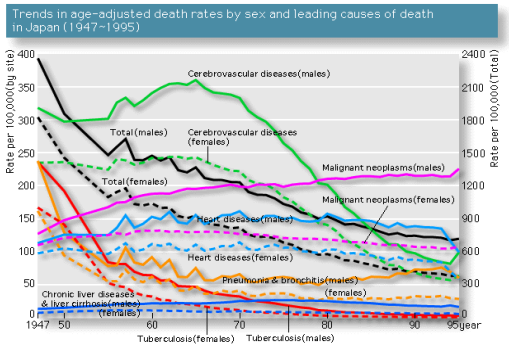
Sustainability Trends

Conditions

- Growth in Global Business Competition
- Speed of Communications/ Digital Divide
- Widening Prosperity Gap (Health, Income, Services)
- Population Growth
- Serious Disease
- Mental Health Problems
- Increased Immigration; Lower Fertility in Industrialized Nations
- Hunger and Malnutrition
- Child and Forced Labor
- Education Needs for the Disenfranchised
- Urbanization
- Privacy

- Over-consumption of Resources
- Obesity; Poor Food Nutrition
- 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

Responses



- Opposition to Globalization
- Extended Producer Responsibility
- Green Products
- Green Marketing/Labeling
- Green Product Certification
- Socially Responsible Investing
- Investor Concerns about Corporate Governance
- Transparency/ Public Reporting
- Power of NGOs/CSOs

Sustainability/RB Leadership?

(Per 2014 GlobeScan/SustainAbility survey of over 800 experts in 87 countries)

A long term commitment to sustainability **values integrated deeply within the organization**, along with ambitious targets and polices, are the primary reasons a company is considered a sustainability leader.

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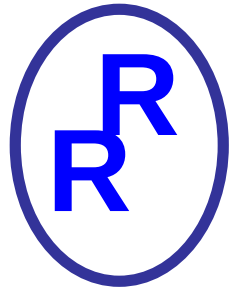
Practical Definition of Sustainability? "The 2 Rs"



Values-driven management based on---

- **Respect: for people and other living things;**
- **Resources: the wise use of economic and natural resources**

—for the purpose of sustaining and promoting the long-term well-being of the organization and society (including the environment).

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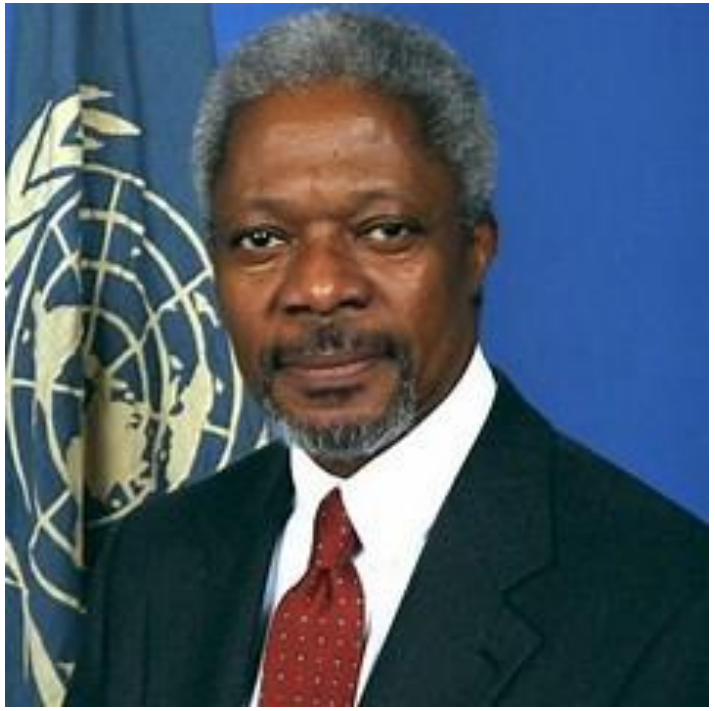
2. Globalization



“Arguing against globalization is like arguing against the laws of gravity. The question is not how to stop it, but how to make it work for everybody.“

Former UN Secretary Kofi Annan

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Globalization

❑ Business

- 35,000 McDonald's, 20,000 Starbucks
- Transnational corps up 10x from WW II - 2000
- World exports up 6x since 1990

❑ Communications:

- Access to Internet by 40% of World (up 400x in 20 yrs.)
- 96% in Developing Nations have cell phone

❑ NGOs

- International NGOs up 150% (40,000) over 20 yrs.
- Biggest issues: Jobs, Sweatshops, Environment

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3. Transparency

- **Scrutiny:**
  - 40,000 Global NGOs
  - 40% Internet, 90% phones

- **Trust:** US Gallop poll (2013): only 1 of 5 say business execs have "high standards of honesty and ethics"

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Transparency Responses

- Toxics Release Inventory (1986),
  Ceres (1989),
  Global Reporting Initiative (1997),
  Carbon Disclosure Project (2002)

- Public Sustainability/CSR reporting
  - 93% of top 250 cos. (vs half in 2005);
    Total:~5,000 reports/yr.
  - Integrated ESG + financial reporting (voluntary & mandatory)

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But Transparency is Not Enough

The 1995 Shell Backlash

Brent Spar Oil Storage Buoy

Nigerian Activist Ken Saro-Wiwa

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4. Resources & Population

St. Matthew's Island:

29 reindeer in 1944; experts say 2300 maximum

Reindeer in 1953?

a. 5

b. 42

c. 1,350

d. 3,000

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St. Matthew's Island:

29 reindeer in 1944; experts say 2300 maximum

Reindeer in 1953?

a. 5

b. 42

c. 1,350

d. 3,000

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St. Matthew's Island:

29 reindeer in 1944; experts say 2300 maximum

Reindeer in 1963?

a. 42

b. 1,350

c. 3,000

d. 6,000

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Reindeer in 1963?

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St. Matthew's Island:

29 reindeer in 1944; experts say 2300 maximum

Reindeer in 1966?

a. 42

b. 1,350

c. 3,000

d. 7,500

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St. Matthew's Island:

29 reindeer in 1944; experts say 2300 maximum

Reindeer in 1966?

a. 42

b. 1,350

c. 3,000

d. 7,500

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How Fast Does The World Add Enough Additional People to Populate Another U.S.?

Years:

a. 1

b. 5

c. 10

d. 25

e. 110

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Years:

a. 1

b. 5

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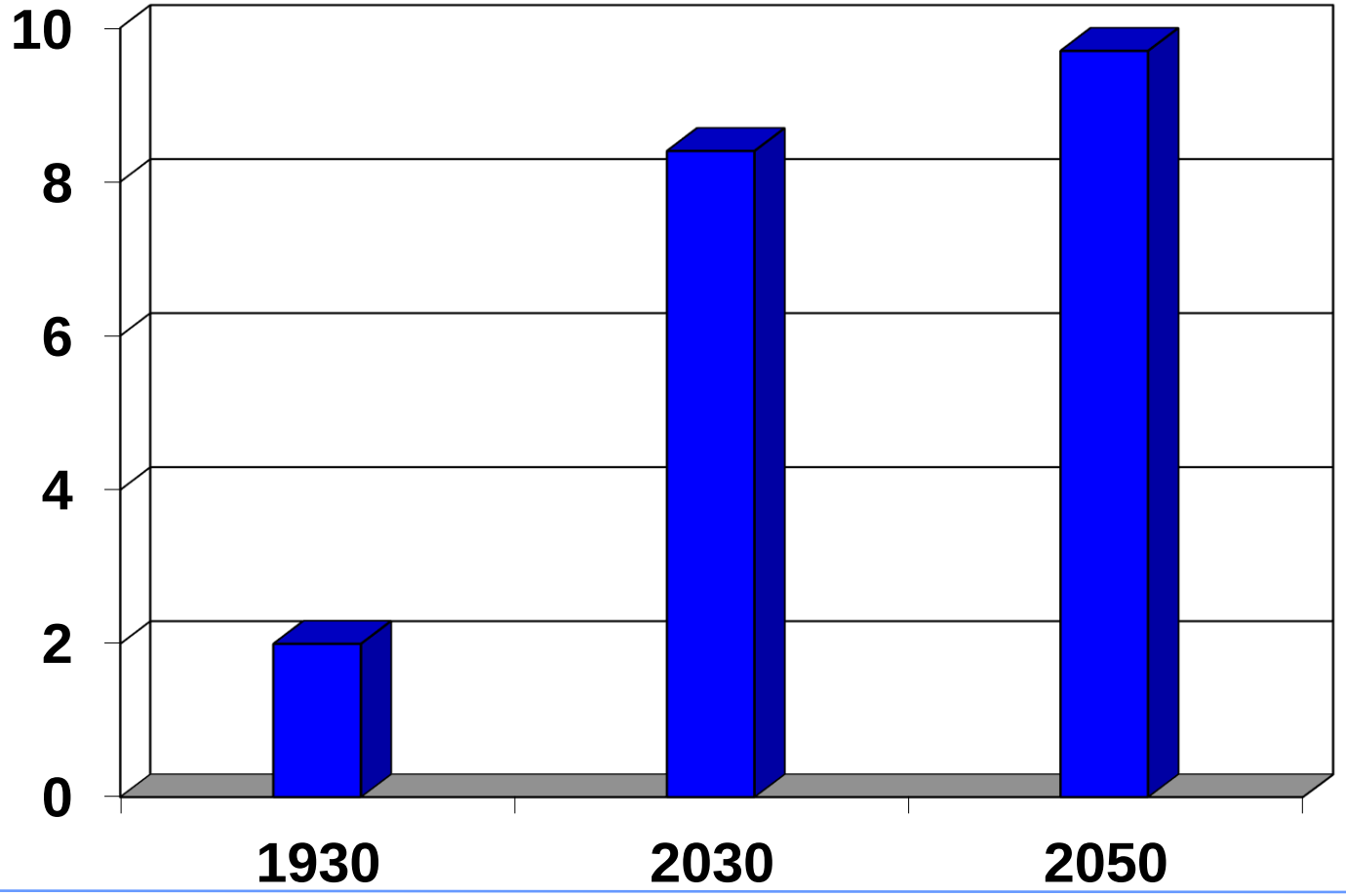
World's Population (Billions of people)

Source: Population Reference Bureau (2014), UN (2012)



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US Consumption and Waste!

- 5% of the population
- __?__% of the resources and wastes

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US Consumption and Waste!

- 5% of the population
- 25-30% of the resources and wastes
- Need 5-6 worlds at current production if everyone consumed at US rates!

Source: United Nations Environment Programme (2012)

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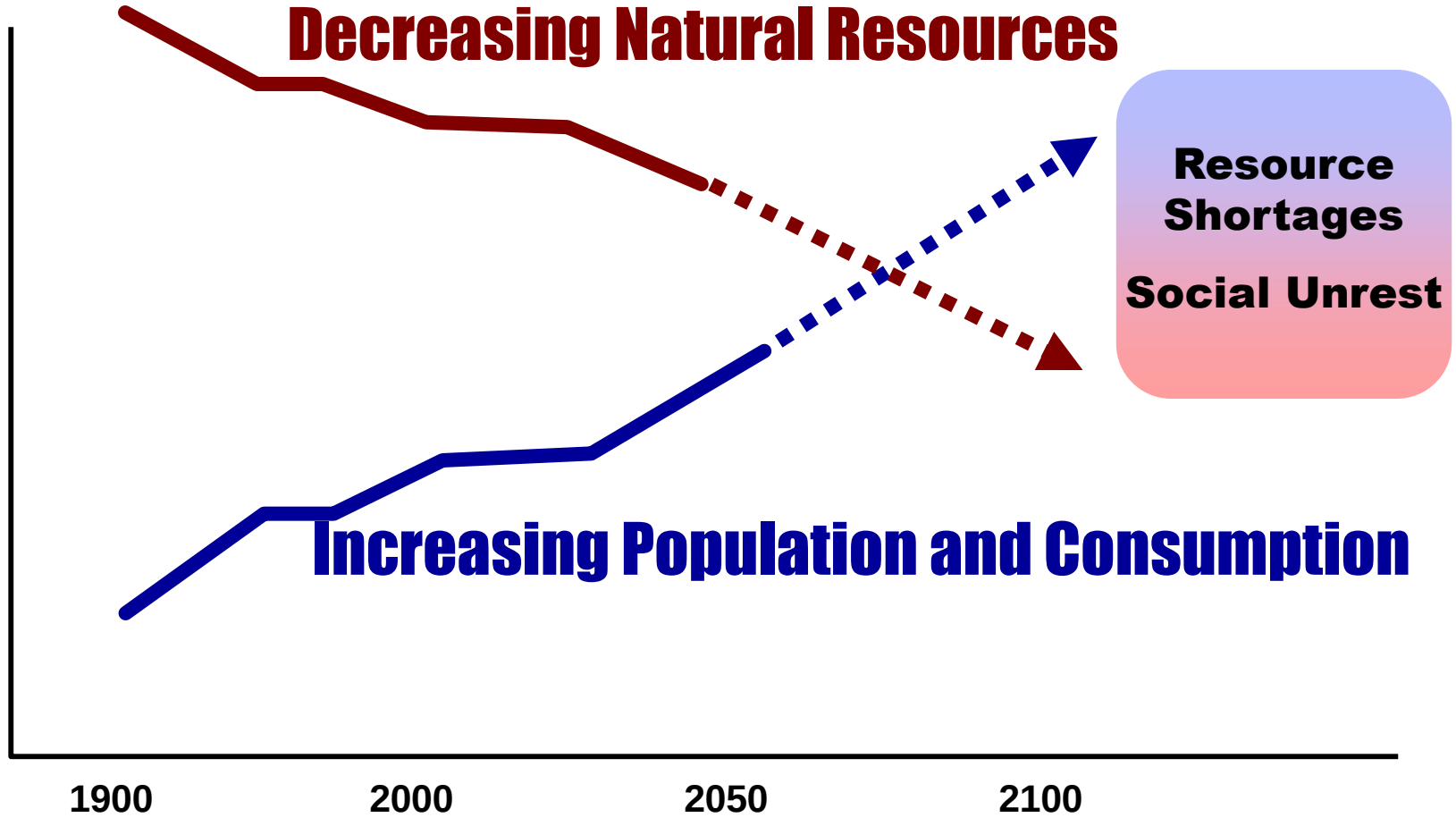
Nine Planetary Environmental Boundaries

Source: Johan Rockström, et.al, "Planetary boundaries: exploring the safe operating space for humanity." *Ecology and Society*, (2009)

Earth System Boundary	Indicator	Threshold Proposed ?	Status vs Threshold	See Following Trends in Appendix 1
Biodiversity Loss	Extinction rate	Yes	**Greatly exceeding**	Biodiversity Fish Stocks
Climate Change	Atmospheric $C0_2$ concentration	Yes	**Exceeding and worsening**	Climate Change Biodiversity Deforestation Hunger & Malnutrition
Nitrogen & Phosphorus Inputs to Oceans & Biospheres	N_2 removed from atmosphere for human use; Inflow of P into ocean	Yes	**N: Greatly exceeding** **P: Likely to soon exceed**	Water Supply & Pollution Traditional Air Pollution Fish Stocks
Global Freshwater Use	Use of water runoff	Yes	**Meeting but worsening**	Water Supply & Pollution Wetlands
Land System Change	Percentage of land cover converted to cropland	Yes	**Meeting but worsening**	Soil Quality; Crop Yields Wetlands Deforestation
Ocean Acidification	Mean global ocean surface saturation of aragonite	Yes	**Meeting but rate of change uncertain**	Climate Change Water Supply & Pollution Coral Reefs Biodiversity
Stratospheric Ozone Depletion	Stratospheric ozone conc.	Yes	**Meeting and improving slightly**	Ozone Depletion
Atmospheric Aerosol Loading	Regional particulate conc. in atmosphere	Not yet	___	Traditional Air Pollution Climate Change
Chemical Pollution	Emissions, conc., or effects of haz. chemicals (e.g., persistent organic pollutants, endocrine	Not yet	___	Dangerous Pollutants



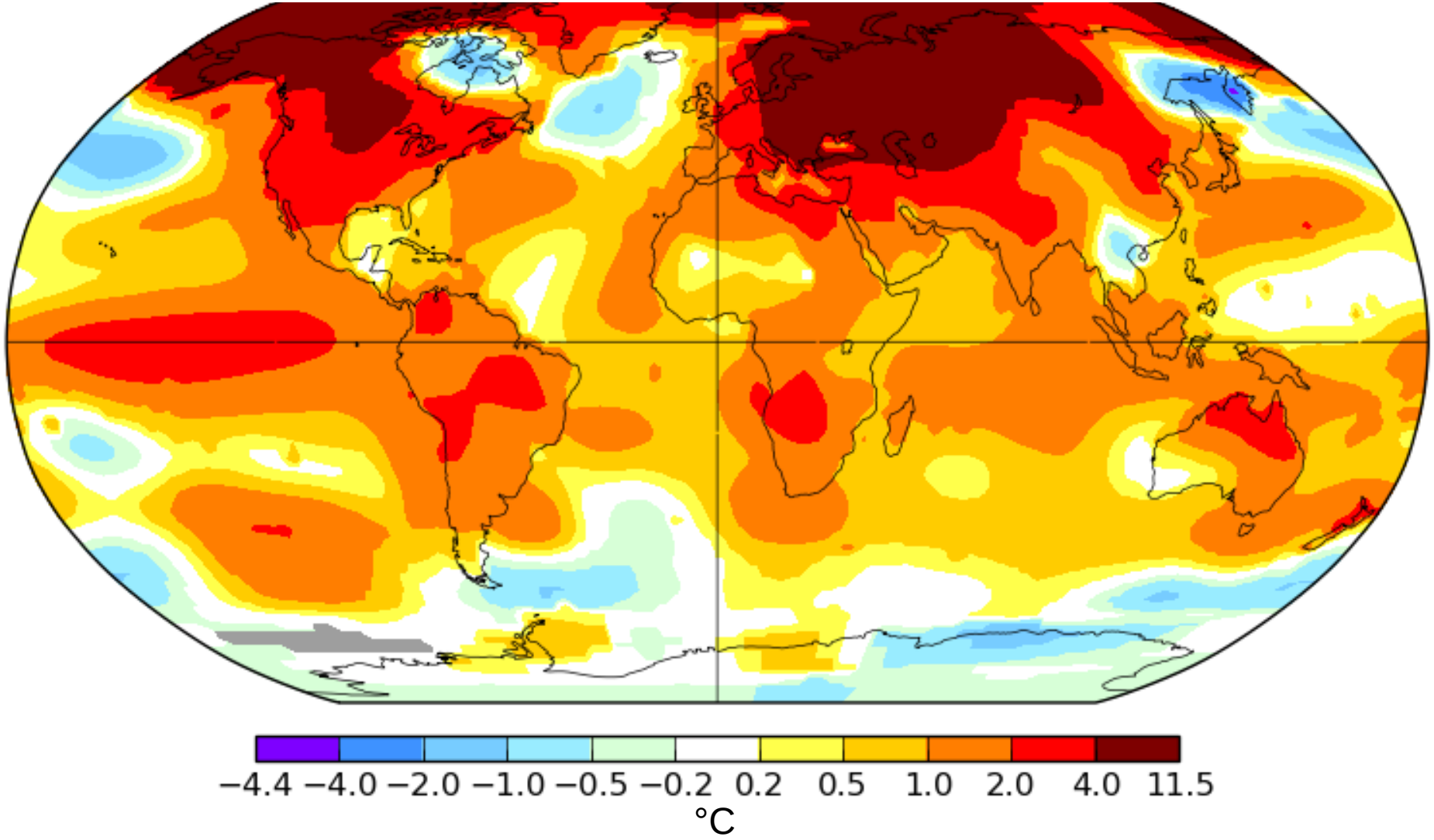
The "Big Squeeze"

Change in Global Land-Ocean Temperature Index

(Average Surface Air Temps. and Sea Surface Temps.)

2016 vs 1951-80

Source: NASA, 2016



60% of WW Greenhouse Gases Due to Fossil Fuels

(U.S. Energy Info Admin.)

	Now		2040	% C/Btu vs. NG
❑ Coal:	44%	→	45%	+73%
❑ Oils +Biofuels:	36%	→	32%	+33%
❑ Nat. Gas:	20%	→	22%	--

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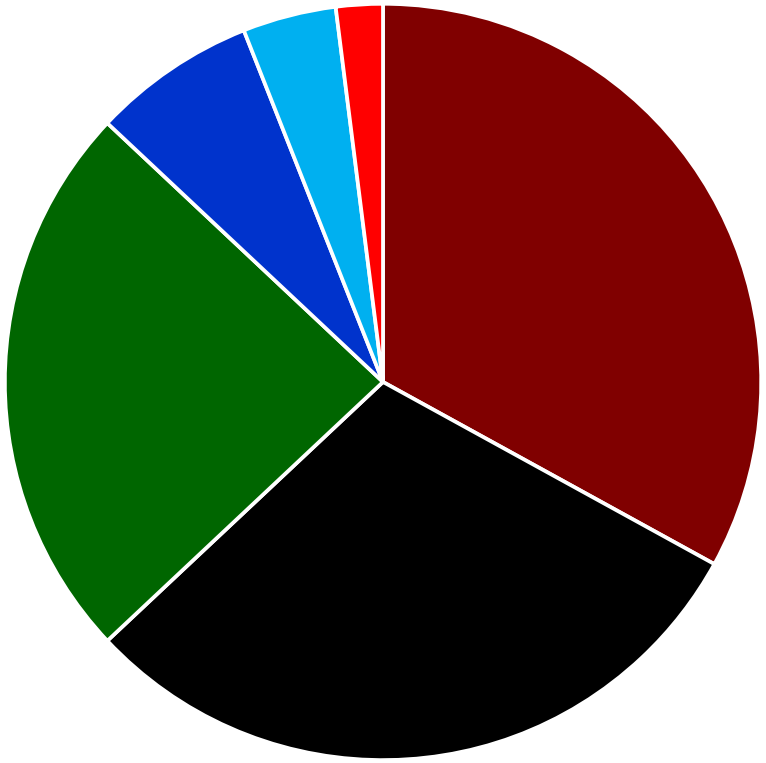
Percent Energy Use Worldwide 2015

(Source: BP)



- Oil (33%)
- Coal (30%)
- Nat. Gas (24%)
- Hyrdro (7%)
- Nuclear (4%)
- Other (Ren.) (2%)

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Energy Trends

- **Fossil Fuels** (~90% WW)
  - Env. (and $)risks of drilling/mining going up
- **Nuclear** (4-5%)
  - Safety vs. Carbon: Fukushima damped interest in places
  - 80% of growth projected from Developing Nations
  - US: up slightly, leveling ~2025

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Energy Trends

- **Renewables** (2% WW)
  - Supported by Climate Change, but subsidies threatened
  - Wind: up 10X in US 2000-2010; good growth projected
  - Solar: Still costly even with Chinese developments
  - Power storage advances will help (e.g., Tesla)
  - ¼ of World's electricity by 2040 (US EIA)

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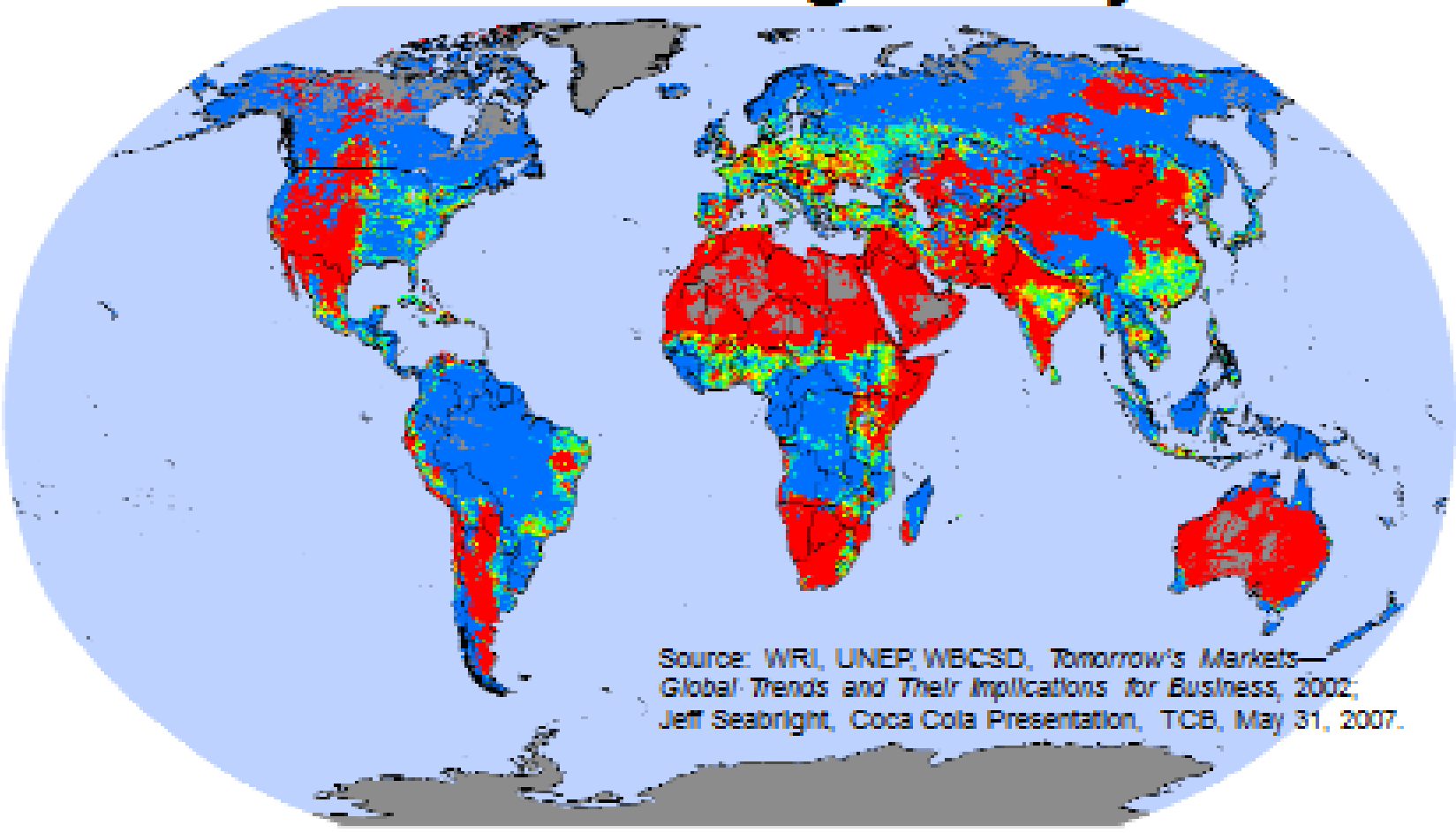
6. Water

40% of the World Will Live in Water-Scarce Regions by 2025



7. Prosperity Gap

- 1.5 billion earn <$1.25/day
- Richest 1% WW own >50%

- Bottom of Pyramid Strategies
  - Grameen Microfinance Bank
  - Nestle & P&G
  - Aravind Eye Clinic

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Sustainability/RB Leadership= Values + Integration

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--2014 GlobeScan/SustainAbility survey of over 800 experts in 87 countries

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Sustainability Leadership: The Baxter Story

Bill Graham, CEO, 1953-1980

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Small Company Sustainability Values

❑ Prairie Crossing

(Residential development, Grayslake, IL)

1. **Environmental protection and enhancement**
2. **A healthy lifestyle**
3. **A sense of place**
4. **A sense of community**
5. **Economic and racial diversity**
6. **Convenient and efficient transportation**
7. **Energy conservation**
8. **Lifelong learning and education**
9. **Aesthetic design and high-quality construction**
10. **Economic viability**

Gaylord & Dorothy Donnelly

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Roy Richards

Small Company Sustainability Values

(Wire and cable company, Carrollton, GA)

1. **Growing Green.** We will reduce our environmental footprint as we grow, reduce energy intensity, increase use of renewable resources, and reduce the amount of waste to landfills.
2. **Living Well.** We will preserve and enhance the lives of our employees by building a workplace that is satisfying, meaningful and fun. In doing so, we will make certain that safety and health are always top priorities and will treat each other with respect.
3. **Giving Back.** We will strive to improve the quality of life in the communities in which we work.
4. **Doing Right.** We foster a culture guided by ethical values. We will not forget to live up to those values, even when it might be difficult. And when we make mistakes, we will be transparent and responsive.
5. **Building Worth.** We will build worth for our shareholders, customers, and other stakeholders by achieving the lowest cost, highest quality and best service in our industry. To do this, we must lead our core markets with superior products, grow steadily, spend wisely, keep debt low and protect our investments.

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The Conference Board Sustainability Benchmarking Studies

(See www.WBlackburnConsulting.com)

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Conference Board Study:

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 will be positioned to survive and prosper economically.

b. Community Economic Prosperity

We will help our community survive and prosper economically.

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2. Social responsibility: respect for people

a. Respect for Employees

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

c. Responsible Governance

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

e. Fair Dealing With Customers

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

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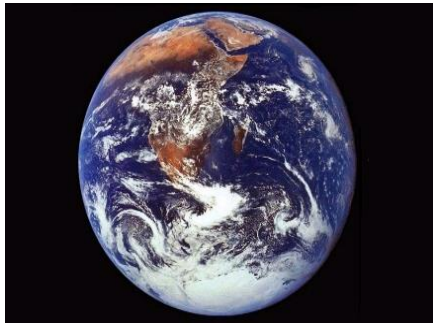
3. Environmental responsibility: respect for life; the wise management and use of natural resources



a. Resource Conservation

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

b. Waste Prevention and Management

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

e. Collaboration With Communities

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

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Sustainability Trends

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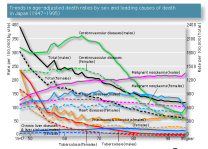

- Over-consumption of Resources
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- Climate Change
- Deforestation
- Threats to Biodiversity
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- Declining Soil Quality
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Responses

- **Opposition to Globalization**
- **Extended Producer Responsibility**
- **Green Products**
- **Green Marketing/Labeling**
- **Green Product Certification**
- **Socially Responsible Investing**
- **Investor Concerns about Corporate Governance**
- **Transparency/ Public Reporting**
- **Power of NGOs/CSOs**

Some Observations About Sustainability?

- Sustainability is not about one thing.
- The business case for sustainability is really the business case for a process that looks at sustainability trends and issues and prioritizes among the opportunities and threats to an organization to select those for action that contribute the most value.

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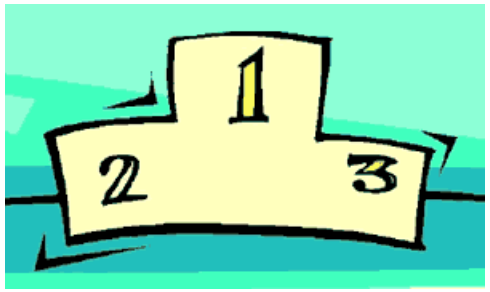
How do you determine what Sustainability/BR issues are most important for action?



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Determining Priority of Sustainability Issues for Action?

1. **GRI "Materiality"** (importance)
   - Impact on (or by) social, env., econ. Issues
   - Interest by or effect on key stakeholders
2. **Consistency with-**
   - Co. culture, values
   - Co. strat plan, short-term goals
3. **Important bus. opportunity?**
4. **Important bus. threat?**
5. **Public pressure to act**
6. **Ease of implementation**

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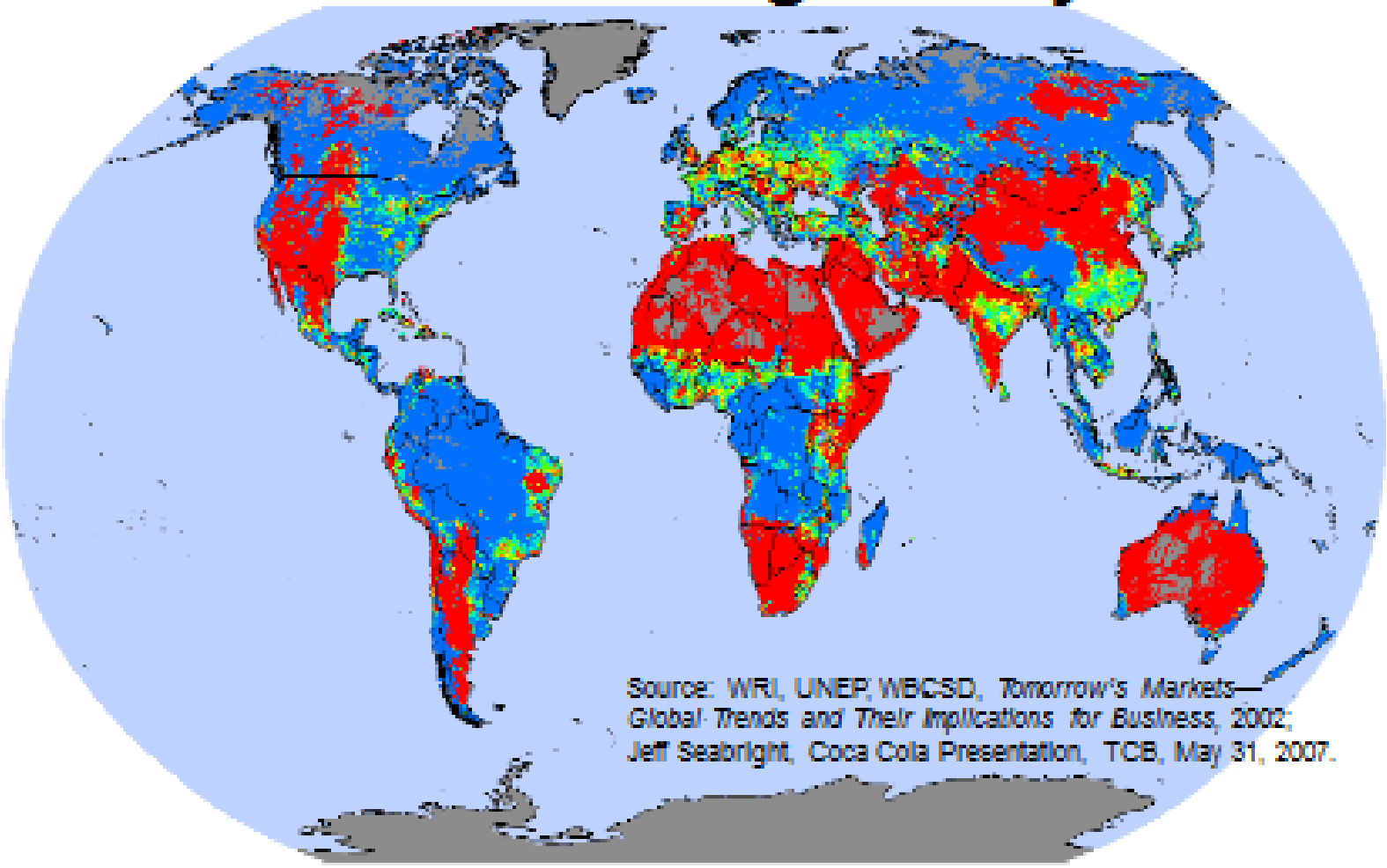
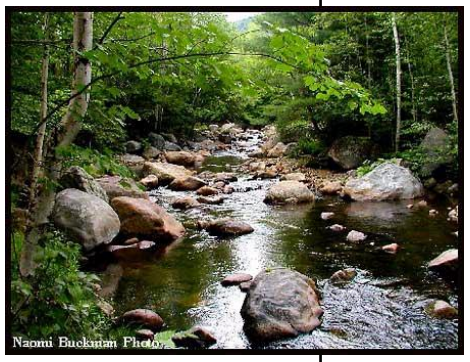
40% of the World Will Live in Water-Scarce Regions by 2025



Sample SWOT Analysis for Sustainability Issue: Water

Issue	Threat	Opportunity	Strength	Weakness	Possible Objectives
Depletion of Fresh Water Resources 	1. Water shortage could jeopardize operations 2. Some competitors have long-term water rights	1. Water conservation projects can save money, help secure supply 2. More on-site water treatment and reuse are possible 3. May be able to secure long-term water rights in some locations	1.Some water conservation projects underway 2. Internal engineering expertise	1. No long-term water rights secured in some growth regions 2.Some communities serving our factories have poor water supply infrastructure 3. Some bad press for high water use and pollution in some communities	1. Investigate water risks on site-by-site basis and develop actions to address them 2. Consider more aggressive water treatment, reuse and conservation programs using internal engineers 3. Explore securing long-term water supplies in high risk areas while respecting community needs 4. Form links on initiatives with reputable water NGOs

Some Material Sustainability Issues in Ag?

- Environmental ?
- Social?
- Economic/Financial?

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Integration

How do you build Sustainability/BR into an organization?

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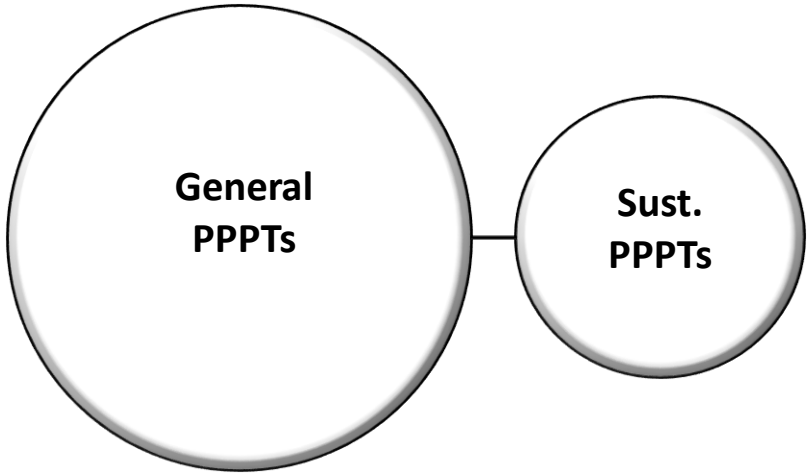
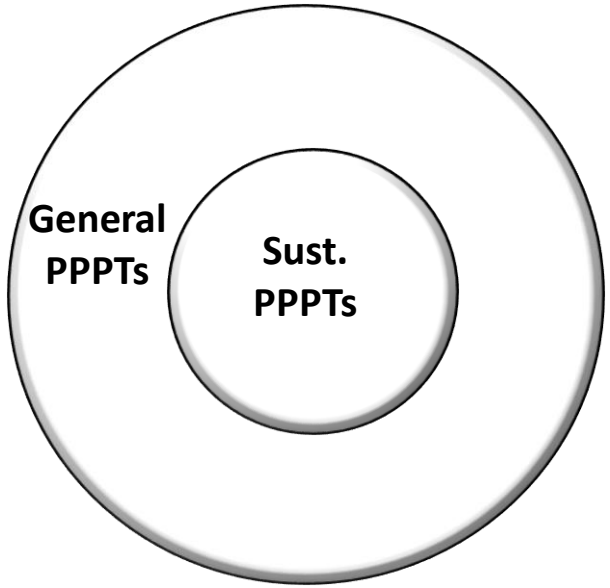
Integrating Sustainability into Policies, Procedures, Practices and Tools (PPPTs)

Segregated Model



Integrated Model



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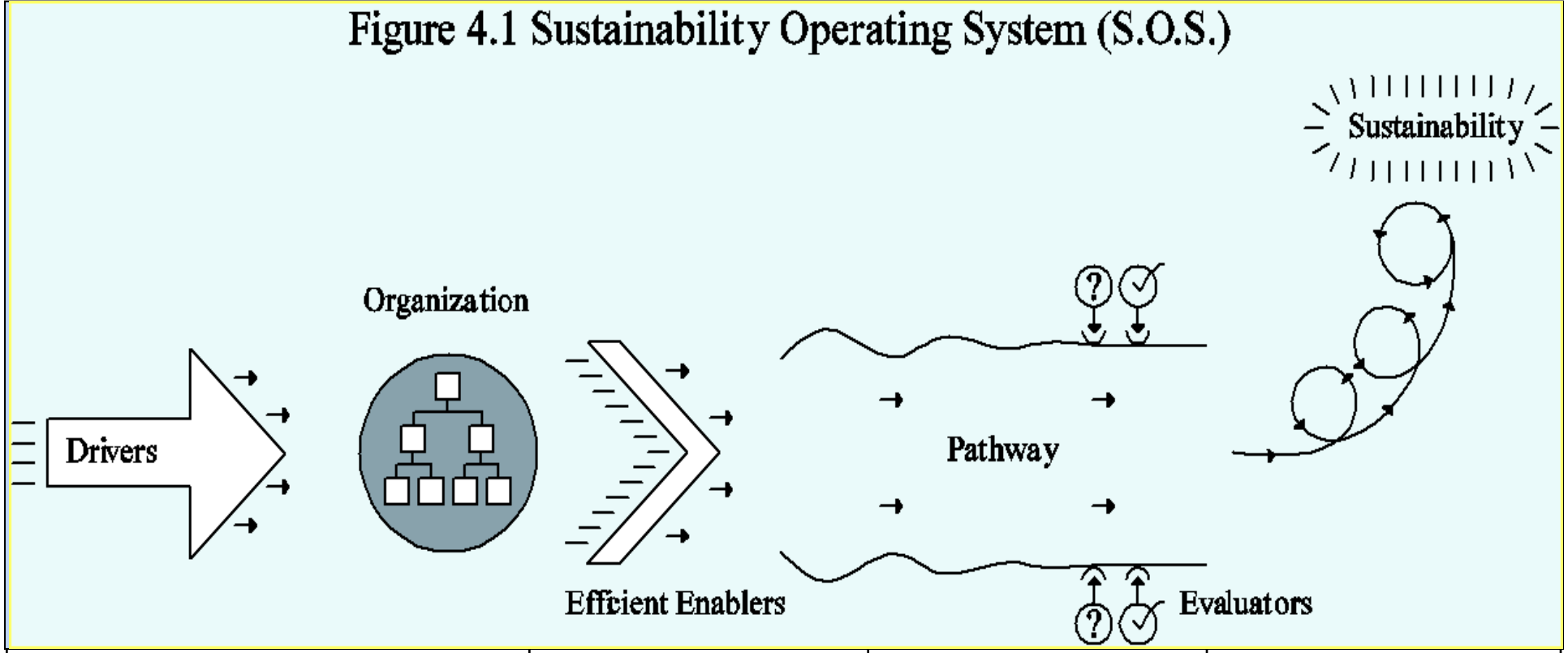

The Drivers	The Efficient Enablers	The Pathway	The Evaluators
▪A champion/leader; visible top management support ▪Approach for selling the organization on sustainability ▪Accountability/reward mechanisms	▪Organizational structure ▪**Deployment and integration through workforce & suppliers**	▪Vision and policy ▪Operating system standards ▪Strategic planning for aligned priorities	▪Indicators and goals ▪Measuring and reporting progress ▪Stakeholder engagement and feedback

Sustainable Products & Services?

- Improve the efficient use of natural and economic resources along the product life cycle

- Provide greater respect and accommodation for the needs of people and other living things along the product life cycle

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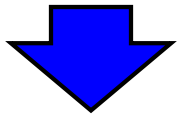
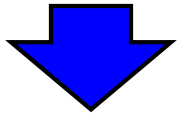
Stages of Possible Intervention in Design Process: The Baxter Example

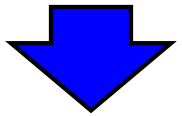
1. **Pre-concept: Marketing research and discussions**



2. **Concept: Marketing evaluation of customer needs and challenges**



3. **Feasibility: R&D evaluation of viability of concept in light of manufacturing challenges, cost, etc.**



4. **Development: R&D detailed engineering of product and manufacturing process; identification of bill of materials**

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Stages of Possible Intervention in Design Process: The Baxter Example

5. **Transition (Initial Production): Evaluation of product and production process by Quality Assurance and Regulatory Affairs; governmental approval for production and sale**

5. **Limited-control Distribution: Limited distribution of product for pilot testing by M,R&D**

6. **Launch: Full scale production and distribution of product**

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Integrating Sustainability Into Design Processes:
Key Challenges?

1. **Complexity.** Not overwhelming Marketing and R&D (M,R&D) and RA/QA with complicated process and requirements

2. **Roles.** Deciding when to use trained M,R&D people vs sustainability-topic experts

3. **Tracking Change.**
   a. Sustainability-related regulatory requirements and stakeholder (including customer) expectations

   b. M,R&D organization and personnel changes, and their training needs

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Topics Covered by Supplier Codes of Conduct

M=McDonald's Supplier Code of Conduct
NE=Nestle Supplier Code
N=Nike Code of Conduct (for Contract Factories)
NN=Novo Nordisk Responsible Sourcing Standards for Business Partners
W=Wal-Mart Standards for Suppliers

- **Audit & Assessment:** M, NN
- **Compliance with Law:** M, NE, N, NN, W
- **Ethics, Anti-corruption**: M, NE, NN, W
- **Human Rights, Nondiscrimination**: M, NE, N, NN
- **Labor Practices, Working Conditions**: M, NE, N, NN, W
- **Health & Safety:** M, NE, N, NN, W
- **Environment:** M, NE, N, NN, W
- **Recordkeeping:** M, NE, W
- **Sub-supplier Code Compliance:** NE, N, NN

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Common Program Elements for Responsible Supply Chains

1. **Supplier standards, Codes of Conduct**
2. **Oversight structure**
3. **Supplier mapping, prioritization**
4. **Goals, metrics**
5. **Tracking and reporting; Traceability**
6. **Evaluation process** (surveys, self-assessments, audits, data systems)
7. **Training, Communication & Engagement**
8. **Supplier Management Systems**
9. **Supplier Awards, Other Motivators**
10. **Collaborative Programs**

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Entrepreneurial Opportunities?

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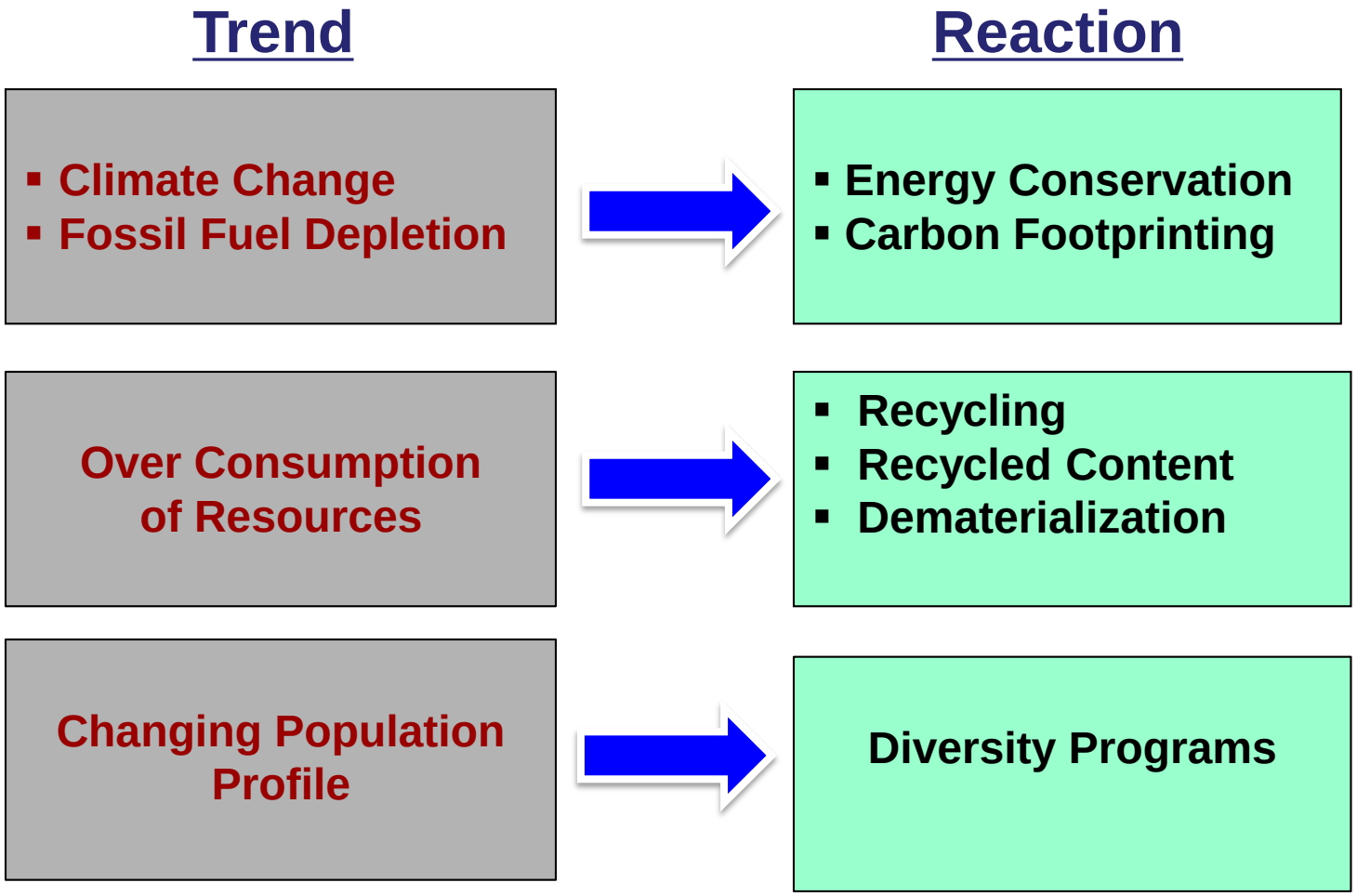
Organizations Respond to Sustainability Trends



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Organizations Respond to Sustainability Trends

Trend	Reaction
▪ Child and Forced Labor ▪ Growing Concern about Toxics Contam. & Env. Problems	▪Ethical Sourcing ▪Supplier Assessments
Spread of Toxic Pollutants	Toxics Elimination From Inks, Electronics, etc.
Growing Mistrust of Business	▪ Sustainability Rptg. ▪ Green Labeling Rules ▪ Product Certifications

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Entrepreneurial Opportunities from Sustainability/BR?

1. **Addressing trends?**
   - Resources (technologies, replacements, recycling (Circ. Econ, Cradle-to-Cradle), sharing, efficiency)
   - Population shifts (aging, diversity, urbanization)
   - Bottom of pyramid (low cost, entrepreneurship)
   - Cultural accommodation (marketing, recruiting, products, etc.)

2. **Addressing process?**
   - Standards, compliance, certifications, training
   - Tracking, measurement
   - Supply chain (block chain tools)
   - Design of products, services, buildings (LEED, etc.) & marketing
   - Safety
   - Collaboration/sharing
   - Localization (food, energy, etc.)
   - Engagement & communications

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