

Corporate Social Responsibility: The Emerging Role of the SH&E Professional

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Introduction

What in the world is sustainability? There are many ways of looking at sustainability and many definitions. For the purposes here, sustainability, in the broadest sense, is the word that describes how biological systems remain diverse and productive over time.¹ Diverse, in the way it is used here, is defined as the variation of life forms within a given ecosystem, biome, or the entire earth. Biodiversity is often used as a measure of the health of biological systems.² For humans, sustainability it is the potential for long-term maintenance of well-being, which, in turn, depends on the well-being of the natural world and the responsible use of natural resources.¹ Many

companies have different terms they use for sustainability, corporate responsibility, good corporate citizenship, and corporate social responsibility. For the purposes of this paper, sustainability encompasses all of these terms. This includes environmental, governance, economic and social performance. This includes all responsibility for product responsibility, corporate giving, community involvement, and environmental practices. Often these terms are combined as environmental, social and governance, or ESG. ESG is the term that many in the financial community use for sustainability.

Sustainability, such as defined here, has become a term that can be applied to almost every facet of life, and has particularly become applied to businesses all over the planet.

Many companies have developed, and many more are developing, sustainability strategies in an effort to demonstrate that they are using natural resources responsibly. How does that apply to safety? The easy response is, among others, that people can easily be considered a natural resource. The complex response is that when safety is integrated into the whole process of sustainability, it ensures that the human component is considered and protected. Sustainability is yet another manner in which to protect the people, property, and the environment.

Once a company has decided to go down this path, undoubtedly there needs to be a plan. What is discussed here is how to develop that plan with a pathway to safety.

Developing a Sustainability Roadmap

This paper will address developing a sustainability roadmap, with a pathway to safety for a competitive advantage and long-term company and SH&E success. The elements include understanding the purpose of strategic planning, implementing best practices, and building a strategic planning framework.

Purpose of Strategic Planning

The overall purpose of strategic planning is to anticipate risks and opportunities, such as pending legislation and changing community drivers, to achieve a competitive advantage. Once this is determined, you can use this information to integrate into the overall company strategic plan. This keeps the company nimble so that it can respond to changes rapidly and seamlessly. Strategic planning addresses the typical aspects of business planning, such as establishing goals, identifying markets, providing direction, measuring results, capturing opportunities, and reducing risk.

Virtually any ESG risk, if identified and brought to light, will affect a company's bottom line. The recent banking crisis is an example of this, which was a direct result of a massive failure of governance and accountability. So, how can a sustainability strategic plan help? A sustainability plan can help a company understand and respond to key stakeholder concerns (materiality). This includes the mitigation of risks:

$$\text{Environmental (E) + Sustainability (S) + Governance (G) = (Financial) F}$$

This involves taking full advantage of opportunities, establishing goals, tying them to your business objectives, measuring and tracking performance, and understanding return on investment (ROI), and the way that sustainability performance relates to financial performance.

Why Is Integration Important?

These are some of the reasons for the importance of integration:

- **It keeps your management out of “the bubble.”** Certain actions and comments of C-Level executives have indicated that this can be a key office and an isolating place. It keeps C-Level executives engaged with the stakeholders to understand their concerns. It allows management to be more cognizant of risks and trends and open to opportunities.
- **It spurs innovation.** If sustainability is integrated through the corporation, it will likely spawn thinking outside the box, the result of which is achieving sustainability, demonstrating improved efficiencies, and reducing waste. For example, United Parcel Service (UPS) implemented a sustainability program, and discovered that it could reduce left-hand turns, which was a great source of fuel consumption due to idling in traffic. This allowed UPS to take 30 million miles off its deliver routes, save three million gallons of gas, and reduce its CO₂ emissions by 32 metric tons in 2007. This kind of result has a huge impact on the C-Suite and the Board when decision-making is required.
- **It sends a consistent message to stakeholders.** This means consistency of action or “walking the talk.” It is important to ensure that your actions support your plan rather than undermining it. Often, there is a lack of communication between different organizations in the company. As a result, you may have a duplication of effort, actions offsetting each other, or a contradiction of results due to conflicting measures.
- **It builds your company’s street credibility.** Consistency of messaging, reaching out to stakeholders, understanding and trying to balance those concerns, and demonstrating successes shows outsiders looking in that you are doing what you say you are doing.
- **It maximizes the value of your effort.** The bottom line is that it all boils down to the bottom line. Sustainability demonstrates a responsible use of resources and reduces waste as well as improves the bottom line. This improves brand equity and your ability to foster continued innovation and establish yourself as a leader in the industry.

Caveats

The following caveats apply:

- **Philanthropy is not a sustainability strategy.** Some companies default to their corporate philanthropy program regarding how much money they give to local schools, plant trees, and on on. It is not unlike behavior-based safety when it first came out. Many thought that it was a silver bullet and the answer to your safety program. Many learned the hard way that this wasn’t true. The same can be said of philanthropy. It is a component, a small part of the sustainability program. That is not to say philanthropy can’t be strategic at all; it can be and, for many companies, it is strategic. Simply understand that it is not the whole of the sustainability strategy.
- **A big, unmanageable carbon footprint is not a strategy.** Simply understanding or being able to measure your carbon footprint is not a strategy either. However, understanding what your carbon footprint is can have a profound impact on identifying sustainability opportunities for safety, health, and environmental strategies that can be managed with a positive impact on the bottom line (see Figure 1).

Best Practices

By observing other companies, both inside and outside your industry, one can develop strategies tailored to your specific company profile. These strategies can be used to demonstrate efficiencies and cost savings that benefit the community and the environment.

January 5, 2010

Carbon Trading May Reach \$395B in 2014

The connection between carbon capture and sequestration (CCS) and the carbon emissions trading market is growing, as carbon credits accrued from CCS plants will be traded at carbon exchanges, generating more revenue for CCS project developers, according to a new report from ABI Research.

ABI's study, "Carbon Capture, Sequestration and Emissions Trading: The Outlook for Global Carbon Markets," evaluates two leading market mechanisms—CCS and carbon emissions trading—for reducing carbon emissions.

ABI Research says CCS allows heavy industries responsible for the greatest amount of carbon emissions to use new technologies to capture the CO₂ they generate and store it safely for long periods. The market research firm projects that \$14.6 billion will be invested in 73 new CCS projects that will prevent 146 million tons of CO₂ from 2009 to 2014.

A recent audit of the world's CCS projects, conducted by Global Carbon Capture and Storage Institute, indicates that carbon capture and storage could lower CO₂ emissions by about 19 percent.

In carbon emissions trading, governmental or regulatory bodies issue a limited number of allowances or offsets that allow companies to legally release carbon dioxide, but if the emissions exceed a company's number of allowances, it must buy or trade for more, or face stiff penalties, says ABI.

The market researcher forecasts that the global carbon emissions trading market will reach \$395 billion in 2014, more than three times the \$118 billion in allowances traded in 2008

Atakan Ozbek, the study's author, says in a press release that carbon emission credits need to reach the price of at least \$40 per ton of CO₂-equivalent for CCS projects to reach commercial status, together with effective policies and regulations and advances in both carbon capture and storage technologies.

A similar study shows that the financial impact of regulating coal-fired power plants that produce carbon dioxide emissions under a cap-and-trade system is much less than previously projected, and a CCS option could keep the price of carbon credits low. This report finds that for coal-fired plants the break-even price for the adoption of CCS technology is just \$25 to \$30 per ton of carbon dioxide emissions.

Figure 1. Impact of Carbon Footprint (Source:

<http://www.environmentalleader.com/2010/01/05/carbon-trading-may-reach-395b-in-2014>)

Strategic is:

- Understanding what will be the cost per ton of emitting CO₂ vs. avoiding or offsetting emissions, such as understanding the cost to your company given different governmental scenarios.

- Understanding your carbon footprint costs as a percentage of revenues. The return on investment (ROI) can be part of your sustainability strategy and bolster your competitive advantage.
- Understanding your risk exposure relevant to your industry.
- Opportunity to reduce emissions now, before regulations take effect, can also be a key strategy, so that you aren't playing catch-up after the regulations are promulgated. Acting based on a risk-reward ratio and action versus inaction allows you to take advantage of regulations rather than being subject to regulations.
- Carbon is the issue of the day: other environmental, social, and governance issues will likely surface and need to be evaluated and integrated into your corporate strategy (e.g., water and material scarcity). Be aware of these, and be prepared to act accordingly with a company-aligned strategy.

A good example of a carbon strategy is Cytec (see Figure 2). Cytec is one of many companies measuring energy use. They are targeting reductions in waste and improved energy efficiency.

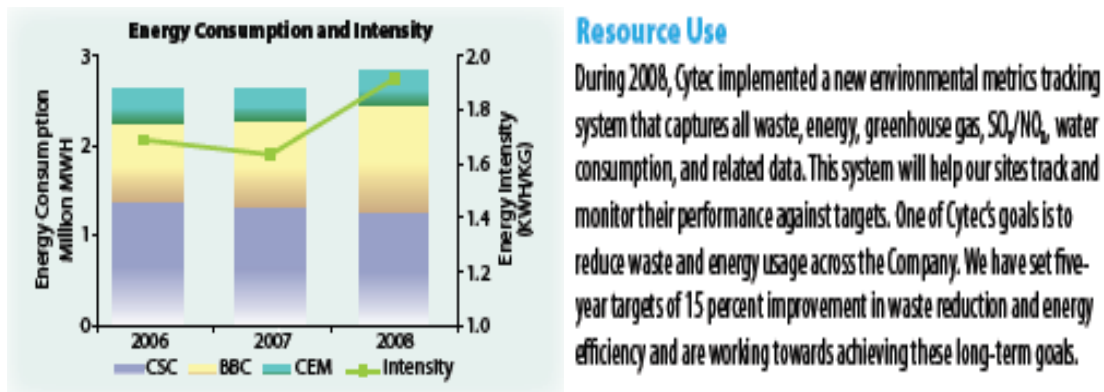


Figure 2. Cytec's Carbon Strategy (Source: <http://www.cytec.com/pdf/CytecSustainabilityReport2008.pdf>)

This is quite similar in SH&E. We establish metrics, collect data and identify trends. Once we establish measures, we look for ways to reduce key concerns. The old saying here is indicative: If I can measure it, I can manage it and reduce it. But first you have to be able to measure it.

Best Practice in Sustainability Strategy

What does a sustainability strategy look like? First, and most importantly, it is linked to business strategy and is part of the core values of the company. Just like SH&E aligns with the company's core values and objectives, sustainability is also linked to these unalterable internal core values. It is clear in the annual report, the 10K Report, and in financial performance. A good sustainability strategy can be used to demonstrate how it contributes to the long-term success of the company's performance (see Figure 3).



Figure 3. Elements of a Good Sustainability Strategy

Secondly, a good sustainability strategy is focused on material issues. Material issues are those that are defined from the stakeholder perspective. This includes organizations that are affected by, or may be affected by, your company. Such organizations include non-governmental organizations (NGOs) such as the Carbon Disclosure Project, supply chain, vendors, local communities, regulatory agencies, and so forth. Alternatively, material issues include things that will have an impact on your company. Understanding these intricacies will help you develop your strategy to craft it in a way that it is flexible to address these concerns.

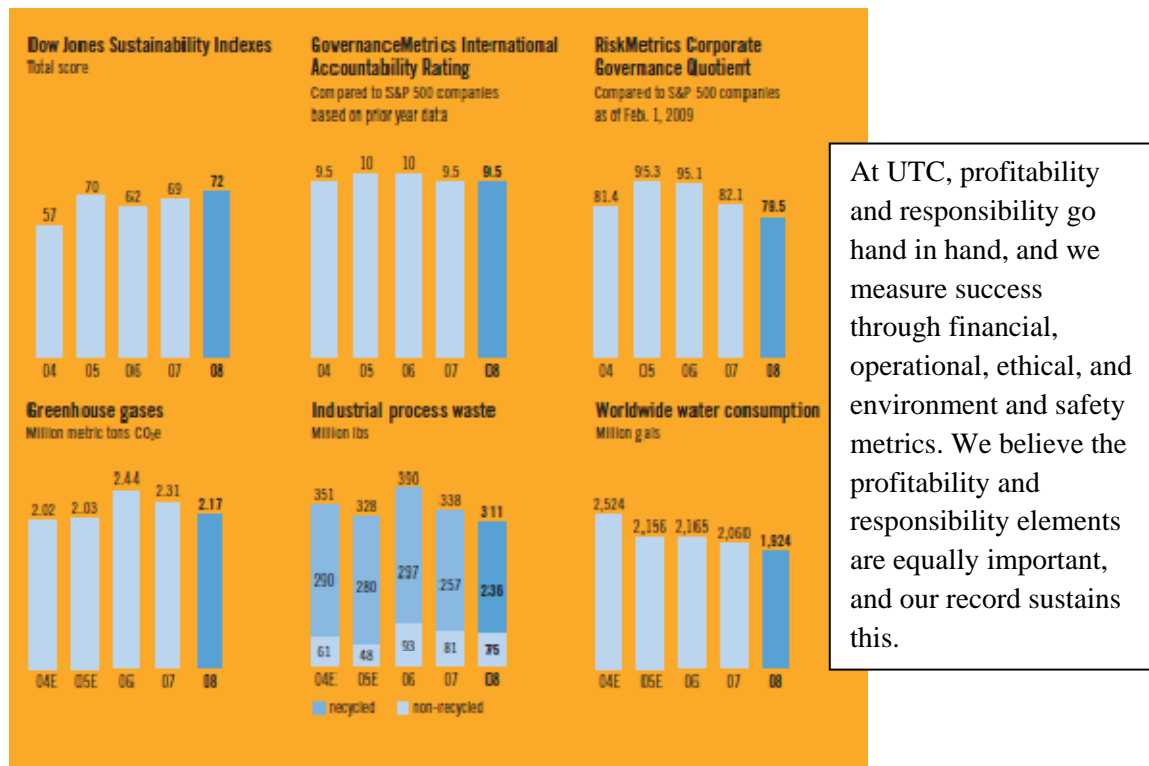
Thirdly, a good sustainability strategy is communicated to all employees, management, divisions, and executives, so that everyone is on the same page. If employees don't know you have a sustainability strategy, there is virtually no way you will be able to implement it successfully, just like SH&E. It also must be communicated to stakeholders focusing on concerns to these groups. In a way, it is like partnering with these groups so that you both reach mutually agreeable results.

Fourthly, a good sustainability strategy ensures accountability at all levels. Once communicated to all employees, accountability metrics need to be established so that performance can be linked to compensation; again, just like SH&E.

Lastly, a good sustainability strategy is used to measure results. It answers the question: Is your strategy doing what you and wanting it to do? Translating the strategy into practical goals and objectives allows you to determine where it is going and how to achieve your desired performance targets. It also provides you an opportunity to align SH&E goals with business goals. This all contributes to the business performance and makes sure your strategy is appropriately integrated.

An example is United Technologies Corporation (see Figure 4). United Technologies Corporation is a company that has a good feel for sustainability within its business context. They publish a corporate responsibility and sustainability report, which only a few companies are doing, even though the numbers are growing every day. They publish KPIs and other metrics to demonstrate their sustainability methods, goals, and objectives. They are quite transparent so that

investors and shareholders can see exactly what they are doing from a sustainability standpoint. This is also being used as a recruiting tool.



At UTC, profitability and responsibility go hand in hand, and we measure success through financial, operational, ethical, and environment and safety metrics. We believe the profitability and responsibility elements are equally important, and our record sustains this.

Figure 4. United Technologies Corporation Sustainability (Source: http://www.utc.com/utc/About_UTC/company_reports/2008_annual_report.html)

Another example of a company that is a leader in sustainability is Novo Nordisk (see Figure 5). This company is a pharmaceutical company in the UK. Novo has been working on sustainability for more than a decade; in fact, they were one of the first companies to develop metrics and start reporting. On their website it states,

For executives the joint pool operates with a yearly maximum allocation per participant equal to eight months' fixed base salary plus pension contribution. The joint pool may, subject to the Board's assessment, be reduced in the event of lower-than-planned performance in significant projects or key sustainability projects. Targets for non-financial performance may include achievement of certain milestones by set dates.

Also, on their website under their charter, it states under their commitments that, "Any decision should seek to balance three considerations. Is it economically viable? Is it socially responsible? Is it environmentally sound?" This is often referred to today as the triple bottom line (see Figure 6). Supporting each of these are policies and procedures along with goals and objectives with discrete milestones to ensure they are accomplished.

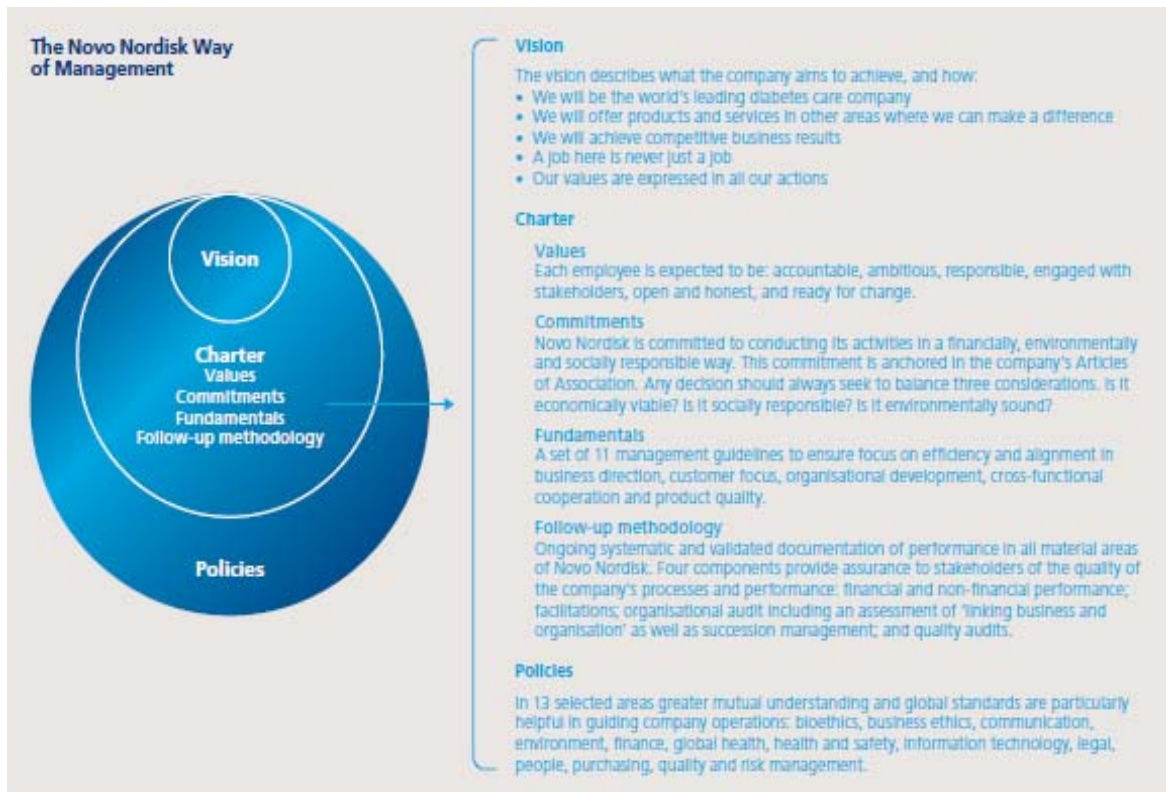


Figure 5. Novo Nordisk Management Vision Addresses Sustainability (Source: <http://www.novonordisk.com/sustainability/default.asp>)

The Triple Bottom Line approach

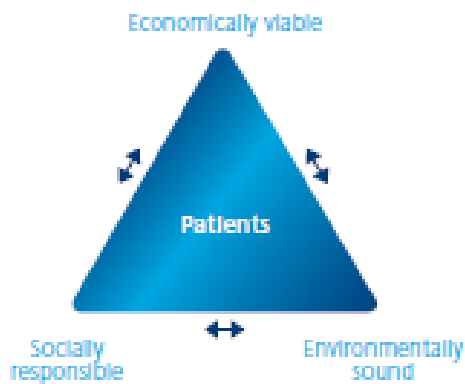


Figure 6. Novo Nordisk's Triple Bottom line Strategic Planning Framework

A strategic planning framework allows a company to systematically approach sustainability. This strategy allows you to anticipate risks and opportunities much like a business plan does for the core business. The framework includes a four-phase approach: assess the performance, build support, define the strategy, and achieve integration (see Figure 7).



Figure 7. Strategic Planning Framework for Sustainability.

Assess Performance

First, you must understand your current sustainability performance relative to that of your competitors and your peers and against the expectations of your stakeholders. This is a critical step in determining what sustainability means to the organization and developing a cohesive approach and position strategy. Initially, you need to understand what your stakeholder concerns are and their expectations. This includes not just knowing who they are but also knowing how they influence the company. This requires listening to stakeholders rather than talking at them, allowing the communication channels to be open in both directions. Involving stakeholders is also critical in the materiality analysis to identify and prioritize key issues and solutions.

It is important to know industry standards and best practices and to benchmark your performance against these standards, competitors, and peers. If necessary, conduct a gap analysis to develop a plan forward to reach desired milestones. This includes a review of the all of the company's current environmental, social, and governance programs and initiatives (i.e., internal control systems such as Sarbanes-Oxley, management systems, KPIs, and so on). This review helps the company understand the framework that you already have in place. It prevents creating a program in a vacuum and accidentally re-inventing the wheel with duplicative programs. For example, employee and customer questionnaires, which have already been developed, can be amended for sustainability questions rather than generating new questionnaires to specifically address sustainability.

You must also have an understanding of materiality: What is it? A definition of materiality is, "An omitted fact is material if there is a substantial likelihood that a reasonable shareholder would consider it important in deciding how to vote".⁷ A definition of materiality in reference to global sustainability is, "[T]opics and indicators that reflect the organization's significant economic, environmental, and social impacts, or that would substantively influence the assessments and decisions of stakeholders."⁸ This covers a broader spectrum of issues. However, from a management perspective, a materiality analysis will help you identify and prioritize your risks to decide how to allocate your resources to a variety of issues, and also may open your eyes to opportunities you may not have envisioned before.

For example, Symantec has developed a strong materiality analysis as described in their Corporate Responsibility Report⁹ (see Figure 8). This combines governance, economic, environmental, and social issues, as well as the impact on the company.



Figure 8. Symantec’s Materiality Analysis (Source: <http://www.symantec.com/content/en/us/about/media/SYM/CR-REPORT.pdf>)

Build Support

Just like SH&E, building support is critical to the success of your sustainability efforts. This starts at the top with executive buy-in and stakeholders. Most notably, this starts with the CEO. To help things along, you need to identify internal champions. Perhaps members of the Board are also members of sustainability-related initiatives or companies with strong sustainability programs. Building cross-functional teams that create small successes can be leveraged in other areas to build momentum, and demonstrate relevance and cost savings, while achieving sustainability goals. Including these successes in all communications, keeping these messages consistent, and having frequent communications on the topic ensure that the message doesn’t die. Keep in mind that training and continued awareness is always a key to continued success. People forget; that’s why annual training is important. Also, varying the training method helps keep the message fresh.

For example, on Hasbro’s website it states, “Who is responsible for Corporate Social Responsibility (CSR) at Hasbro?” The CSR Committee is made up of Hasbro’s senior management, and chaired by Hasbro’s Chief Executive Officer. Hasbro also has employees

dedicated to CSR on its human resources, community relations, and legal teams, and our global operations group.

Define the Strategy

The first step in a strategy for a good sustainability initiative is to define a vision. For example, a vision could be to operate with a net positive impact on the environment, or to be an industry leader in all ESG performance issues. The way to craft your vision is to envision where you see your company in five years if there were no obstacles. Think big. Think long term. Be creative, think outside the box. Then take your vision, and build your strategy. Look ahead to what is possible, then step back and build from what is feasible. As you build, find ways to link to your company's core business objectives. For example, for one company, the sustainability vision is, "The IKEA vision is to create a better everyday life for many people—our customers, co-workers and the people who produce our products. Consequently, low prices at IKEA must not be achieved at the expense of people or the environment. That is a condition for doing good business."¹⁰ Follow this up with a sustainability policy, and linking this to goals and KPIs.

Achieve Integration and Implementation

To start achieving integration and implementation is to embed sustainability into all of the company's decision-making processes. A key to success is to have a C-level representative to communicate to the Board of Directors, providing reports to executives and the Board of Directors, linking to financial performance goals, developing internal performance criteria and compensation tied to goals and targets and, finally, external reporting.

What Role Will You Play in Your Company's CSR Initiatives?

This is an easy question to answer only after you consider your career aspirations, skills, and goals. These are roles that will become increasingly meaningful to your organization as this new field emerges, and business leaders connect these efforts to their sustainable profitability.

We see the opportunities for SH&E professional on a continuum of responsibility. Only you can answer the question on what you want as a role. Here is how we see the progression (see Figure 9):

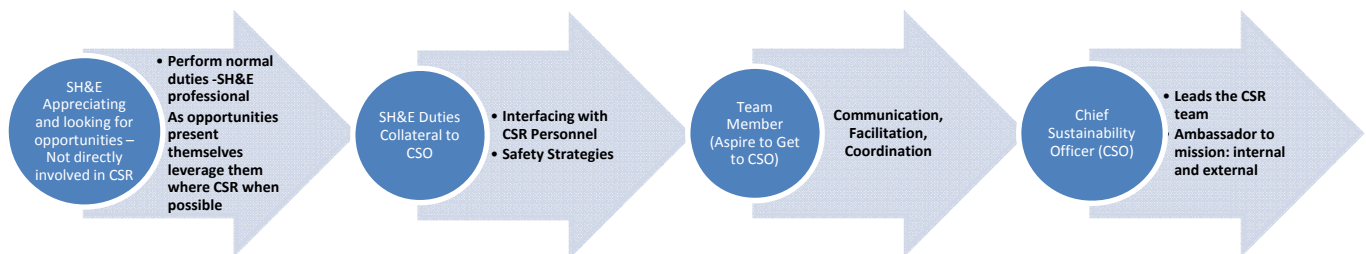


Figure 9. SH&E Role in CSR

Roles

CSR roles may be pre-determined or not yet in place in your company. As a SH&E practitioner/professional, before you can determine what role to play in CSR, you need to consider what the various CSR roles are, as defined below:

- Chief Sustainability Officer (CSO) Responsibilities:
 - *Leadership*: Such person leads the CSR Team, and is responsible for strategy, planning, and implementation of the CSR program.
 - *Internal*: This person is at a C-level position and may interface with Board of Directors. Such person is responsible for the company's overall CSR process, strategy development, reporting and transparency, stakeholder engagement, environment sustainability, supply chain management with regard to CSR issues, and issues management from anything that arises out of CSR.
 - *External*: This person ensures the company is present at industry conferences and forwarding the company's CSR agenda; is involved with writing publications; forma and promotes mutually beneficial partnerships: and creates opportunities to raise the company's CSR profile broadly.
 - *Business Development*: This person seeks and explores new business opportunities to which CSR can lead or contribute.
- Team Member Responsibilities (may aspire to get to CSO):
 - *Strategy for Sustainability*: Assists in the development of strategies, and implements strategies, which includes reporting and responsibility for CSR processes.
 - *Best Practices*: Reviews, refines, and draws ideas for improvement from current reporting
 - *Cross-Functional Teams*: Rolls up data on CSR performance by collecting from cross-functional programs, identifies and resolves challenges, and reports on successes.
 - *Communication, Facilitation, and Coordination*: Conducts both internal and external communication efforts regarding the successes and opportunities for CSR initiatives.
 - *Vision, Policy, and Goals*: Refines and supports cross-functional CSR programs, which incorporate such activities as market research, benchmarking, stakeholder engagement, setting and measuring CSR objectives, observing and reporting on existing efforts, and conducting and reporting on competitor analysis.
 - *Interactive Communication*: Communicates internal engagement in sustainability by working with the "Communications Department."
 - *Value-Added*: Provides information regarding best practices, market trends, competitor updates, and current events to the CSO.
- SH&E Duties Collateral to CSO:
 - *Environmental Strategies*: Examples include gathering data and reporting on Carbon Disclosure Project (CDP) and Non-Governmental Organization (NGOs) CSR / SH&E requirements.
 - *Safety Strategies*: Examples include reduction of incident rates, integrating diversity, and training.
 - *Employee Selection*: These include using a safe work environment as a means of attracting good candidates, and such activities as conducting safety orientation.
 - *Public Relations*: Gathering data and reporting on SH&E performance, lessons learned, and successes.
 - *Interfacing with CSR Personnel*: Determining opportunities and aligning strategies.

- SH&E Professional Appreciating and Looking for Opportunities (Not Directly Involved in CSR):
 - Perform normal duties as an SH&E professional
 - As opportunities present themselves, leverage them with CSR when possible
 - Be an emissary for CSR
 - Case studies where SH&E and CSR are mutually beneficial
 - Demonstrate cost savings, efficiencies and SH&E goal achievement from CSR

Understanding these various roles can help you determine what the CSR organization looks like in your company, where your skills are best served, and where you best fit.

What You Need to Know

Determining and understanding roles is only one part of understanding where you best fit. You also need to know what each role in CSR is responsible for and the strategic part they play in your company. Here is an outline of the strategic part each role plays and what they need to know:

- CSO Leader
 - “Big Picture” Outlook
 - *Multi-disciplined Understanding*:
 - From Inside the Company: SH&E, Legal, Financial, Human Resources, Public Relations, Marketing, Quality, and Suppliers
 - View Outside the Company: NGOs, Investors, Local Communities, Local Authorities, and Regulators
 - Involved in Business Strategic Planning
- CSO Team Members
 - Tactical Implementation: develops and executes activities that support the strategic plan
 - Cost / Financial Implications: considers and operates within
 - Multi-disciplined Understanding: works with appropriate disciplines within the organization
- SH&E Duties Collateral to CSO
 - Understanding of CSO and beneficial financial implications: measures and reports on outcomes relative to tactical implementation and strategic plan
 - Impact on business model and marketing / PR (business opportunities): identifies and supports these initiatives
- SH&E Professional Appreciating and Looking for Opportunities – Not directly involved in CSR
 - Execute the tactical activities that support the CSR initiatives while keeping stakeholder considerations in mind

How to Get to the Next Level

As SH&E practitioners / professionals, we are always challenged with how to take the next step forward. Here are some ideas that have been used and proven successful:

- **Influencing Without Authority**: use the skills expected of you to your advantage. As an example, if you are expected to develop, initiate and measure exposure reduction, then use the data you generate by showing how your efforts support the Human Resources CSR initiative. Reporting should be written in a manner that can link to that CSR initiative and be published to show progress and next steps.

- Lining Up with General Counsel & Ethical Behavior: in SH&E, we share a role of protection of company assets both inside and outside the company. For CSR, show how your SH&E initiatives support the protection assets by reporting on your activities and presenting information of what is coming and the possible impacts on the organization.
- “Out-Behave” Your Competitors: in this area, SH&E looks at what competitors are doing, then assesses and reports on the impact to the company. Here, illustrate how your SH&E efforts contribute CSR initiatives and position the company in light of competition.
- Help the Business be Responsible: promote and take credit for your efforts; don’t be shy because this is the time to show your worth and value.

Conclusions

What you see here is a sustainability roadmap that shows a pathway to safety. Addressed here are all the issues and concerns that are needed to implement a sustainability program that includes safety as one of its components. Hopefully, this will be useful in jump starting your sustainability efforts. Or, perhaps this will give you the impetus to incorporate with many of the activities that are closely related to sustainability.

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