

Context-Based Sustainability

Mark W. McElroy, Ph.D.
Deloitte Consulting

FTSLA Webinar
March 25, 2010

Framing the Issue

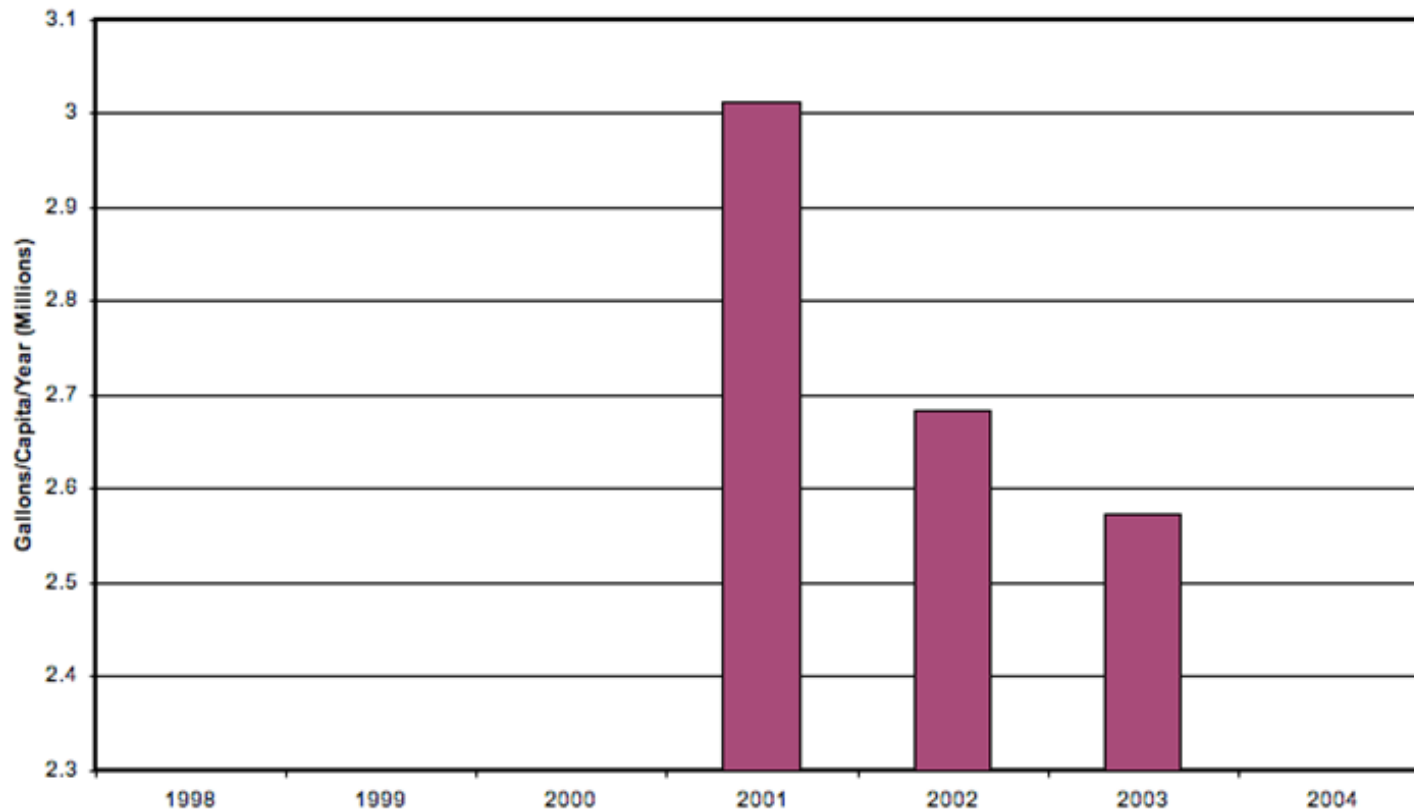
- Mainstream practice of sustainability measurement, management and reporting fails to deliver
 - Context missing
- Must have context in order to be meaningful
 - Imagine income statements without costs!
- Context in sustainability consists of background social and/or environmental conditions in the world on which organizational actions and behaviors have impact
 - The question is, are such impacts sustainable?
 - Answer depends on what the pre- and post-impact status of the conditions are, and how the impacts affect their quality or sufficiency for human well-being

‘Sustainability Context’ per GRI

- “Performance information should be placed in context.
- The underlying question of sustainability reporting is how an organization contributes to the improvement or deterioration of economic, environmental, and social conditions at the local, regional, or global level.
- Simply reporting on trends in individual performance (or the efficiency of the organization) will fail to respond to this underlying question.
- Reporting organizations should therefore seek ways to express their individual performance in relation to broader environmental and social sustainability.”

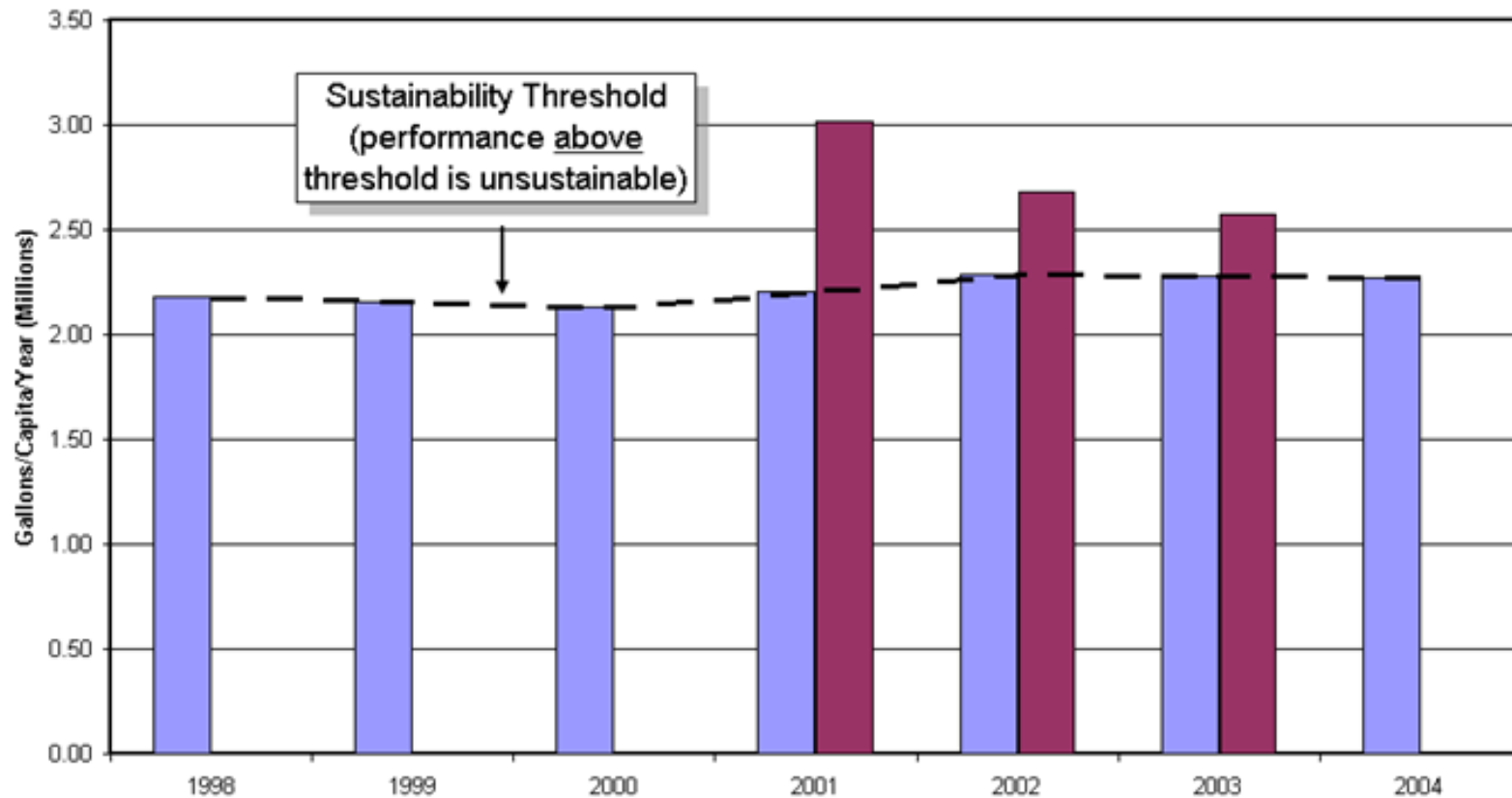
Source: GRI G3

Example: Water Use (w/o context)



Fortune 500 Company's Annual Water Use

Example: Water Use (with context)



Fortune 500 Company's Annual Water Use

Definition of Context-Based Metrics:

- Measures of sustainability performance that express impacts on social and/or environmental resources in the world, relative to what such impacts ought to be in order to ensure human well-being
 - Grounded in the context of actual social and/or environmental conditions in the world
 - Literal measures (absolute, not relative) of sustainability performance
- Provide true measures of sustainability performance

CBMs Take Form of Quotients

$$\text{Sustainability Performance} = \frac{A}{N}$$

Actual impacts on vital resources

Normative impacts on vital resources

Scoring Conventions

For environmental areas, scores of ≤ 1.0 = Sustainable

For social areas, scores of ≥ 1.0 = Sustainable

Source: McElroy, 2008

Benefits of CBS

- Improves quality of management information (for performance and risk management)
- Increases transparency and responsiveness to stakeholders
 - Shareholders
 - Customers
 - Trading partners
 - Communities
 - Employees
- Better complies with measurement and reporting standards (e.g., GRI)
- Confers a competitive advantage (a best practice)

Thank You!

Mark W. McElroy, Ph.D.
Center for Sustainability Performance
Deloitte Consulting
mamcelroy@deloitte.com