RESEARCH NETWORK *for*

BUSINESS SUSTAINABILITY

KNOWLEDGE FORUM SERIES

Knowledge Forum on Valuing Business Sustainability

ISSUE DATE: MARCH 2008

Paul J. Hill School of Business

Richard Ivey School of Business
The University of Western Ontario
IVEY
CROSS-ENTERPRISE LEADERS

RESEARCH NETWORK *for*
BUSINESS SUSTAINABILITY

Knowledge Forum on Valuing Business Sustainability

DR. ROBERT B. ANDERSON, Paul J. Hill School of Business
SAMER ABDELNOUR, Richard Ivey School of Business
JIJUN GAO, Richard Ivey School of Business
MARLENE J. LE BER, Richard Ivey School of Business
POUYA SEIFZADEH, Richard Ivey School of Business
NATALIE SLAWINSKI, Richard Ivey School of Business

Hosted by the Richard Ivey School of Business
University of Western Ontario

Report published by the Paul J. Hill School of Business,
University of Regina

Presentation slides and interviews with the speakers available at:
www.ivey.ca/centres/building/valuing/Interview.htm

Paul J. Hill School of Business

Richard Ivey School of Business
The University of Western Ontario
IVEY
CROSS-ENTERPRISE LEADERS

Executive Summary

Sixty-five managers, academics, and policy-makers shared the insights of seven expert speakers at the Knowledge Forum on Valuing Business Sustainability, held in Toronto on January 25, 2008.

The Forum's purpose was to engage researchers and other experts in dialogue on the state-of-the-art of our knowledge on questions that managers and policy-makers need answered. The discussions were provocative. This executive summary summarises the speaker presentations and captures the main points of the stimulating discussions they generated.

Joshua Margolis showed that there is a small, positive relationship between superior corporate social performance (CSP) and corporate financial performance (CFP), and that there is no financial penalty for social performance. But he has also learned that sustainability leaders are less interested in the direction of this causal relationship, than in how their firms can simultaneously pursue superior performance in both areas.

Michael Jantzi showed that mainstream investors are starting to incorporate environmental, social, and governance (ESG) parameters into their investment decision-making processes. Alan Willis reinforced this point by arguing that non-financial information associated with business sustainability should be included in company annual reports. This information is future-oriented and important to investors and rightly belongs in the Management Discussion and Analysis section of the annual report.

Claude Ouimet reported that InterfaceFLOR devotes as much effort to setting CSP objectives as it does to CFP objectives. The firm monitors its performance against both sets of targets through an accounting system that includes social and environmental indicators. John Peloza and Ron Yachnin reported that the business world is increasingly interested in financially valuing social activities. They described various financial valuation analyses—ratios, discounted cash flow, economic value-added, rules of thumb, and options pricing—that can be used to put dollar values to sustainability activities.

Robert Klassen argued that we shouldn't be asking 'how much?', but 'why?' The former question frames sustainability in the old trade-off paradigm; the latter encourages managers to understand how sustainability activities generate value, and to position their firm to harvest those benefits.

Timothy Devinney presented research that shows that although most consumers say they support corporate sustainability initiatives, their words aren't backed up by market behaviour. He argues that managers can influence customer behaviour more effectively by adjusting the context in which they sell, rather than by simply promoting their product's social attributes.

Dialogue with the audience yielded additional insights, including:

- Research shows that modest financial gains are associated with good CSP. However, it is more important to recognize the real risk of sudden and long-lasting damage to the firm that fails to meet its social and environment responsibilities.
- Managers trying to advance a sustainability agenda rarely have the opportunity to make their case to senior management, unless they are supported by a high-level champion.
- There is a strong business case for sustainable activity when it is aligned with company strategy. Holistically aligning sustainability with strategy will simultaneously create positive financial results and help the firm meet its business objectives.
- It is important to build sustainability into standard managerial accounting practices, so that the Chief Financial Officer can understand the issues and their impact on the organization.

Table of Contents

Overview of the Forum

This report summarizes the proceedings of the Knowledge Forum on Valuing Business Sustainability, held on January 25, 2008. The event was hosted by the Ivey Business School and the Research Network for Business Sustainability at the Ivey ING Leadership Centre in Toronto, Canada. The day-long session was attended by 65 leaders from business, government, and academia. They heard seven presentations from respected academic and non-academic authorities (see biographies in Appendix A, and interviews and presentation slides at *www.ivey.ca/centres/building/valuing/Interview.htm*) on the topic of translating sustainability activities into dollar values.

This report highlights the main ideas, provoking questions, and key take-aways of each Forum presentation. We also summarize the insights and experiences that Forum participants generously shared during two dialogue sessions. The report concludes with a summary of key learnings and a discussion of the future of business sustainability valuation.

The purpose of this event was to bring together experts from academia, industry, government, and non-governmental organizations (NGOs) to discuss an important issue in business sustainability. Valuing business sustainability has rarely been examined through such a diversity of lenses, at a single event. The Forum filled a gap in the business sustainability community by encouraging traditionally isolated groups to share state-of-the-art knowledge.

The Forum fits into a larger initiative underway at the Research Network for Business Sustainability. Every year, the Network's Leadership Council (see list of members in Appendix B) identifies the greatest challenges facing sustainability practitioners. It then funds two projects to systematically review all published knowledge on each of its top two priorities. The January 25 Forum was an interim step in a funded project on valuing business sustainability. The project's final report will be completed in the summer of 2008.

The Relationship between Social and Financial Performance: A Research Perspective

Joshua Margolis, Associate Professor, Harvard Business School

KEY TAKE-AWAYS

- *The relationship between corporate social performance (CSP) and corporate financial performance (CFP) is positive, but small. CFP is not a clear and compelling rationale for CSP.*
- *The research clearly shows that there is no financial penalty for CSP.*
- *CSP pays, protects, and provokes. It pays by reducing costs and attracting and retaining investors, employees, and customers. It protects by limiting downside risk. It provokes by inviting criticism from all sides of the debate.*

Joshua Margolis and his colleagues are investigating an issue that business leaders and environmental activists been tackling for a very long time. Management researchers have been attempting to answer this same question for the past 35 years: What is the relationship between corporate social performance (CSP) and corporate financial performance (CFP)?

Margolis began by recalling a time when Ben and Jerry's dual bottom-line accounting was not studied in business schools because social or environmental strategies were not considered to be legitimate business practice. At that time, conventional wisdom held that the sole purpose of the firm was to make a profit; back then the CSP–CFP debate was relatively muted. However, interest in the CSP–CFP relationship has increased greatly, for three main reasons:

- Researchers and managers believe that corporate social responsibility (CSR) must be tied to financial performance to secure legitimacy and competitive advantage.
- Firms must increasingly conform to rising expectations to contribute to society. We see this reflected in the evolution of society-focused mission statements and in the inclusion of new and diverse stakeholders into decision-making processes.
- CSR is being pushed to the forefront by underlying forces, such as globalization, technology innovation, and the evolution of sustainability ideas and practice.

Margolis discussed the meta-analysis that he conducted with several colleagues. They examined 167 studies published over the previous 35 years to explore the empirical link between CSP and CFP. Margolis found that there is no financial penalty for CSP; in fact there is a small, positive effect between social and financial performance. These results raise intriguing questions for managers and researchers.

Margolis then went on to describe how CSR research has evolved; from the first, single observer studies of the 1970s, to recent work using objective data, and multiple measures of financial performance and directions of causality. But, during the last decade, the relationship between CSP and CFP has weakened as measures have become more accurate. The small effect-size relationship leaves much room for interpretation and wide debate; in other words, these results satisfy no one!

"Does the successful business try first to profit or to serve?"

Robert K. Merton, 1976

Margolis brought a sense of grounded realism to the complexity of the CSP–CFP debate. He noted the words of prominent sociologist Robert K. Merton: "In raising questions about the very purpose of our business organizations, we find basic ambivalences that must at one time or another plague every corporate executive: Does the successful business try first to profit or to serve?" According to Margolis, the answer is both. He argues that CSP pays, protects, and provokes. It pays by reducing costs and attracting and retaining investors, employees, and customers. It protects by limiting downside risk. It provokes by inviting criticism from all sides of the debate.

The challenge for the business community, academics, and corporate social responsibility advocates is to discover how firms can achieve both CSP and CFP. The research to date appears to conclude that CFP is not a clear and compelling rationale for CSP. Of course, companies can strive for both, but the two goals do not necessarily align. Nevertheless, current social and environmental pressures are forcing many firms to consider whether and how they can simultaneously meet their financial and social performance goals.

The Challenges of Valuing Business Sustainability: An Executive Perspective

Claude Ouimet, Senior Vice President and General Manager, InterfaceFLOR Canada and Latin America

KEY TAKE-AWAYS

- *Successful sustainability business practice requires leadership and a shared commitment by everyone, from top management to factory staff, and from front-line employees to the board of directors.*
- *Developing this commitment requires education and takes time.*
- *Sustainability requires accounting systems that incorporate detailed environmental and business performance indicators, and control systems that are aligned with sustainability strategy.*

Many business leaders and academics are doubtful when they first hear that Interface, a world leading carpet manufacturer, is also a world leader in business sustainability. How can a NASDAQ-traded company do both things so well?

Claude Ouimet admits that this scepticism also existed at Interface. Initially, many managers and employees did not understand or believe that sustainable business practices could be possible and profitable. Since embarking on the 'right' path in 1995, Interface has developed many programmes to educate employees and other stakeholders about the firm's sustainability practices. Interface also has created an accounting system that incorporates increasingly detailed environmental indicators into the business model. Initially driven by the sheer determination of founder Ray Anderson, the system is now supported by all staff, from top management to factory staff, and from front-line employees to the board of directors.

"At Interface, we do not believe that we are making carpets—we believe that we are changing the world."

Claude Ouimet

Interface accounts for all the environmental impacts of every input it uses and all the products it offers to the market, committing every employee to think about sustainability. For example, using any kind of non-renewable energy is considered to be a wasteful process that should be eliminated. Interface has a goal of 10% improvement in all its environmental measures, every year, and all managers and employees are accountable for hitting this target. One of Interface's long-term goals is to remove all toxic inputs from its processes.

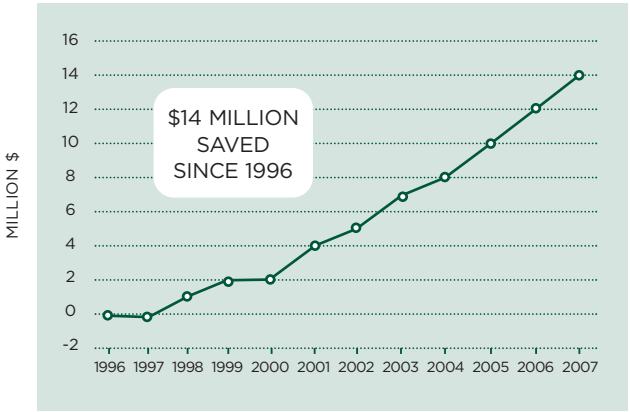
Interface is now the most profitable company in its industry in the U.S. and Canada, and the poster-child of business sustainability. Ouimet is proud that "Interface is competing every day and is winning more often than its other competitors... Interface has been simply doing well by doing good." Since 1995, Interface has cumulatively avoided over $336 million in costs by eliminating waste.

For instance, it has reduced the amount of manufacturing waste it sends to landfills by 70% since 1996. Figure 1 shows the cumulative cost savings at Interface's facility in Belleville, Canada.

Ouimet believes that other firms can follow Interface's example as legislation and internal dynamics drive companies along the sustainability path.

Figure 1

QUEST – CUMULATIVE AVOIDED COST FROM WASTE ELIMINATION ACTIVITIES



BELLEVILLE, ONTARIO, CANADA FACILITY

Interface FLOR™ COMMERCIAL

Tools for Valuing Business Sustainability: A Systematic Review

John Peloza, Assistant Professor, Simon Fraser University and
Ron Yachnin, Principal, Yachnin & Associates

KEY TAKE-AWAYS

- *Most academic literature focuses on the overall relationship between social performance and financial performance.*
- *We need more research into the specific drivers through which social performance impacts financial performance.*
- *Many of those who rate business performance are including sustainability items in their assessment tools.*
- *Various financial valuation analyses–ratios, discounted cash flow, economic value-added, rules of thumb, and options pricing–can be used to put dollar values to sustainability activities.*

John Peloza (an academic) and Ron Yachnin (a consultant) were selected by the Research Network for Business Sustainability (RNBS) to review the gamut of academic and practitioner literature on business sustainability. Their mandate is to identify the business tools that managers can use to value business sustainability. Their Forum presentation summarized their interim results; the research is scheduled to be completed in the summer of 2008.

"There is a need to move beyond the rhetoric and develop hard measures for the CFO"

John Peloza

Peloza began by talking about his review of the academic literature. He noted that most research focuses on the overall relationship between social performance and financial performance, rather than on the tools that can be used to value sustainability activities. Academics also tend to examine accounting and market measures, analysts' perceptions, and cash flows to evaluate firm performance, rather than variables that would be more meaningful to managers, such as debt costs, employee relations, and innovative culture. Peloza cited a Financial Times article on "Why Business Ignores Business Schools" as a cry for help from managers who need to know the specifics of how social performance impacts financial performance; they don't want more research on the overall relationship.

Yachnin is enthusiastic that the financial community, and some firms, are trying to find and measure the value in sustainability. For example, Innovest's Carbon Beta and Equity Performance study is a tool for understanding and valuing carbon emissions – one of the key drivers of sustainability value. Frameworks used by Goldman Sachs, Baxter, and BT help those firms understand and evaluate how sustainability activities impact business value. Yachnin also outlined how various financial valuation analyses — ratios, discounted cash flow, economic value-added, rules of thumb, and options pricing—can be used to put dollar values to sustainability activities.

The audience offered several comments in response to the Peloza and Yachnin presentation, including:

- Practitioners need to be able to forecast the impacts of various strategies using tools such as scenario analysis. Thus, academics should publish more sustainability case studies and scenario-based research.
- The quality ethos of the 1980s is an analogy for the sustainability efforts of today. Successful quality integration methods can be adopted, if managers have the tools to understand the cost structures of various initiatives.
- There is a pressing need for frameworks targeting small and medium-sized enterprises (SMEs).

Non-Financial Information for Valuing Business Sustainability: An Accounting Perspective

Alan Willis, President, Alan Willis & Associates

KEY TAKE-AWAYS

- *It is critical to provide the non-financial information that enables investors and other stakeholders to make their own assessment of business sustainability.*
- *Information valuable to internal decision-making and investors should not be buried in a Sustainability Report, but highlighted in the Management Discussion and Analysis section of the company annual report.*
- *It is a big task for any firm to understand what information it should present, given that different stakeholders have different information needs.*

Alan Willis has a deep understanding of the role of accounting measures in valuing business sustainability. Indeed, he sees accounting as "more than measuring performance…it's about valuing present and future worth"

Willis' presentation highlighted how accounting information is used in a variety of ways by different stakeholders. Two traditional functions of accounting information are: management accounting, and reporting on stewardship of investments. Management accounting is used internally to make decisions about the allocation of resources, and stewardship reporting of invested finances is used by investors to assess the capabilities of management and the board. A third future-oriented perspective of reporting is emerging to project future performance and value creation. This exciting orientation recognizes that information based on transactions cannot provide all the insights needed by the various decision-makers.

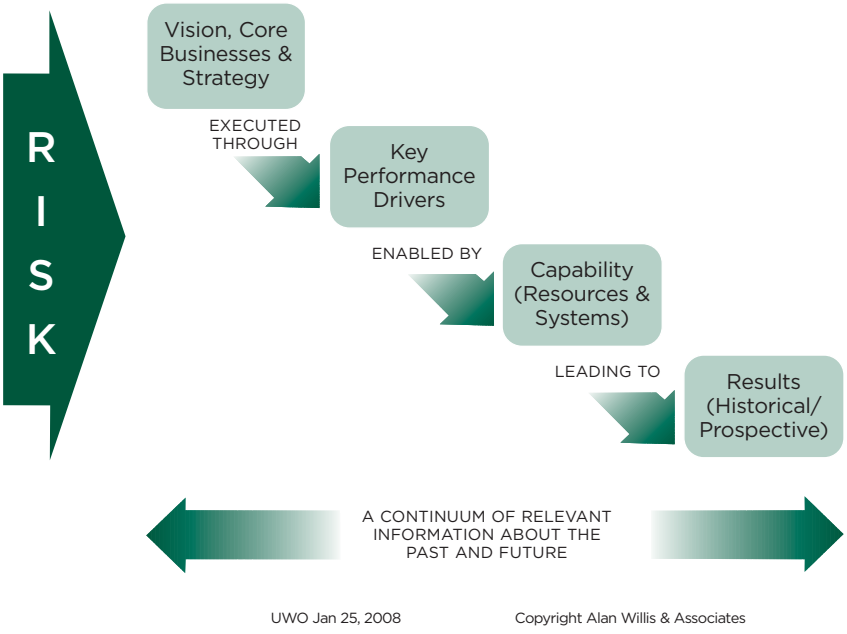
"A future-oriented pespective of reporting is emerging to project future performance and value creation."

Alan Willis

Willis defined non-financial information (NFI) as anything not contained in financial statements and notes, two sections that must conform to generally accepted accounting principles (GAAP). NFI can consist of both quantitative information and financial information, which does not conform to GAAP. For example, NFI includes the value of costs not incurred because of some action taken or not taken, or the expected future value of current actions. This information is central to assessing the impact of sustainability activities. Willis suggested that valuable information of this type should not be buried in a sustainability report, but rather highlighted in the Management's Discussion and Analysis (MD&A) of the annual report, where it will be readily visible to external users and seen as central to the businesses activities. Indeed the purpose of the MD&A is to communicate management's current strategy and actions, and the expected future outcomes. (Figure 2 shows a framework on MD&A disclosure from the Canadian Institute of Chartered Accountants that Willis' presented.)

Figure 2

MD&A DISCLOSURE FRAMEWORK



Elaborating on this argument, Willis discussed the Global Reporting Initiative (GRI) guidelines, which he acknowledged as today's de facto standard for 'sustainability reporting.' Since GRI guidelines were developed to address transparency issues, Willis strongly believes that they are not helpful in valuing sustainability: "Sustainability reporting on the basis of the GRI guidelines has limited value to investors and the financial valuation of corporate sustainability."

The attendees discussed the realities and several approaches to the inclusion of 'externalities' into financial statements, including:

- Currently, our accounting system externalizes certain costs (e.g., carbon emissions) and leaves them off the balance sheet and income statement. Including those new line items in financial statements even if they are assigned values of zero for now will influence behavior by helping managers to understand their impact on the business. With scenario planning and gradual increases in those formerly externalized costs, they would eventually be incorporated into the business.
- Without financial accounting measurements, such entries would only be estimates.
- Common goods, such as clean air, can be priced through regulation. The real challenge is determining who will manage them.

Willis ended the session with the following thought: "At the end of the day, how realistic is it to expect to devise any one approach or algorithm for valuing business sustainability? Or is it enough to provide the NFI that enables individual investors and stakeholders to make their own assessment of business sustainability?"

Valuing Business Sustainability: An Investor's Perspective

Michael Jantzi, President, Jantzi Research Inc.

KEY TAKE-AWAYS

- *Mainstream investors are starting to incorporate ESG indicators into their decisions. In Canada, $503 billion in assets are managed under socially responsible investment criteria.*
- *Fund managers are concerned about risk. Climate change has been a key driver for the integration of ESG factors into fund managers' investment decisions.*
- *"SRI is not transient... but is here to stay."*

Sustainability-related investors have followed an interesting evolution. Two decades ago, 'ethical investors' began screening firms using criteria such as weapons or tobacco production and excluding those firms from investments. Later, there was a period of 'green investing,' before 'socially responsible investing' (SRI) became a popular term. Today, Michael Jantzi is leading the charge to develop metrics for sustainable investment.

Founded in 1992, Jantzi Research focuses on integrating environmental, social and governance (ESG) parameters into investment decision-making process. ESG is a holistic approach that examines what firms are doing well and what they are doing poorly. The tools developed by Jantzi help socially responsible investors look at the world through a true sustainability lens: considering the financial bottom-line and other factors. Such investors are looking for alignment between economic performance and sustainable behaviours.

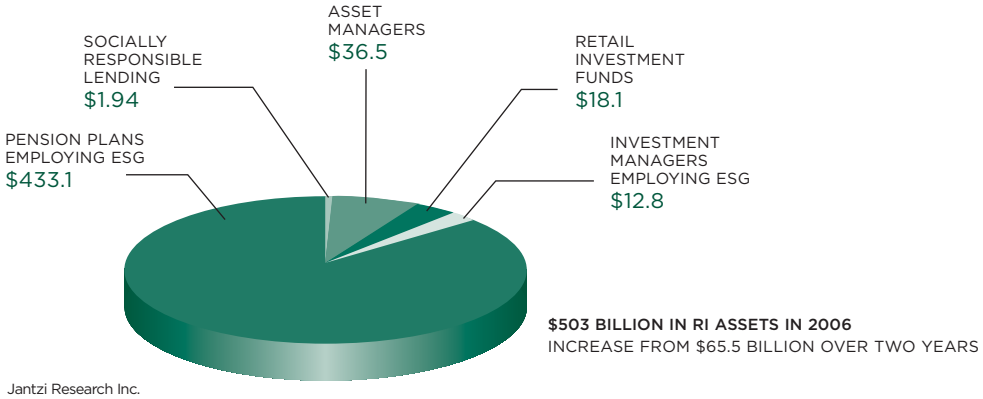
"Mainstream investors are starting to incorporate ESG indicators into their decisions."

Michael Jantzi

According to Jantzi, the use of sustainability metrics is no longer just the domain of socially-responsible investors: "Mainstream investors are starting to incorporate ESG indicators into their decisions." For example, assets managed using SRI criteria are growing in Europe and North America. In Canada alone the amount totals $503 billion in assets (see Figure 3); in the US and Europe, the figure is in the trillions of dollars/Euros! One Canadian institutional investor that is not engaged in 'ethical' investing but does incorporate ESG considerations into their investment decisions is the Canada Pension Plan (CPP). Climate change, corruption, and executive compensation issues are important investment criteria for

Figure 3

RI ASSETS UNDER MANAGEMENT CANADA (BILLION $)



Jantzi Research Inc.

them. When CPP has a large ownership stake in a firm, the firm's managers are contacted and these issues are discussed.

Jantzi addressed the question of the relationship between CSR and investment decisions. For investors, evidence of a small, positive relationship, or at least no adverse effect, is enough to get fund managers to take CSR in account. Why? What concerns these fund managers the most is risk. Jantzi sees climate change as a key driver for the integration of ESG factors into fund managers' investment decisions: fund managers and investors want to know what firms are doing to manage the risk related to carbon emissions and climate change.

RBC was raised as an example of a firm that has created three new SRI funds with the understanding that integrating sustainability indicators is about risk management. Suncor was also raised as an example of a company applying sustainability practices to manage risk. As part of an industry which relies on large amounts of water for oil extraction, Suncor has taken steps to reduce its water usage by about 50 percent and is now working toward a 'closed-loop' operation.

Sustainability has come a long way in Jantzi's career. Just 18 years ago there was no debate about the benefits of CSR for financial performance. Today the debate exists and is aided by indicators such as the Jantzi Social Index (JSI), which routinely outperforms conventional benchmark indices. Fund managers and investors are paying attention to SRI, but there is no holy grail for doing so. For example, while the JSI outperforms other indices, the Dow Jones Sustainability Index has not. Jantzi uses this example to highlight that for every advocate of SRI there is a critic who can point to an equal number of failures. Still, the dialogue is richer now than it has been in the past and according to Jantzi: "SRI is not transient… but is here to stay."

Technology and Environmental Sustainability: Improving Business Performance

Robert D. Klassen, Professor, Ivey Business School

KEY TAKE-AWAYS

- *Sustainability is about asking the right questions. Managers should ask 'why' more than they ask 'how much' to spend on environmental initiatives. Doing so would create a better understanding internally and externally of how the firm is creating business value through sustainability.*
- *Creating closed-loop supply chains forces firms to forge relationships with suppliers and re-evaluate their processes, which are much higher value-added activities than implementing extensive recycling programs.*

While many researchers and managers are concerned with the environmental-financial performance link, little is known about which causes which. Interestingly, Klassen believes that the cause-effect question of which causes which is not nearly as important as asking why such a relationship exists. The lack of such understanding has resulted in external investors not being able to see what underlies decisions made by firms. According to Klassen, "Once why is understood well enough, then a good decision can be distinguished from a bad one."

"Once 'why' [environmental issues affect financial performance] is understood well enough, then a good decision can be distinguished from a bad one."

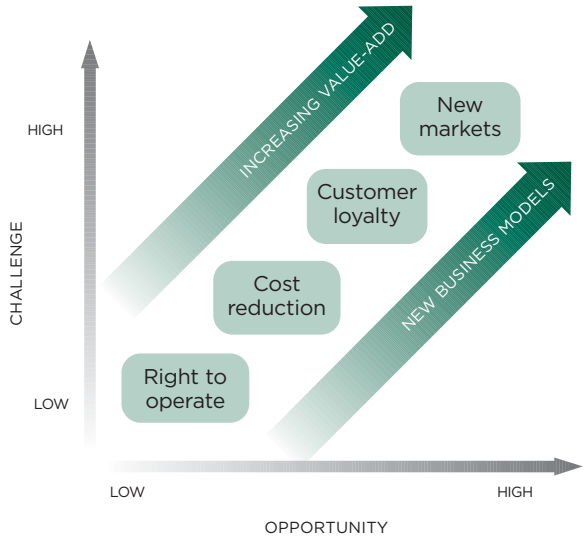
Robert D. Klassen

Klassen suggested that businesses are moving from a low-challenge, low-opportunity approach aimed at securing the right-to-operate and reducing costs, to a high-challenge, high-opportunity approach to gain customer loyalty and enter new markets (see figure 4). He illustrated this by pointing to his research on environmental investments. Research conducted on 83 furniture producers in the U.S. shows that firms are making dramatic changes to their capital investments to move away from pollution control in favour of pollution prevention. However, he tempered his enthusiasm by noting that operating expenses remain heavily allocated to pollution control. Canadian firms seem to be experiencing a similar trend.

Klassen believes that such a shift requires a change from focusing on 'how much' firms spend on environmental technologies to 'why' firms spend what they do. According to Klassen, the 'how much' approach to environmental capital investments ignores potential tradeoffs firms must make, as well as the longer-term benefits and the reduction of future costs.

Figure 4

FUTURE DIRECTIONS



Klassen suggested ways for firms to enhance their value, including building customer loyalty through long-term relationships. Closed-loop supply chains have the potential to foster such longer-term relationships if the firm is willing to increase its role in managing its processes. While firms have minimized their responsibility in disposing and recycling their products, they are taking more responsibility in reusing their product components and reconditioning them. Firms can also enhance value by entering new markets with sustainable products, such as organics and hybrid vehicles.

Trends in the Global Sustainability Landscape: An International and Demand Perspective

Timothy M. Devinney, Professor, Australian Graduate School of Management

KEY TAKE-AWAYS

- *Surveys consistently show that people care about sustainability, yet they are often unwilling to make related sacrifices in their personal lives.*
- *Managers can address this issue by designing marketing strategies based on purchasing context rather than customer's values.*
- *Consumer values do not differ much across countries.*

Timothy Devinney recommended that managers think about the value of business sustainability from the customer's perspective. Consumer value can be extracted if firms design proper purchasing contexts. Consumer purchasing behaviour is driven by the social context rather than consumer values.

"People care, but their purchasing behaviour is driven by the social-function context rather than their values."

Timothy M. Devinney

Through experimental research, Devinney has explored how consumers make purchasing decisions. His experiments have shown that when conflicts arise between ethics and function in a purchase situation, function almost always trumps ethics. This result has held in a variety of cultures and countries with replicated tests using samples from Germany, Spain, US, Turkey, India and Korea.

Devinney also reported on experiments that show that consumers can be influenced through context (such as physical purchasing environment and modes of selling). They can be induced into paying a premium price for social or sustainable product features—just not by selling a product's "ethical value." At the core of this is that human beings remain selfish by nature and so require reasons or specific conditions to direct purchasing behaviour towards products with sustainable or social features. Companies can manipulate the purchasing context through design in order to increase consumer demand for their sustainable goods.

Dialogue Sessions: Sharing Tools and Experiences & Identifying the Challenges in Valuing Business Sustainability

Facilitated by Tima Bansal, Ivey Business School

KEY TAKE-AWAYS

- *There is a small elasticity effect of doing good and a big elasticity effect of doing bad.*
- *Sustainability can have a strong business case when it is aligned holistically with company strategy. A holistic alignment can meet societal and business objectives simultaneously.*
- *It is important to build sustainability into standard managerial accounting practices, so that the CFO is able to understand the issues and their impact on the organization.*
- *Most research is focused on large corporate activity and as a result it appears that SMEs are ignored from the sustainability equation. There is a great need for simple tools to be developed for SMEs.*

Lively discussion engaged attendees and presenters, and a number of comments, suggestions, questions, and key themes emerged. Many of the questions raised during the morning dialogue reflected the practical challenges business leaders are facing. Some of the questions included: How can companies begin to measure intangibles? Do corporate sustainability indices impact share value?

Some managers shared their experiences of having convinced executives to participate in the Carbon Disclosure Project by highlighting the benefits other companies gained and by showing executives that they can compete successfully on such measures. On the other side of the coin, some managers suggested that while there is no financial penalty for survey participation, the benefit is questionable and so it is often difficult to make the business case to disclose corporate information. Responses to this comment were that there is at least some elasticity effect of doing good and that is undoubtedly a large elasticity effect of doing bad.

Participants also suggested that the sustainability movement seems analogous of the quality movement of the 1980s. For example, long-term performance can be improved by reducing the waste stream and improving effectiveness and design. These activities will inevitably lead to improved cost structure. The solution then becomes a focus on driving sustainability strategy to the cost structure.

The discussion turned to core issues of corporate strategy. Many in the session expressed their feeling that sustainable activity can have a strong business case when it is aligned holistically with company strategy. A holistic alignment will bring financial results and meet sustainability objectives simultaneously. Part of the difficulties related to current misalignment of strategy-sustainability is the issue of language and measurement; the sustainability language is different from the standard accounting. One attendee stated that managers need more evidence and instructions regarding why they should respond to requests on sustainability, including spending resources to produce sustainability reports. In response to this, others in the audience claimed that there are certainly penalties for misdeeds with respect to sustainability. Still few firms are willing to test the threshold or limit to understand the associated penalties, and therefore the status quo impression suggests that there are no penalties. With regards to the possible benefits, one attendee mentioned that in the early 1990s RBC saw a link between risk assessment and sustainability and offers lower financing rates for corporations who meet certain 'green' standards.

The flow of the dialogue turned to issues of accounting measurement which can translate back to what the company cares about: shareholder value. Within organizations, a manager responsible for sustainability issues may not have a good organizational champion for their proposals. Without a champion, they usually get one shot to convince the board or CEO about a particular action or activity – if this fails, then the next attempt could be a long time away. In response to this, Claude Ouimet of Interface stated that it is important to build sustainability into standard managerial accounting practices, so that the CFO is able to understand the issues and their impact on the organization. Some respondents asked for a reference to more examples of sustainability for companies without an 'evangelist CEO'. Such examples will be needed to convince skeptics of the benefits of sustainable corporate practice. Looking at Interface, and digging deeper into Ouimet's comments, an attendee stated that it appears that sustainability programs don't start from inward cash flow – they start from a change in organizational culture and the improvement of personal effectiveness. Organization culture is a large issue, especially since sustainability benefits may not be seen for several years after the launch of a programme which results in a lag effect between activity and results. The only way to sustain an activity during this lag effect is the acceptance and support of the organization; thus, a shift in culture is required. How does a corporation account for such a time-related shifting behaviour? A suggested response is that a lot of case-based research needs to be done.

One attendee questioned if a shift in investor behaviour is a big issue, and that it seemed 'doing good' is not yet a large part of the market. Others commented that it is possible that investor behaviour may not ever be a large part of sustainability, and so what is important is to get a sustainability agenda integrated into the current scheme of corporate strategy and operations. A comment suggested that there might be other companies as good as Interface with regards to the alignment of strategy-sustainability yet they do not sell it well. Still, others grounded this comment by stating that the vast majority of firms do not yet have a sustainability-enthusiastic CEO and without this high-level support, sustainability managers often have a limited number of minutes to present why their company should take a certain path.

Digging deeper, the issue was raised with regards to degree of sustainability. One reality facing corporations is that there are both between- and within-sector differences with regards to sustainability concerns and activity. Such differences often dictate the level of understanding, acceptance and perceived urgency of sustainability issues. Companies operating in similar industries might be able to group together to develop standard life-cycle analysis (LCA) approaches to measuring sustainability.

Company size is also a major issue that was raised. For example, small- and medium-sized enterprises (SMEs) often have no way to measure the costs or benefits pertaining to potential sustainability programs. Most research is focused on large corporate activity and as a result it appears that SMEs are ignored from the sustainability equation. Currently, SMEs do not have the resources, time and do not know where to begin. For example, most energy audits take a long time to decipher and require a dedicated staff or sophisticated measurement tools which are simply not available. Simple tools must be developed, and brokers must facilitate the integration of sustainability activity into the functions of SMEs.

The afternoon dialogue session closed the forum with a number of concrete examples and suggestions for business leaders, academic and policy-makers. Questions included: How do we move beyond the current state of CSR? Who is doing what to push the envelope? Where do we need to go from here?

Enbridge provided an example of a programme they started which had unforeseen desirable effects. Employees tired of the daily commute from Barrie to downtown Toronto approached the company to discuss alternative work arrangements and possibly even early retirement. In response, the company provided six vans run on natural gas to encourage car pooling. The company retained the employees, saved approximately $18,000 annually for 45 parking spaces that were no longer needed, and received an invaluable amount of positive press coverage about the program.

An important point was made to the effect that businesses and academics are not the only part of the solution. The sustainability debate often boils down to corporate strategy, performance and shareholder value; aside from what Bay Street wants to hear, consumers are also a key part of the puzzle. A mechanism is needed to educate consumers about sustainability products and services, in addition to allowing businesses to understand what consumers want and want to hear. New markets are not the only thing that is important, new marketing needs to be on the agenda. In this way, sustainability activities become part of a value chain and not simply a link between activity and performance. One challenge for corporations, government policy-makers, and academics alike is related to what Timothy Devinney presented. If it is true that expressed consumer values do not translate into purchasing decisions when in conflict with functionality, it might be that when analyzing the value chain of sustainability, consumers will prove to be the 'dark side' of CSR. This raises an important question, which is: Who will pay for sustainability?

An attendee commented that until now, we have been approaching sustainability like the four blind people examining an elephant – each feels a small piece of the puzzle and believes their ideas and experience represent the entire picture. In a way, we are only talking about the tip of the sustainability iceberg! A call was made for more research to help businesses forecast into the future. Current research looks backwards in order to understand and investigate what has happened and why. Managers require future-orientation research and tools such as scenario planning. The development of best practices to be used as guidelines along with holistic frameworks of measurement can be used as a road map for companies to assist with strategy development and execution.

Just as in the morning session, issues of corporate culture and communication were raised by attendees. Challenges for SMEs were discussed again with reference to the capacity of SMEs to engage in sustainability practices. SMEs are an absolutely huge part of the sustainability puzzle yet they simply do not have institutional capacity or resources such as time, staff and physical assets. Special services are needed for SMEs, and possibly government can facilitate such a role.

Summary, Learnings & Next Steps

An indication of the success of the *Knowledge Forum on Valuing Business Sustainability* is that while many answers were provided, more questions were raised. As demonstrated by the presentation and dialogue notes contained in the pages of this report, proponents of sustainability face many challenges and there are many unanswered questions. How can sustainability be measured? What tools are required to engage SMEs? How can sustainability be aligned to corporate strategy? How do corporations begin to implement holistic measurements into internal performance measures and financial statements? Are consumers and other stakeholders ready for sustainability?

Pessimists might see such challenges as impossible obstacles. Thankfully, the individuals, institutions and corporations driving sustainability practices and research are often those who are optimistic about the potential of sustainability! Certainly, there are huge obstacles along the path, but such challenges motivate and enrich the sustainability debate. If it is true that practitioners, policy-makers and academics have only begun to see the tip of the sustainability iceberg, then the discussion and presentations at the Forum provide some direction for exploration of the deeper issues.

Two major themes emerge from the Forum:

- Sustainability must move from 'feel-good' discussions into the realm of measurement and implementation. There is no doubt that environmental and social issues are and will increasingly be important for all stakeholders and society at large. Thus, next steps include the transfer of 'externalities' in the classical economic sense into hard results – they must be labelled, measured, recorded and reflected in internal performance measures and reports and in financial statements. Indications are that investors and stakeholders will take well-reasoned arguments about sustainability into account in their decision-making. The positives highlighted by the forum are that similar to the quality push of the 1980s, there are systems evolving that will assist with this process. Government must undoubtedly play a large role in what will be a challenging process. Corporate executives must also take leadership to shift culture, strategy and practice as part of a move to the simultaneous pursuit of financial and sustainability success, and to resist short-term pressures to provide time for lag-effects to expire.

- Research must inform future-oriented and actionable strategies for companies, large and small. Scenario-based case-studies are just one example. This theme calls into question the current relationship of business research and practice. Academic research is rarely translated for practitioners. What is translated often takes years to filter through consultants, executive education outlets or media to business decision-makers. And the flow in the other direction is even more problematic. Best practices emerge in practice; academic research is slow to identify these and incorporate the emerging wisdom and experience. Increasing the amount of useful research will require motivation on the part of researchers and corporations to build relationships to facilitate access to data and implementation of findings. Partnerships between academics and consulting firms are beginning to play a role. *The Research Network for Business Sustainability* is working to address this challenge. Important for academics and business leaders alike, research must move beyond a narrow focus on proving the link between corporate investment in sustainability and financial performance or competitive advantage – there are many areas for increased research including the value chain, life-cycle analysis, specific inter-industry and company complexities of sustainability, and the role and power of consumers, investors and other stakeholders.

Is sustainability simply a trend? The answer is both yes and no. Those who propose that sustainability issues are simply a matter of public relations will indeed find countless examples of corporate green-washing. That said, the Forum brought a group of serious and interested presenters, business leaders, academics, policy-makers and consultants who understand that there is a necessary hurdle that can be overcome with the proper tools, research, strategy and practice, patience and perhaps most important, leadership. *The Knowledge Forum on Valuing Business Sustainability* certainly set the tone for continued debate, understanding, and exploration into the many issues raised.

What do we know?
What have we learned?

This is just the beginning. There is a lot to know, and a lot to learn. The countless questions which remain unanswered will no doubt provide the direction and motivation for future Knowledge Forums. Stay tuned.

Acknowledgements

We would like to thank a number of people for their work on this summary report.

First, thanks to Dr. Tima Bansal, the Executive Director of the Research Network for Business Sustainability (RNBS) and Tom Ewart, the Managing Director, for the terrific job they did in organizing and conducting the Forum. More generally, we would like to thank them for the important contribution they are making to business sustainability by leading the RNBS, which facilitates business sustainability by bridging research and practice.

Second, the Research Network for Business Sustainability is grateful to Environment Canada and Industry Canada for financially supporting the Forum.

Third, we would like to thank Paul J. Hill and the Paul J. Hill School of Business of the University of Regina for funding the preparation and publication of this report.

Fourth, we applaud the Forum speakers who all presented insightful and useful information in an entertaining and interesting way.

Finally, and most importantly, we would like to express our gratitude to the Forum participants. Their willingness to share their experiences and to question and augment the material presented added immeasurably to the event.

Thanks again to all!

Sincerely,

Dr. Robert B. Anderson, *Paul J. Hill School of Business*
Samer Abdelnour, *Richard Ivey School of Business*
Jijun Gao, *Richard Ivey School of Business*
Marlene J. Le Ber, *Richard Ivey School of Business*
Pouya Seifzadeh, *Richard Ivey School of Business*
Natalie Slawinski, *Richard Ivey School of Business*

Appendix A: Speaker Biographies

TIMA BANSAL
Richard Ivey School of Business

Dr. Bansal is an associate professor at the Richard Ivey School of Business. She is also the Director of the Cross-Enterprise Leadership Centre on Building Sustainable Value, and the Executive Director for the Research Network for Business Sustainability *(www.sustainabilityresearch.org)*. Both of these organizations aim to strengthen the ties between research and practice.

Before joining Ivey in June 1999, she taught at Georgia State University in Atlanta and received her doctorate from the University of Oxford. Her research interests are primarily in the areas of sustainable development and international business. Her research has been published in her profession's most rigorous journals, including the Academy of Management *Journal, Organization Science, and the Strategic Management Journal.*

Professor Bansal teaches at all levels of the business program, including undergraduates, MBAs, PhDs, and executives. She has taught courses in strategy, international business, and business sustainability. She has offered training programs for Eli Lilly and the City of London and teaches the strategy component for the High Potential Managers Program. Prior to Professor Bansal's academic career, she worked as an economist for the Government of Canada and Province of Alberta, and in management consulting at Nicholls Applied Management.

TIMOTHY M. DEVINNEY
Australian Graduate School of Management

Timothy Devinney is a Professor and Professorial Research Fellow at the Australian Graduate School of Management (AGSM). He was formerly Director of the Centre for Corporate Change at the AGSM. Before joining the AGSM, he held positions on the faculties of The University of Chicago, Vanderbilt University and UCLA and has been a visiting faculty member at numerous universities in Europe and Asia. He has published six books and more than seventy articles in leading journals. He has presented papers and addresses at more than one hundred universities and conferences in the last ten years. He is a 2007-2008 recipient of an Alexander von Humboldt Research Award and a 2008 Rockefeller Foundation Bellagio Fellow.

Timothy is heavily involved in the international networks of scholar. He is Chair-Elect of the International Management Division of the Academy of Management and a member of the executive. He is an Associate Editor of Academy of Management Perspectives. He is on the editorial board of over 10 of the leading international journals. He is an International Fellow under the auspices of the AIM Initiative in the UK, which gives him a Professorship at London Business School and is a Research Professor at Copenhagen Business School. He is one of the largest recipients of Australia Research Council (ARC) funding in the last five years having raised over $10,000,000 in supported research from the ARC and other organisations.

Timothy has taught in numerous executive programs in Australia, USA, Germany, Finland, Korea, India, China and the Netherlands, as well as having worked and consulted with dozens of corporations, small Internet start-ups, governments and non-profits worldwide.

Timothy was one of the founders of Brandalytics®, a JV company between two universities and AMR Harris Interactive that provides patented brand valuational analysis, and The Future Choice Initiative, a spinoff entity that provides information acceleration and choice modelling software and services. FCI was a recipient of the most promising research award given under the auspices of Austrade's Secrets of IT Success competition in 2005.

Timothy's degrees are: BSc (Magna Cum Laude – Psychology and Applied Mathematics), Carnegie Mellon University; MA, MBA, PhD (Economics), University of Chicago.

MICHAEL JANTZI
Jantzi Research Inc.

President and founder of Jantzi Research, has been active in the social investment field since 1990. Michael is one of Canada's leading spokespersons on social investment and corporate social responsibility issues, appearing regularly in the national media. He contributes articles about social investment and related topics to publications throughout the country. Michael is the co-author of The 50 Best Ethical Stocks for Canadians: High Value Investing, published by MacMillan Canada. Michael was the recipient of an Ethics in Action Award in June 2001, in recognition of his significant contribution to corporate social responsibility and social investment in Canada. In 2006, Jantzi Research won the Capital Markets Award for Sustainable Investment & Banking, awarded by the GLOBE Foundation and The Globe and Mail as part of the prestigious GLOBE Awards for Environmental Excellence program.

Michael serves as a board director of KLD Research & Analytics, Inc. (KLD), was appointed to the Task Force of the National Round Table on the Environment and the Economy's Capital Markets and Sustainability program, and sits on the Advisory Circle of the TIDES Canada Foundation. He is a former director of Canada's Social Investment Organization. He holds degrees from the University of Western Ontario and Dalhousie University.

ROBERT D. KLASSEN
Richard Ivey School of Business

Robert's research interests focus on exploring the linkages between operations and the natural environment, including international operations. This research has emphasized, first, characterizing the pattern of investment in environmental technologies, and second, understanding both the antecedents and performance outcomes of these investments. His research has been published in Management Science, Journal of Operations Management, Academy of Management Journal, and Decision Sciences, among others. He is currently serving on the Editorial Review Board for the Journal of Operations Management. Robert was the Chair of the Operations Management division of the Academy of Management in 2001, and previously served as the Program Chair in 1999.

In addition to teaching the first-year operations management course in the MBA and EMBA programs, Robert has recently introduced a new course in Managing for Sustainable Development. He has also taught electives in the Developing and Managing Technology, Management of Services and Operations Strategy. He continues to actively develop new teaching materials, including over 20 cases and exercises in the area of operations strategy, process analysis, quality management and environmental management.

JOSHUA MARGOLIS
Harvard Business School

Joshua Margolis is an Associate Professor of Business Administration in the Organizational Behavior unit at Harvard Business School.

Professor Margolis' research focuses on the distinctive ethical challenges that arise in organizations and how managers can navigate these challenges with practical effectiveness and moral integrity, especially in perform-or-else settings. Professor Margolis has published his work in Academy of Management Review, Administrative Science Quarterly, Business Ethics Quarterly, and Journal of Management; and along with James P. Walsh, he authored the book, People and Profits: the Search for a Link between a Company's Social and Financial Performance. Professor Margolis is currently engaged in two research projects. One focuses on how professionals in a variety of settings perform "necessary evils" difficult and often unsettling tasks that require harming other human beings in order to advance a worthy purpose. The other project examines global business standards.

Professor Margolis received his B.A. summa cum laude from Yale University and his A.M. (Sociology) and Ph.D. in Organizational Behavior from Harvard University, where he was also a Fellow in the Program in Ethics and the Professions. Joshua joined the HBS faculty in 2000 after spending three years on the faculty at the University of Michigan as a Fellow in the Society of Scholars.

Recent honors include the Robert F. Greenhill Award and the Student Association Faculty Award for teaching excellence from the MBA Class of 2004 and the Class of 2005. Joshua lives in Massachusetts with his wife Sara Schutzman and their daughter Yael.

CLAUDE OUIMET
Harvard Business School

Claude Ouimet is the Senior Vice President and General Manager for InterfaceFLOR, in Canada and Latin America. InterfaceFLOR is the world's leading manufacturer of modular carpet. Claude's guidance in Canada and Latin America provides the strategic focus needed to continue to maximize every opportunity and help InterfaceFLOR meet the challenges for growth in these important markets. Claude's 18-year career with the company includes roles in both manufacturing and sales.

InterfaceFLOR is deeply immersed in a mission to become a sustainable corporation by leading a worldwide effort to design sustainable manufacturing and development processes by the year 2020. Claude's mix of manufacturing, sales and marketing knowledge gives him a unique perspective for integrating sustainability throughout the InterfaceFLOR corporate culture. He brings his passion for environmentally-sound practices not only to manufacturing technology and practices, but also to sales strategies and marketing concepts that reflect the company's eco mission. In April of 2007, Claude became certified as a 'Climate Project' presenter, which entitles him to share Mr. Al Gore's powerful and inspirational message.

JOHN PELOZA
Simon Fraser University

John Peloza managed client marketing and communications strategies for major Canadian institutions and at some of the world's largest advertising and direct marketing agencies before switching to academia. He made the switch to indulge his love of teaching and research and received a Doctor of Philosophy in Management in 2006 from the Haskayne School of Business, University of Calgary. During his studies John pursued research on employee volunteerism with assistance from a Social Sciences and Humanities Research Council doctoral fellowship.

John joined SFU Business in August 2006 as an assistant professor of marketing. His current research centers on building a business case for corporate social responsibility. "Many firms now engage in socially responsible behaviors, but I'm interested in how they can invest in order to maximize economic returns," he says. He teaches courses related to marketing and society, drawing on many of his own industry experiences.

Outside of academia, John enjoys music and gourmet cooking.

ALAN WILLIS
Founding Principal
Alan Willis & Associates

Alan Willis is a chartered accountant and independent consultant in the area of performance measurement and reporting to investors and other stakeholders, particularly for the purpose of promoting a long-term, sustainability-based approach to generating business value.

As an advisor and consultant to the Canadian Institute of Chartered Accountants (CICA), as well as other organizations, such as the National Round Table on the Environment and the Economy, Mr. Willis has been engaged in writing numerous research and guidance publications about the accounting, measurement, reporting and verification aspects of environmental performance, climate change and sustainable development.

For example, he co-authored the CICA's discussion brief on Disclosing the Financial Impact of Climate Change and Other Environmental Issues (2005) and Management's Discussion & Analysis: Guidance on Preparation and Disclosure (2004), as well as Environmental Performance: Measuring and Managing What Matters (2001). He chaired the advisory panel for the CICA's research study Stakeholder Relations, Social Capital and Business Value Creation (2003). He contributed background papers for the Task Force on Capital Markets and Sustainability, a project of Canada's National Round Table on the Environment and the Economy that reported in 2007 and co-authored the Round Table's earlier publications on eco-efficiency indicators. He also assisted Professors Clarkson, Richardson, Li and Vasvari in their published paper Revisiting the Relation Between Environmental Performance and Environmental Disclosure: An Empirical Analysis (2007).

Mr. Willis represented the CICA on the Steering Committee of the Global Reporting Initiative and various working groups at every stage of developing its sustainability reporting guidelines since 1997, he led Canada's delegation to the ISO TC 207 Sub-Committee on Environmental Performance Evaluation and was a member of Canada's working group for the ISO 14064 standard for measuring, reporting and verifying greenhouse gas emissions. He serves on the Sustainability Experts Advisory Panel of the International Federation of Accountants.

Mr. Willis is a former partner in an international accounting firm.
He lives in Mississauga, Ontario.

RON YACHNIN
Yachnin & Associates

Ron Yachnin is Principal of Yachnin & Associates, an Ottawa, Canada-based management and policy development consultancy addressing organizational citizenship and sustainability. Ron works with diverse stakeholders to deliver leading edge insights, management approaches and policy tools for addressing sustainability challenges. His firm is principally focused on issues related to integration and performance management, valuing sustainability, healthy cities, and stakeholder engagement. Ron is currently involved in a number of initiatives related to valuing business sustainability, including The sdEffectTM for which Yachnin & Associates was recognized as among finalists for the Globe Foundation's 2007 Awards for Environmental Excellence.

Mr. Yachnin's firm's past clients and project supporters include: The World Business Council for Sustainable Development, The GLOBE Foundation, The EXCEL Partnership, The Conference Board of Canada, The Association of Certified Chartered Accountants, The Canadian Unity Council, Aliant, Bell Canada, and Alcan Inc. (now RioTinto/Alcan).
Mr. Yachnin has previously worked for The Conference Board of Canada, Hardy Stevenson and Associates Social Scientists and Environmental Planners, the Ontario Ministry of the Environment, Resource Systems Management International, and Delcan International. He is also past Director of the Ontario Association for Impact Assessment and advisory board member of The Carbon Disclosure Project Canada.

Appendix B: Research Network for Business Sustainability Leadership Council Members

The Network was created with generous funding from the Richard Ivey School of Business, the Leadership Council members, the Social Sciences and Humanities Research Council of Canada, and the University of Western Ontario.

RESEARCH NETWORK *for*
BUSINESS SUSTAINABILITY

Tom Ewart, Managing Director
Research Network for Business Sustainability

Richard Ivey School of Business
University of Western Ontario
1151 Richmond Street
London, Ontario, Canada N6A 3K7
Telephone 519 661 3864
Fax 519 661 3485
contact@sustainabilityresearch.org

www.sustainabilityresearch.org