

Business Sustainability and the Social Footprint



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Presented at the
Taiwan Society for Organizational Learning
International Conference on Human Capital Development
November 27, 2007

The difference between traditional environmentalists and 'sustainability folks' is the ability [of the sustainability folks] to keep the welfare of both humans and the environment in focus at the same time, and to insist on both.

Donella Meadows, 1995

Business Sustainability

- A relatively new way of looking at organizational performance
 - Organizations have non-financial impacts in the world, not just financial impacts
 - Such impacts can be positive, negative, or neutral
 - Such impacts can affect the value of a company to its shareholders, either by attracting investors through its good deeds, or by driving them away from their bad ones
- Out of this has come the so-called Triple Bottom Line
- An organizing principle for sustainability measurement and reporting

The Triple Bottom Line

- A term coined by John Elkington in 1998 (*Cannibals With Forks*, New Society Publishers)
 - “People/Planet/Profit”
- Not yet fully operationalized:
 - Economic/Financial Bottom Line (GAAP)
 - Ecological Bottom Line (Ecological Footprints, and other environmental metrics, such as Carbon Footprints)
 - Social Bottom Line (???????)
- Still, we can differentiate between financial reporting (Economic/Financial bottom line) and non-financial reporting (Ecological and Social Bottom Lines)

Organizations and Businesses



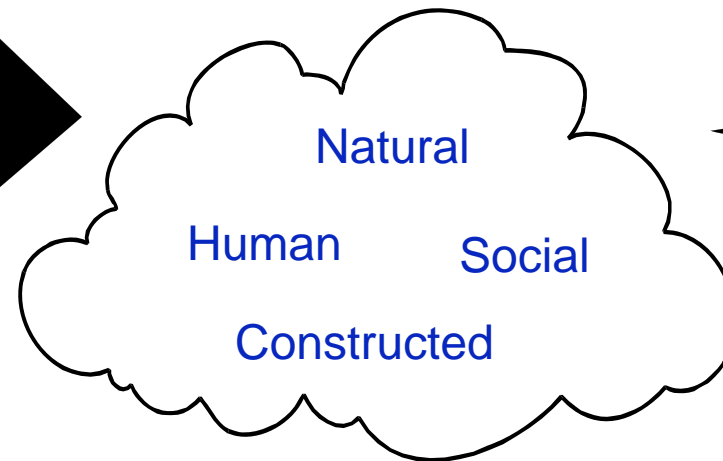
...the quality of which places expectations on individuals and groups in society to act in order to create and/or maintain well-being

A Reference Model For Sustainability

Human and Ecological Well-Being



...can have impact on...



...which, in turn, are needed and used for...

Vital Forms of Capital

Enter the “Social Footprint”

- An attempt to provide the missing Social Bottom Line
- Largely inspired by the way the Ecological Bottom Line has been conceived:
 - Sustainability of behavior is a function of its impacts on the sufficiency of vital (Natural) capital (threshold-based)
 - Per Herman Daly, a human social system is sustainable if: (1) its rate of use of renewable resources does not exceed their rates of regeneration, (2) its rate of use of non-renewable resources does not exceed the rate at which sustainable renewable substitutes are developed to replace them, and (3), its rate of pollution emissions does not exceed the assimilative capacity of the environment
- This is the *capital theory approach* to sustainability and we subscribe to it

Enter the Social Footprint (cont.)

- The Social Footprint Method relates to a different type of capital that we call *Anthro Capital*
 - Human Capital (Individual knowledge, skills, attributes)
 - Social Capital (Shared knowledge, skills, etc. and networks)
 - Constructed (or Built) Capital (Material things and systems)
- All three differ from Natural Capital in that they are *anthropogenic*, and all 3 are required for *human well-being* — *that* determines the levels needed
- Thus, whereas sustainability in the case of Natural Capital is measured in terms of not exceeding supplies, sustainability in the case of Anthro Capital is measured in terms of not falling short of demands!

Social Sustainability Quotients

- The social sustainability performance of an organization is therefore a function of whether or not it has contributed its proportionate share of what is required to create and/or maintain sufficient supplies of anthro capital in a population (its burden share)
- We can express this in the form of a *sustainability quotient*:

$$\text{Social Sustainability Performance}^* = \frac{\text{Actual Impacts on Anthro Capital}}{\text{Normative Impacts on Anthro Capital}}$$

*Scores: ≥ 1 is sustainable;
 < 1 is unsustainable

Steps in The Social Footprint Method

- Broadly, a 4-step process:
 1. Select specific areas of impacts to be assessed (e.g., one or more of the UN Millennium Development Goals (MDGs) or some other local condition in society)
 2. Specify the denominator (e.g., a quantitative expression of what the contribution of the organization ought to be, relative to some social area of impact, such as the MDGs)
 3. Specify the numerator (e.g., quantitative expression of what the contribution of the organization has actually been, relative to some social area of impact, such as the MDGs)
 4. Compute the quotient score and interpret the result

Key Issues in the Method

- Neither certainty nor consensus is required in order to specify the numerator or the denominator
 - The method relies on a *Fallibilist* epistemology
- In cases where the responsible population goes beyond the organization (e.g., for MDGs), we take a per capita approach to computing the proportionate share of obligations attributable to the organization
- We suggest that the boundaries of an assessment be the same as boundaries used for financial reporting
- Tool is in early stages, no standard set of indicators

A Quick Example

- The UN Millennium Development Goals
 - Establishes 8 global goals for improving human well-being
 1. Eradicate extreme poverty
 2. Achieve universal primary education
 3. Promote gender equality and empower women
 4. Reduce child mortality
 5. Improve maternal health
 6. Combat HIV/AIDS, malaria, and other diseases
 7. Ensure environmental sustainability
 8. Develop a global partnership for development
- Let us take one of these goals and build a fictional case around it

A Quick Example (cont.)

- MDG #2: Achieve universal primary education
- Corresponding target (a metric): Total net enrolment ratio in primary education
- Imagine, for example, that 10,000 new primary schools must be built, staffed, and equipped in the world in order to meet this goal, and that the cost to do so is \$10 billion in the first year
- If there are 6 billion people on earth, this equates to \$60 per person if spread out equally
- Now imagine a company with 5000 employees seeking to measure and report its Social Footprint for MDG #2 for the same year (i.e., Step 1 of SFM)

A Quick Example (cont.)

- First, 5000 employees = ~1200 “People Feet”
- Next, since the area of impact in this case is a global one, we then interpret the company’s normative contribution (i.e., Step 2 of SFM) as a proportion of the global population...Why?
- Because MDGs are global obligations, not just corporate ones (responsible population is global)
- $1200 \times \$60 = \$72,000$ (the company’s denominator in its sustainability quotient for MDG #2)
- Could also be expressed in terms of (a) share of 10,000 schools to be built, or (b) share of number of children to be educated — money is just a proxy

Note: The Theory in Use Here

- Unlike ecological footprints, or environmental sustainability assessments, social footprints assess impacts on a type of capital that humans produce
 - “Anthro Capital” (human, social, and constructed capital)
 - Natural capital, by contrast, is non-anthropogenic
- Sustainability in the case of environmental footprints, therefore, is measured against ecological constraints
- Capital in the case of social impacts, however, is not so limited — we can always make more of it
- Standards of performance in denominators are, therefore, expressed as minimums, not maximums

A Quick Example (cont.)

- Now assume that the company contributes to MDG #2 as follows:
 - Indirect contributions via taxes paid to government = \$20,000
 - Direct monetary contributions via donations made to philanthropy = \$25,000
 - Direct non-monetary contributions made via employee time (compensated) spent in related NGO programs throughout the world = \$20,000
- Total contributions to MDG #2 = \$65,000 (the company's numerator in its sustainability quotient for MDG #2)
- Quotient = \$65K/\$72K, or .90 (Its Sust. Perf. Score)

A Quick Example (cont.)

- In this case, the sustainability performance score would be mapped to a scale on which:
 - Scores of ≥ 1.0 reflect sustainable performance, because impacts are at least equal to expectations, obligations, or standards of performance
 - Scores of < 1.0 reflect unsustainable performance, because impacts fall below such norms or standards
- Note here the following:
 - Numerators are nothing but descriptive knowledge claims
 - Denominators are nothing but normative knowledge claims
 - Sustainability assessments therefore reduce to quotients of *is* claims over *ought* claims (two kinds of knowledge)
- They are fundamentally epistemological in content

The Epistemology of Sustainability

- Making sustainability claims therefore requires an understanding of epistemology, or how we produce knowledge claims and theories of truth
- For example:
 - Must we have consensus in order to make knowledge claims? Only if we believe in authority as a basis for truth.
 - Must we have certainty in order to make knowledge claims? Only if we believe certainty is possible in the human experience.
 - Can there be truly sustainable organizations in the absence of effective organizational learning systems, where such systems make it possible to produce knowledge of both an organization's actual and normative impacts in the world? No! Sustainability management begins with value claims!

Summary

- We can differentiate between a company's financial and non-financial impacts in the world
- Triple Bottom Line serves as a useful organizing principle for related accounting theory
- Much work has been done on the financial and ecological sides of the theory, but not the social side
- Until now — the Social Footprint Method is an attempt to fill that gap (a 4-step process)
- We can conceptualize sustainability measurements as quotients of *is* statements over *ought* statements

Summary (cont.)

- An epistemological approach to sustainability:
 - Addresses a serious knowledge gap found in most organizations re: knowledge of their non-financial impacts in the world, and whether or not they are sustainable
 - Ultimately measures actual impacts against normative impacts, or against standards of performance for what such impacts ought to be, by making the fact/value distinction long recognized in the epistemological literature
 - Denies the need for either consensus or certainty as a basis for making knowledge claims (in accordance with *Fallibilism*)
 - Results in an approach that any organization can use to manage its sustainability by leveraging epistemology!

Thank you!

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