

Lesson 6: Business Ethics, Environmental Sustainability, and Corporate Social Responsibility

Lesson Overview, Readings, and Objectives

Overview

Today's organizations cannot operate in a vacuum. Businesses influence and are influenced by the environment in which they operate. Operating a business in a sustainable way is becoming an expectation of customers and other stakeholders. As such, businesses need to strive to reduce their negative impact on the environment, society, and the communities in which they operate. Organizations today commonly use a triple bottom line approach to strategic measurement in which they seek an ethical balance of "profit, people, and planet" in their decision making. Practices, including accounting practices, have been developed to help organizations monitor and control sustainability. This lesson explores ways by which an organization can measure its effectiveness in becoming green and socially responsible, while remaining profitable.

Textbook Reading

- Chapter 5: Business Ethics, Environmental Sustainability, and Corporate Social Responsibility (exclude "Whistle-Blowing, Bribery, and Workplace Romance")
- Reading 2: Whelan, T., & Fink, C. (2016, October 21). [The comprehensive business case for sustainability](https://hbr.org/2016/10/the-comprehensive-business-case-for-sustainability). *Harvard Business Review*. <https://hbr.org/2016/10/the-comprehensive-business-case-for-sustainability>

Please ignore any references to MyLab and chapters not assigned for this course.

Learning Objectives

After completing this lesson, you should be able to

1. explain the importance of ethics in strategic management. (Chapter 5, pp. 149–150)
2. describe why environmental sustainability is a key issue in strategic planning. (Chapter 5, p. 154–157)
3. identify and describe six business cases for sustainability. (Reading 2, Note 1)
4. describe the three components of the triple bottom line and explain how they are connected. (Note 2)
5. describe how corporate social responsibility (CSR) is a key aspect in strategic planning. (Chapter 5, pp. 158–162)
6. list the 12 steps for sustainability reporting in Canada. (Note 3)
7. describe how to incorporate sustainability measures into a balanced scorecard. (Note 4)

Note 1: A Business Case for Sustainability

Sustainable practices are important in today's competitive marketplace for multiple reasons. In addition to good corporate citizenship, sustainable practices also create opportunities for businesses. The upside to sustainability far exceeds its cost.

Whelan and Fink (2016) summarize some of the key benefits of sustainable practices that can contribute to a company's competitive advantage in today's marketplace:

- **Driving competitive advantage through stakeholder engagement:** sustainable companies create positive, collaborative relationships with stakeholders including customers, employees, suppliers, and community. This reduces risk and conflict.
- **Improving risk management:** sustainable companies identify risks to the environment and people as they develop strategies and practices. This limits the risk of environmental disasters, human rights abuses, and other risks that can devastate a company.
- **Fostering innovation:** a sustainable focus contributes to the development of new products, to new processes, and to fostering a mindset of innovation in a company.
- **Improving financial performance:** sustainable companies save money through efficiencies. A sustainable company is value driven and holds its value.
- **Building customer loyalty:** consumers are demanding that companies consider the environment and society in their decisions.
- **Attracting and engaging employees:** today's employees are more focused on work that has purpose, and sustainable companies are attractive to employees.

In the following video, Adam Werbach provides discusses the definition of *sustainability* and discusses why it is the right business choice for companies seeking financial success.



Werbach, A. (2012, October 26). [When sustainability means more than "green."](https://youtu.be/wgYmPiDbwFE) [Video]. YouTube. McKinsey & Company. <https://youtu.be/wgYmPiDbwFE> [7:50]

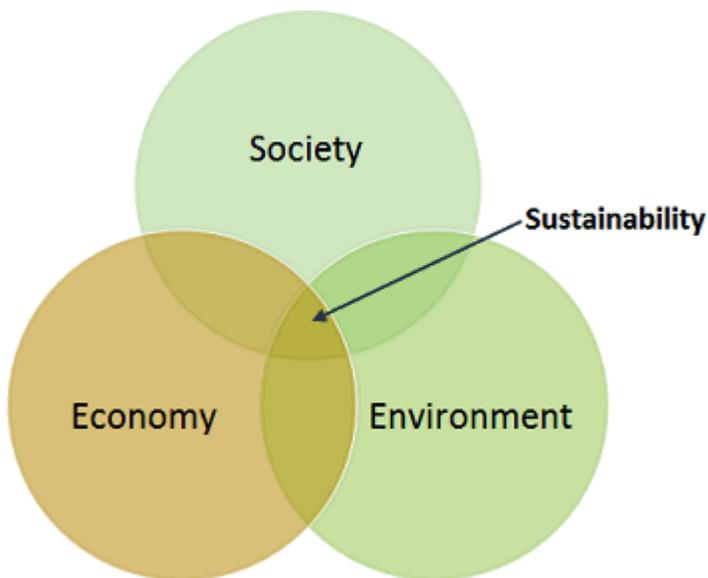
Note 2: Triple Bottom Line

The term *triple bottom line* is originally attributed to British entrepreneur John Elkington (Triple Bottom Line, 2009). It has become popular in sustainability discussions within organizations. The three factors in a triple bottom line are

- **environmental:** resources, emissions
- **social:** human rights, pay, society
- **economic:** profits

The idea is that companies can be financially successful while protecting the environment and respecting human rights. The triple bottom line can be seen as three circles that intersect. The area where the three circles intersect represents a compromise between economic, societal, and environmental goals. This is the “sweet spot” where sustainability occurs.

Figure 6.1: The Triple Bottom Line



Adapted from Triple bottom line. (2009, Nov 17). *The Economist (Online)*. <http://0-search.proquest.com.aupac.lib.athabascau.ca/docview/1220396662?accountid=8408>.

The video below discusses how considering the environment and people in addition to profit is good business.



Sustainability Illustrated. (2014, April 8). [Triple bottom line \(3 pillars\): Sustainability in business](https://youtu.be/2f5m-jBf81Q) [Video]. YouTube. <https://youtu.be/2f5m-jBf81Q> [4:13]

Note 3: Sustainability Reporting in Canada

Customers, investors, stockholders, employees, and other stakeholders continue to demand corporate sustainability reporting, and companies in Canada are responding. The adoption of sustainability reporting is improving in Canada (Crane, 2018). In addition to filing an annual report, most companies today also file an annual corporate social responsibility (CSR) report. Such reports outline the goals and results of a company's triple bottom line.

There is a concern that the lack of mandatory reporting guidelines in Canada can result in Canadian companies disclosing only positive environmental measures and omitting any negative measures. In many countries, stock exchanges have formed a partnership—Sustainable Stock Exchanges—which focus on improved disclosure of sustainability results. However, the Toronto Stock Exchange is noticeably absent from this partnership (Crane, 2018).

Your textbook describes how the Global Reporting Initiative (GRI) has developed global reporting standards for sustainability reporting. For further information on how to use the GRI standards, watch the following video.



Global Reporting Initiative. (2016, October 14). [Introducing the GRI Standards](https://youtu.be/RDe8Kkh1BrU). [Video]. YouTube. <https://youtu.be/RDe8Kkh1BrU> [20:59]

In 2013, Chartered Professional Accountants (CPA) of Canada published "A Starter's Guide to Sustainability Reporting" that outlined 12 key steps to implementing sustainability reporting practices in Canada, summarized below:

- **Connect strategy to sustainability.** The overall strategies of a company need to align with its sustainability goals. If these key areas are not aligned, stakeholders may be unimpressed with a company's sustainability record. For instance, a company that plans to produce a low-cost product and to ensure ethical labour practices will not want to outsource production to a third-world country unless they can be assured that the outsourcing company will treat its employees properly.
- **Identify and engage stakeholders.** Identifying a company's key stakeholders and the impact the stakeholders may have on the company can help a company determine its reporting requirements. Stakeholders include customers, suppliers, investors, governments, communities, and other groups. Identifying the expectations of these stakeholders will help a company determine their sustainability goals.
- **Determine degree of reporting.** With limited regulation of reporting practices in Canada, companies can look at best practices of other companies to see how these organizations structure their sustainability reports. Bombardier has the highest rating for sustainability in the Corporate Knights 2019 list of 100 most sustainable organizations. To see what Bombardier is reporting, see its [Activity Report](#) for 2018.
- **Identify high priority topics.** Sustainability priorities will vary from company to company. For instance, companies that manufacture microchips use a great deal of water in their production process and would likely want to track water consumption and recycling in their reports. On the other hand, water consumption would not be an important sustainability factor for a bank. To identify the high priority topics, a company

might put together a map of material issues like the materiality analysis map created by [Mountain Equipment Co-op \(MEC\) in its 2015 Annual Report](http://meccms.wpengine.com/wp-content/uploads/2016/05/2015-MEC-Annual-Report.pdf) (p. 7).
<http://meccms.wpengine.com/wp-content/uploads/2016/05/2015-MEC-Annual-Report.pdf>

- **Choose key performance indicators.** The key performance indicators (KPIs) that are reported in a company's CSR report will relate to the key topic areas that the company has deemed important. KPIs are similar to balanced scorecard measures in that they are SMART (specific, measurable, attainable, relevant, and timely).
- **Align with schedules and guidelines.** Today, most companies align the release of the CSR with the annual report.
- **Plan and manage the process.** Assign responsibility for creating a company's CSR report and set timelines for the project. Most companies today create positions for staff dedicated to sustainability and sustainability reporting. It is important to give this group of employees the authority to monitor activities within the organization.
- **Gather meaningful data.** The data from the company must be collected accurately and efficiently manner. The sustainability group can work with other organizational groups to ensure data is collected in the most efficient way.
- **Evaluate assurance.** This may involve having an external company audit a CSR report to ensure it complies with key needs of stakeholders. This practice is becoming more common in today's environment.
- **Design and produce the report.** The company designs an easy-to-read report that reflects the brand of the company.
- **Promote the report.** CSR reports are usually published online along with a company's annual report. They can also be sent directly to stakeholders and shared on social media.

Engage to improve. A company needs to engage with its stakeholders for both immediate and ongoing feedback on its sustainability reporting, a practice that will result in an ever-changing, and continuously improving, CSR.

Note 4: BSC Measures and Sustainability Objectives

Outside of the CSR report, the balanced scorecard is another effective way to measure sustainability. A CSR report is generally completed annually, whereas a BSC can be created monthly or at other intervals to provide internal communication to employees and management about the effectiveness of their sustainability practices. A separate scorecard perspective can be established for sustainability measures, or individual measures can be included in each of the traditional BSC perspectives. Exhibit 1 presents typical measures that might be included to monitor sustainable practices and results.

Table 6.1: Measures of Sustainability

Goal	Measure
Waste reduction	amount of waste in production process compared to an established goal
Air emissions reduction	amount of air emissions in production process compared to an established goal
Compliance	degree of compliance with environmental regulations
Green materials use	percentage of materials used in production classified as green or eco friendly
Energy use	amount of energy used in the production process compared to an established goal
Reduction in accidents	number of accidents related to environmental issues
Recycling effectiveness	percentage of recycled waste compared to total waste in production process
Reducing costs of clean up and remediation	overall costs of clean up and remediation compared to a budgeted amount
Improving environmental reputation	survey ratings for environmental reputation
Improved safety	hours of safety training provided to employees
Pay equity and fairness in compensation	average employee wages as compared to benchmark or industry data
Improved customer safety	number of complaints received by customers regarding safety of products or services
Charitable giving	change in value of charitable contributions year over year

Practice with Feedback

Textbook Questions

Complete the following questions from your textbook: Chapter 5: Business Ethics, Environmental Sustainability, and Corporate Social Responsibility (Issues for Review and Discussion) and check your answers with the Suggested Solutions below.

- Questions 2, 4, 5, 13, 14, 16, 19, 21

Add Solutions File (need (c) permission first).

Solutions from the Instructors' Resources for David, F. R., David, F. R., & David, M. E. (2020). *Strategic management concepts: A competitive advantage approach, concepts and cases* (17th ed.). Pearson Education, Inc. Reproduced with permission.

Exercise: Understanding a CSR Report

Review the CSR report for one of the following companies:

- Mountain Equipment Coop (MEC's CSR is included in its Annual Report)
- Patagonia (called the Annual Benefit Corporation Report)
- Suncor (called the Report on Sustainability)
- Bombardier (called the Activity Report)
- Teck Resources (called the Sustainability Report)
- Another company of your choice

What do you believe are the company's key success factors of sustainability? Has the company done a good job of balancing its triple bottom line?

Note: there is no answer key to this exercise. This exercise is intended to help students become familiar with the format and contents of CSR reports.

Discussion Forum 2: Supply Chain and Sustainability

Credit Weight: 5%

Due Date: After you have completed Lesson 6

Requirements: Post of ~400 words; response of 100–200 words; one reference (APA Style)

[Discussion Grading Rubric](#)

Jeremy Moon explores the importance of “how” companies create a sustainable strategy in the following video:



Moon, J. (2017, January 25). [Sustainable business: It's not just about the why](https://youtu.be/azM4n0zf4jw). [Video]. TEDx Talks. YouTube. <https://youtu.be/azM4n0zf4jw> [16:39]

In the first discussion forum exercise, you discussed the importance of “why” in a company’s strategy. For this exercise, you will reflect on “how” as described by Jeremy Moon. Moon (2017) explores the importance of “how” companies create a sustainable strategy. He describes three laws from nature that helped him create his sustainable company, Icebreaker (a clothing manufacturer). These three laws are symbiosis, sustainability, and adaptation.

For this exercise, research a company that publishes a CSR report online. Explore a company’s CSR report to assess how the company has considered the three laws of nature that Moon describes: symbiosis, sustainability, and adaptation. Your forum post should discuss at least **one** of the three laws *and* provide a recommendation for the company. For example, you might explore how the company uses symbiosis in its supply chain. Did the company consider traceability, ethics, and visibility in its supply chain? Alternatively, you might describe the company’s sustainability practices or discuss adaptation. For example, how has the company adapted to the new expectations of customers in terms of sustainability?

Your response should be approximately 400 words. Properly reference your research using APA Style. Provide at least one reference.

You must also respond to or reflect on another student’s forum posting (100–200 words).

You can access [Discussion Forum 2: Supply Chain and Sustainability](#) via the course home page.

References

- Chartered Professional Accountants of Canada. (2013). A starter's guide to sustainability reporting. <https://www.cpacanada.ca/en/business-and-accounting-resources/financial-and-non-financial-reporting/sustainability-environmental-and-social-reporting/publications/a-starters-guide-to-sustainability-reporting>
- Corporate Knights. (2019). 2019 global 100 results. <https://www.corporateknights.com/reports/2019-global-100/2019-global-100-results-15481153/><https://www.corporateknights.com/reports/2019-global-100/2019-global-100-results-15481153/>
- Crane, S. (Ed.). (2018, August). Canada 2030. The future of sustainability reporting. The Conference Board of Canada. https://www.jflglobal.com/media/uploads/news/2018-11/Canada_2030_-_Part_3_-_Future-Sustainable-Reporting_HR.pdf
- Triple bottom line. (2009, November 17). *The Economist (Online)*. <http://0-search.proquest.com.aupac.lib.athabascau.ca/docview/1220396662?accountid=8408>