NEW CHALLENGES
RESHAPING
CORPORATE SOCIAL
RESPONSIBILITY
Contemporary environmental and social crises demand a new approach to corporate social responsibility (CSR) — one based on sustainable capitalism, innovation, and scaled-up impacts. This white paper examines a new model and offers practical steps for companies to rethink and address the magnitude of the challenges facing them today.
About NBIS

NBIS is the Northwest non-profit dedicated to enabling professionals and businesses in driving profitable sustainability.

Since its founding in 2003, NBIS has built a cross-sector collaborative community that engages businesses and individuals, as well as government and academic partners.

NBIS recognizes the powerful capacity of business to build social, environmental, and economic benefit through the way business is conducted. NBIS equips businesses and professionals with the connections, tools, and resources vital to succeed in maximizing the triple bottom line.

NBIS networking events, peer roundtables and workshops, as well as the regional initiative By-Product Synergy NW and online Materials Innovation Exchange, engage a wide community of businesses and professionals and empower the innovators in business from start-ups to mainstream. The NBIS Consultancy service brings proven management tools and strategies to companies to advance their sustainability advantage in the marketplace.

Karl Ostrom, PhD and Mary Rose, MDiv are founders and Co-Executive Directors of NBIS.

For more information: www.nbis.org

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# New Challenges Reshaping Corporate Social Responsibility

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Escalating environmental and social crises, such as climate change, demand a new approach to corporate social responsibility (CSR) that is capable of addressing the magnitude of these challenges. Although climate change is the most pressing issue, it is only one of several risks to our ecosystems and society that we may no longer be able to mitigate.

Worldwide we are using the equivalent of 1.5 planets to support a population of 7 billion, which is projected to top 9 billion by 2050. Inequities and struggles for scarce resources are already driving an increase in social unrest and violence and creating environmental refugees.

Paradoxically, our collective failure to rein in the degradation of ecosystems and gross social inequities is occurring in an era of exponentially increasing innovations that could be channeled toward living in harmony with nature.

Business has the tools — and indeed the responsibility — to lead innovative efforts that would change course to a sustainable path. Although business cannot do it alone, it is in a unique position not only to change corporate and supply chain practices, but to help shift consumer behavior and government policy. Business contributes the largest share of global GDP, uses a centralized approach to planning and decision-making, and is able to leverage both politics and consumer decisions. Business is the leading source of innovation in our society and can move fast at scale. Business also has a vital interest in protecting the natural resources and stable social systems upon which sustainable profits depend.

This white paper traces how our present economic system was shaped in an environment where resources and waste sinks seemed relatively inexhaustible. Business made investments, reaped the rewards, and counted on the earth’s ecosystems to cover the external costs. Cumulative failures to internalize the environmental and social costs of the market system have created crises that are being compounded; not only are we breaching the “resilience boundaries” of regional ecosystems, but planetary ecosystems as well, and there is no turning back.

In its vision for achieving sustainability by 2050, the World Business Council for Sustainable Development notes that business must start internalizing these costs themselves. This will require companies to collaborate with governments, NGOs, and one another to create the economic conditions for healthy communities and a marketplace in which costs and benefits are in harmony with the capacities of ecosystems.

This white paper proposes a new model for corporate social responsibility that moves beyond continuous improvement and incremental progress to reach milestones for true sustainability. Traditional CSR tools, such as “Lean,” lifecycle assessments, carbon footprinting, environmental management systems, and appropriate metrics and reporting, provide a solid foundation for moving ahead. Collaboration across industries, governments, and NGOs can move us toward sustainable capitalism and stewardship of a marketplace in which true costs are revealed, and incentives and price signals help innovation to thrive and scale up to ensure sustainability for generations to come.
What is science telling us about escalating environmental and social challenges?

As the first generation with definitive scientific evidence of how human activities are impacting the earth's ecosystems, we are confronted with a paradox: the degradation of climate, water resources, soils, fisheries and forests, and gross social inequities are accelerating at a time when innovations that could be channeled toward living in harmony with nature are increasing exponentially.

Today's simultaneous revolution in social media and its unique power to build common bonds and political will also has the potential to elevate environmental consciousness and reverse our collective failure to protect the earth's resources.

How does this change how we define and practice corporate social responsibility (CSR)?

We are at a crossroads, and business has a particularly important role to play in changing our course toward sustainability. Business has the tools, and indeed the responsibility, to develop and implement best practices that would harness and catalyze innovations to put us on a sustainable path.

This white paper honors the “triple bottom line” work that has defined CSR approaches until now, but also explores new, leading edge business practices that might enable business to play a greater role in stabilizing ecosystems and advancing social justice.

The goal of this white paper is to suggest practical steps for companies seeking to address the realities of our changing global, ecological and social systems, and provide a compass for moving beyond business as usual to achieve profitable sustainability.

INTRODUCTION

How new environmental and social realities are changing CSR

Half a century ago, we could still talk about human activity and ecosystems functioning somewhat independently. Then, it would have made sense to ask whether the actions of a single company were having an impact on the environment. However, gradually, subtly and mostly unnoticed, human activity has become the dominant influence on ecosystem health, even at planetary levels.

Beginning with the coal-fueled Industrial Revolution in the 1800s, followed by what some geoscientists call “The Great Acceleration” of technological, economic, and population growth after World War II, people and ecosystems became decisively intertwined. Today we can assume that both personal and business activities are influencing ecosystems, and must now ask “how” rather than “if” we are contributing to environmental and social change.

For about the last 10,000 years, the Holocene era provided relatively stable climate, soils, oceans, precipitation patterns and diversity of species, allowing human civilization to grow and prosper. It is mind-boggling to realize that the economic and technological revolutions of the last 200 years have moved Earth into a new geologic era, the Anthropocene era, in which human activities are the critical drivers of ecosystem health at continental and planetary levels.

From the 1950s through the 1980s, the Great Acceleration of economic and technological growth meant greater prosperity for much of the world’s population, while the build-up of impacts went mostly unnoticed. Oceans and forests readily absorbed excess greenhouse gas. The use of phosphorus and nitrogen fertilizers in agriculture was not high enough to produce eutrophication or dead spots in lakes, rivers, and seas. Waters dissolved and dissipated most of our pollution. In the big picture, humans remained a minority species on a large planet with unlimited resources. We made investments, reaped the rewards, and counted on Earth’s ecosystems to cover the costs.

However, externalized costs have a way of becoming clearly visible when our debt accumulates. In the last 100 years in the US, the tension between economic and public interests became most pronounced following environmental catastrophes, when backlash from environmental and social organizations prompted regulations to protect human and environmental health.
In the United States, environmental catastrophes have sparked ideological battles and revealed a complex political culture in which individual freedoms and private property rights are pitted against our collective responsibility to protect shared resources.

1962

Silent Spring is published. Rachel Carson’s groundbreaking book discloses the impacts of chemicals on birds, animals and the food chain, sparking debate on the use of the pesticide DDT.

1969

Cleveland’s Cuyahoga River catches fire, sending flames five stories high. This was the 13th time the river had caught fire since 1868, and the event helps to mobilize political action on water pollution.

1972

DDT banned nationwide. The American Eagle population recovers, growing 10-fold over 25 years. Little attention is given to the precautionary principle in regulating chemicals that don’t have a proven threat to human health.

1972

Clean Water Act passes. It helps to significantly reduce negative impacts, but fell short of setting adequate, proactive standards for river water quality. Runoff from agricultural fertilizers in the American Midwest has created a growing dead spot in the Gulf of Mexico, larger than the state of Massachusetts.

“‘In the last 100 years in the US, the tension between economic and public interests became most pronounced following environmental catastrophes.’”

The Dustbowl – Rapid mechanization, overgrazing of native prairie, and deep plowing of virgin topsoil leaves farmland vulnerable to drought and wind erosion. Immense dust storms decimate land and force tens of thousands of families to abandon their farms.

Government steps in. Congress finances a federal assistance program that pays farmers to practice soil conservation techniques. The Civilian Conservation Corps plants 200 million trees from the Canadian border to Texas to act as windbreaks and hold soil in place. Land was partially restored over time, but the response fell short. Drought and changing weather patterns are once again threatening farmland in parts of the country following decades of over-irrigation, draining of wetlands, and damming of rivers.

In the United States, environmental catastrophes have sparked ideological battles and revealed a complex political culture in which individual freedoms and private property rights are pitted against our collective responsibility to protect shared resources.
Environmental violations reflect an antiquated mindset — one that feeds off the benefits of growth without taking environmental limitations and costs sufficiently into account.

Standards for commercial practices should not only aim to reduce negative impacts; they also need to be aligned with the carrying capacity of our ecosystems, public health, and social equality. Ultimately these standards need to be implemented through the collective efforts of all our institutions, including business, government, and the non-profit sector.

Our collective failure to build environmental and social costs into the market system is compounded as we breach the resilience of regional ecosystems and obliviously overshoot the boundaries of planetary ecosystems. We are now on a path toward the types of ecosystem disruption that cannot be mitigated.

Geoscientists are calling attention to planetary ecosystem “thresholds” that, if breached by human activity, can lead to non-linear, catastrophic system changes. Estimating the threshold at which an ecosystem will be stressed to the point of systemic, non-linear change is complex and inexact, however.

Instead, the concept of “boundaries” has been developed to indicate a parameter or safe-line warning to keep us from reaching the probable threshold of irreversible system change. A “safe” boundary does not mean freedom from catastrophic disruptions; rather, that the disruptions are increasing in a linear direction, and in some cases exponentially, but without total system collapse.

The Stockholm Resilience Center has identified nine ecosystem boundaries and quantified seven of them: climate change, ocean acidification, stratospheric ozone, biogeochemical nitrogen and phosphorus, global freshwater use, land system change, and the rate at which biological diversity is lost.

Humanity has already transgressed three boundaries: climate change, biodiversity loss, and changes to the global nitrogen cycle.

The illustration below tracks how the different control variables for these planetary boundaries have changed from 1950 to present. The green shaded polygon represents the safe operating space.

“Planetary boundaries are interdependent. Transgressing one may shift the position of other boundaries or cause them to be transgressed.”

**CROSS AT OUR OWN RISK:**

**ECOSYSTEM BOUNDARIES AND IRREVERSIBLE SYSTEM CHANGE**
The Climate Change Example

+2° In 2009, the great majority of geoscientists agreed 350 parts per million (ppm) was the boundary for keeping greenhouse gases within relatively safe levels, though there would still be certain risks associated with a projected 2°C rise in global temperatures and higher sea levels. When this “safe” boundary was set, GHG was already at 387 ppm and the challenge was to get back to 350 ppm through time.

+3° Since then, the GHG index has already passed 400 ppm and is continuing to rise. Because of the inertia associated with atmospheric changes and rates of population growth, we are now headed toward at least a 3° rise in temperature and a population of 9 billion.2

+4° The World Bank has recently warned that without a change in policies, we are on track for a 4° rise in temperatures, which they project would be catastrophic.3

"The 4°C scenarios are devastating: the inundation of coastal cities; increasing risks for food production potentially leading to higher malnutrition rates; many dry regions becoming dryer, wet regions wetter; unprecedented heat waves in many regions, especially in the tropics; substantially exacerbated water scarcity in many regions; increased frequency of high-intensity tropical cyclones; and irreversible loss of biodiversity, including coral reef systems. And most importantly, a 4°C world is so different from the current one that it comes with high uncertainty and new risks that threaten our ability to anticipate and plan for future adaptation." – World Bank 4

Even though we don’t know when we might cross an irreversible threshold that could alter ocean currents and cause unpredictable, non-linear climate changes, it is clear that we are already paying a massive price for excessive emissions of greenhouse gas. The following graphs depict the relationships between rising greenhouse gases, temperatures and sea levels, and the increase in natural disasters.

In the end it makes no difference whether we’re crashing through planetary boundaries at 50 mph or 100 mph; the health of life on Earth is contingent upon us living within the resilience capacities of ecosystems.

Whether or not we reach a tipping point threshold of totally disruptive climate change, it is clear that we are already paying an increasingly high price. Climate-related natural disasters are in the news almost daily and we have only reached a .87°C rise on the way to 2° or even 6°. There are more natural catastrophes to come!
SIDE-BY-SIDE CHALLENGES

Population growth is compounding climate change and environmental degradation, and accepting collective responsibility for these crises adds to the challenge. The human affinity to focus on what is close at hand contributes to a relative insensitivity to deepening social inequities and the impact of expanding population pressures.

If Ecological Footprint calculations are even roughly accurate, we are currently consuming the ecological capacity of 1.5 Earths. No more than 4.7 billion people could live within the planet’s ecological boundaries without substantially reducing average individual consumption. Yet, because of reproductive multipliers already in motion, we are headed toward a population of 9.6 billion before we can feasibly cap our growth.

When we are not able to put a personal or family face on a social crisis, we find it difficult to grasp that there are 854 million people who do not get enough to eat every day. This malnutrition crisis is largely related to poverty, but this number will grossly increase as food production is projected to reach crisis levels due to environmental degradation.

In the relatively prosperous US, the general public tends to ignore the fact that more than 3 billion people around the world live on less than $2.50 per day. 1.2 billion people live on less than $1.25 per day. 5.6 million children die from hunger-related illnesses every year, before their 5th birthday. That’s about 15,342 a day! And for hungry children, there is the specter of stunted physical and mental development.

These harsh statistics highlight the challenge and the urgency of living within ecosystem boundaries. To achieve a sustainable planet, we must develop the awareness and resolve to reduce our overshoot of production and consumption while also learning to share within a rapidly growing global population.

MOVING BEYOND CONTINUOUS IMPROVEMENT & INCREMENTALISM: A NEW MODEL FOR CSR

As the concept of CSR has evolved, it has generally been recognized that ecological and social problems need to be addressed for the good of all, and that business has a very important role to play. Many institutions and individual citizens have developed a consciousness that everyone should do better, such as “reuse, recycle, compost, don’t litter.”

Consciousness of ecological responsibility translates into everyone needing to improve. Corporate consciousness, in this sense, has come to mean continuous improvement. Measuring a baseline for environmental and social performance, and then improving on that performance has become the operational definition of corporate social responsibility, or CSR.

The CSR lens
A “triple bottom line” model of social, economic, and environmental considerations has helped to broaden thinking about the impacts of business beyond financial returns and efficiency. However, it is clouding our perception of reality.

We have been encouraged to analyze the three pillars of sustainability as if they are equal, interacting systems and that we should balance the ways in which business affects each of them.

But the reality is that these three systems are not equal. All of life is subservient to and depends upon the environment. The parameters of the economy and marketplace dynamics are set by our sociopolitical system, and the economy and society are nested within the natural environment and depend on it for ecosystem services, such as food and clean air and water.

Sustainability, therefore, is not merely the intersection of these three systems nor a compromise between them. We should instead understand it holistically and within the limiting boundaries of ecosystems: meeting social needs, contributing to economic vitality, and preserving natural resources and opportunities for future generations.

Understanding that social and economic systems depend on the environment requires us to ask new questions about corporate responsibility. First, what does it mean for a business to be “responsible” in the context of critically threatened ecosystems and societal challenges?
A sustainability conundrum

Researched opinions of consumers, government, and business leaders reveal that while overall awareness of global environmental and social crises has increased, action has stalled.\(^{12}\)

 Governments have been unable to enact effective climate change policies. Business shows “continuous improvement,” but has not scaled up targets to bring ecosystems within safe boundaries. Consumers, meanwhile, continue to fuel insatiable demand that vastly overshoots sustainable consumption. \(^{12}\)

GlobeScan reports that the number of “deep green” consumers remains at fewer than one in five overall, and there is almost no evidence of a rise in sustainable consumer behavior since 2008.\(^{13}\)

“The sustainable development agenda is in the doldrums at precisely the moment when the need for action is most acute.” – GlobeScan and SustainAbility \(^{14}\)
Leading from the Present

The president of the WBCSD and CEOs from well-known multinationals who participated in the 2050 vision went on public record advocating and implementing science-based CSR policies as the new norm for business leadership.

There is urgency in addressing the world’s sustainability challenges, including poverty, social unrest, climate change and environmental degradation. Having the technologies, innovation capacity, resources and skills, business has a key role to play in providing the radical solutions the world desperately needs.15

Peter Bakker, President, WBCSD

I don’t think you can wait on policy and government. I don’t think the world could wait on that. I think business leaders have to drive it, innovate, and lead.16

Daniel T. Hendrix, President and CEO, Interface, Inc. [Interface Mission Zero – driving carbon, waste, toxins and poverty to zero by 2020]17

Incremental change won’t get us where we need to go fast enough or at a scale that makes a difference.18

Mark Parker, CEO, Nike

Who are businesses really responsible to? Their customers? Shareholders? Employees? We would argue that it’s none of the above. Fundamentally, businesses are responsible to their resource base. Without a healthy environment there are no shareholders, no employees, no customers and no business.19

Yvon Chouinard, CEO, Patagonia

These types of bold statements from global business leaders free the mainstream of business leaders to step up to a higher level of corporate responsibility without appearing to stakeholders as being on a “liberal” fringe.

Three decades of CSR efforts to slow down the drivers of negative environmental and social impacts have not been sufficient to protect the health of Earth’s ecosystems.

Most companies engaged in CSR reporting are using both absolute and intensity triple bottom line (TBL) metrics, which mark improvement on a baseline as a measure of environmental and social responsibility.

Consider measurements of greenhouse gases (GHG), for example. Absolute measurements are good for company reputation: they can be used for reporting to the Carbon Disclosure Project and they also tell a company how much they might be at risk for carbon taxes or other types of carbon regulation on the horizon.

If these measurements are broken down further into intensity measures or ratios, they can tell us, comparatively, how efficiently production and logistical systems are functioning. For example, how much GHG is being emitted per item produced or ton of freight shipped and distributed. Intensity measures make it possible to compare efficiency across machines, factories, or shipping modalities. The reduction of intensity measures relates back to energy bills, normalized for company growth and production, providing guidance on direct bottom-line paybacks.

Continuous improvement targets highlight quality control and efficiency, but they may or may not be a guide for the sustainability of ecosystems and society. Fracking operations, for example, can boast that they use more recycled water, but the true measure of water use is the extent to which they are contributing to the total drawdown of the water source, whether it be a river or an aquifer. This also needs to be a collaborative measurement, aggregating the drawdown of other operations from the same source, to truly be a measure of sustainability.
Whether or not a continuous improvement target is related to sustainability also depends on the lifecycle of a product. In its CSR report, Suncor writes, "Suncor remains committed to responsible development of the oil sands as we expand our operations — generating the crude oil consumers’ need while working to minimize our environmental footprint and contribute to the well-being of the communities in which we operate."  

Suncor’s "sustainability" report notes continuous improvement on their triple bottom line. Compared to their oil sands competitors, they may even be "best in class." Suncor metrics, however, are not anchored within the ecosystems in which they operate.

Zero Impact Growth: A New Model for Setting CSR Targets

Zero Impact Growth (ZIG) is a concept that can guide business strategies and metrics targets toward true sustainability. ZIG received its initial impetus from Interface CEO Ray Anderson, in the company’s sustainability vision:

"Be the first company that, by its deeds, shows the entire world what sustainability is in all its dimensions: people, process, product, place and profits — and in doing so, become restorative through the power of influence."

The Interface sustainability vision evolved into "Mission Zero": a promise to eliminate any negative impact that the company may have on the environment by the year 2020.

Zero Impact Growth is a compass, not a map

As Interface moves toward zero waste and zero GHG, product designers, operations employees, supply chain and logistics managers, and others have had to innovate, and in some cases collaborate with other companies to create a pathway for this goal.

As a compass rather than a map, ZIG is more modest than a context-based metric that aspires to allocate a company’s share of emissions, but is more provocative of collaboration and innovation within and between companies seeking to align toward a common goal of impact reduction.

Attributes of Zero Impact Growth

A Deloitte study on Zero Impact Growth that surveyed several companies makes poignant observations on the positive attributes of ZIG, including:

- calibration criteria for clarifying the contribution of other concepts;
- a trigger to nurture cross-industry collaboration, co-creation, and co-venturing;
- adding scope and purpose to reporting, finally building a useful context for sustainability within an organization’s performance measurement;
- supports messaging that consumers can follow and that can create positivism around sustainability;
- the basis for a top-down and bottom-up-up movement;
- a concept that leads to clear and implementable action.
Given that some ecosystem boundaries have already been breached by our collective activities, responsible actions call for us to create opportunities to reduce this overshoot. For example, stabilizing the climate requires offsetting impacts that have already taken place, not simply reducing current GHG emissions. Regenerative growth is most often achieved through company initiatives that work with others to create collective impact, such as reforestation and soil conservation to increase carbon capture and storage.

Creating pathways to Zero Impact Growth

Driving impact to zero requires a systems perspective and aggressive, measurable targets. For example, to meaningfully reflect impact on global planetary systems, carbon footprint calculations need to be calculated on the basis of a lifecycle assessment or at least on lifecycle thinking.

A recent study of Seattle/King County consumption patterns revealed that 75% of King County’s carbon footprint is included in the products that come to King County before they are received. In other words, if King County achieved zero emissions for everything emitted locally — transportation, building construction, heating and cooling, lighting, cooking, food production, manufacturing, etc. — this would only reduce the county’s total carbon footprint by 25 percent. Sustainable procurement and consumption of products that come from outside the county must also be key targets in the quest to reduce GHG overshoot.

Products can be designed for life rather than obsolescence. Cascade Design outdoor gear, for example, has a lifetime guarantee. At the very least, products can be designed for deconstruction and processes that permit all materials to either be reused or composted. Targets for the use of virgin materials in manufacturing need to be pushed toward zero and the sustainable manufacturing of new goods produced from 100% post-industrial and post-consumer repurposed and recycled materials. (Manufacturing with recycled rather than virgin materials often cuts down the carbon footprints of products by 50% or more.)

To make recycled materials for manufacturing adequately available, companies can collaborate across industries, often with the support of government agencies, to assure that material loops are used to keep them in the economy instead of “wasted” in a landfill.

In the Puget Sound region of Washington, the Network for Business Innovation and Sustainability (NBIS) is convening "Materials Roundtables" that bring together used materials generators, collectors, product designers, re-manufacturers, marketers, and relevant government agencies to work on ways to keep materials in the regional economy while building local commerce.

Collaboration is integral to Zero Impact Growth

Retailing, manufacturing, transportation: our entire energy consumption needs to be shifted to a renewable base, such as electricity generated by water, solar, or wind or sustainably grown and processed biofuels. Shifting a company’s energy base toward zero fossil fuel use can be facilitated through energy efficiency and offsets but, as with the reuse of materials, often the most efficient and productive pathway to carbon neutrality is collaboration.

As the following case studies illustrate, municipal governments and companies are addressing local, regional, and global sustainability challenges through collaboration, redesigned products, and innovative services.
In 2010, the American Institute of Architects (AIA) issued a challenge to reach carbon neutrality in the built environment by 2030. The goal is to develop realistic, measurable, and innovative strategies to assist property owners, managers, and tenants in meeting aggressive targets to reduce the environmental impacts of building construction and operations. This district approach will provide the opportunity for heat recovery, distributed generation, and other energy efficiencies. The City of Seattle sees the project as part of a strategic effort to help meet its goal of carbon neutrality by 2030.

A unique offering of corporate services by McKinstry helped the University of Minnesota at Morris become the country’s first carbon neutral university. McKinstry, a full-service design, build, operate, and maintain (DBOM) firm based in Seattle, played a unique role in helping the University of Minnesota at Morris become the country’s first carbon neutral university, and contributed to the design of an integrated energy system that reduces GHG and promotes economic development in the region.

McKinstry conducted a comprehensive energy analysis for the University that included an evaluation of campus energy demand and supply-side options. McKinstry also developed plans for an energy education and awareness system and for actively managing energy production, storage, and consumption on campus.

The final energy analysis resulted in the development of the McKinstry Carbon Management Tool, an interactive predictive model that visually demonstrates the impacts and interactions between a multitude of conservation, energy storage, and supply-side options.

UMN-Morris purchases 3,000 tons of corn cobs annually to use in its biomass plant. All of the corn cobs are purchased from local farms, providing additional income as high as $240,000 to the local economy.

More and more, companies are working through associations and forming coalitions to create initiatives and tools to strengthen their capacity for reducing negative impacts. The Roadmap to Zero Discharge of Hazardous Chemicals (ZDHC) is a coalition of footwear and apparel companies, including Adidas, Levi’s, Nike, PUMA and others, that is collaborating across their industry value chain to eliminate the discharge of toxics by 2020. The Outdoor Industry Association and the Sustainable Apparel Association, together representing hundreds of companies, have created the Higg Index, an open source tool that is helping product designers choose materials with the best sustainability attributes. Although they may compete in the retail sector, these companies are recognizing “precompetitive” common interests that allow them to achieve more by working together.
Sustainability initiatives such as those we have described are encouraging and significant. But for sustainable business practices to address the scale of the current environmental and social crises, we need the dynamics of capitalism working through a marketplace that internalizes ecosystem costs and rewards social purpose.

Businesses need a competitive playing field within which they can innovate and make a fair profit without passing on environmental and social costs. However, there has not been sufficient political will at national or global levels to set market parameters and develop regulations and incentives that adequately protect the air, soil, water, and infrastructure we depend on for a healthy social commons.

Unless there are regulatory agreements in place for ecosystem services, the competitive dynamics of economic systems encourage us to externalize costs and deplete our shared resources. Individuals, acting independently and rationally according to their own self-interest, escalate their resource use even if they understand that depleting “the commons” is contrary to society’s best, long-term interests.

The tragedy of the commons has been a thorn in economic systems for centuries and is described in a well-known parable by American ecologist Garrett Hardin in the 1960s.38

Imagine a common pasture, open to all the herdsmen in a community. Each herdsman will attempt to graze as many cattle as possible. Such an arrangement would work well until the grazing capacity of the land is reached. At that point, each herdsman would consider the personal benefit derived from adding one more animal to his herd. Since he would receive the profit from that animal, and since the negative effects of overgrazing would not be borne solely by him, but shared equally by all the herdsmen, the herdsman concludes that the only sensible course for him to pursue is to add another animal to his herd. And another... This is the conclusion reached by each and every rational herdsmen sharing the Commons. Therein is the tragedy. Each man is locked into a system that compels him to increase his herd without limit — in a world that is limited. This is the destruction toward which all men rush, each pursuing his own best interest in a society that believes in the freedom of the Commons. Freedom in a Commons brings ruin to all.

Stewardship of the marketplace goes beyond “CSR as usual” — it is critical for scaling sustainability initiatives. When the price signals of the marketplace work against ecosystems or the public interest, it is the responsibility of citizens, including corporations, to work through associations and political bodies to democratically develop regulations and incentives that internalize environmental and societal costs. When appropriate, this work should be informed by peer-reviewed science that is independent of the financial interests that would be subject to regulation or incentives.

Earlier I noted how the Dust Bowl resulted in governmental incentives for agricultural practices that would help restore the land; and how water pollution that culminated in fires on the Cuyahoga River led to the Clean Water Act regulations.

Democratically fixing flaws in the marketplace is not an aberration, but rather an ongoing process integral to sustainable capitalism. It goes without saying that a democratic, scientifically informed process for fixing flaws in the marketplace is not free from conflict. Corporate lobbying and secretive influence to shape media messages and undermine congressional legislation are well documented.39 (Remember distortions perpetrated regarding the impacts of lead, tobacco, and most saliently in the present, the impacts of GHG.)

But, there’s a new day of positive CSR advocacy for a marketplace that sends price signals favorable to climate change policies and greenhouse gas reduction goals. In a recent speech, President Obama noted that more than 600 companies, large and small, had signed the “Climate Declaration” circulated by the Business for Innovative Climate & Energy Policy, a group sponsored by Ceres.
The Climate Declaration

Tackling climate change is one of America’s greatest economic opportunities of the 21st century (and it’s simply the right thing to do).

What made America great was taking a stand. Doing the things that are hard. And seizing opportunities. The very foundation of our country is based on fighting for our freedoms and ensuring the health and prosperity of our state, our community, and our families. Today those things are threatened by a changing climate that most scientists agree is being caused by air pollution. We cannot risk our kids’ futures on the false hope that the vast majority of scientists are wrong. But just as America rose to the great challenges of the past and came out stronger than ever, we have to confront this challenge, and we have to win. And in doing this right, by saving money when we use less electricity, by driving a more efficient car, by choosing clean energy, by inventing new technologies that other countries buy, and creating jobs here at home, we will maintain our way of life and remain a true superpower in a competitive world. In order to make this happen, however, there must be a coordinated effort to combat climate change with America taking the lead here at home. Leading is what we’ve always done. And by working together, regardless of politics, we’ll do it again.

Business for Innovative Climate & Energy Policy

A Lifecycle Approach

A Declaration, of course, can only be a compass for setting direction. To drive environmental and social costs to zero, businesses will need a marketplace in which ecosystem and social costs are assessed using a lifecycle approach, and environmental and social regulations and incentives are developed that apply to everyone equally.

Step 1: A Lifecycle Approach

A Declaration, of course, can only be a compass for setting direction. To drive environmental and social costs to zero, businesses will need a marketplace in which ecosystem and social costs are assessed using a lifecycle approach, and environmental and social regulations and incentives are developed that apply to everyone equally.

A Lifecycle Approach to Assessing Externalized Costs: the Fracking Example

Conoco Phillips claims that “Natural gas is a cleaner-burning fuel with additional environmental benefits over other energy sources when used for electricity and heat production.”

If a carbon footprint is calculated only at the point of combustion, it can appear to be a cleaner fuel than oil or coal, and viable as a transitional fuel toward increased use of renewable energy.

However, the following bar graph illustrates what happens when methane emissions from the fracking process and transmission leaks are added to the greenhouse gas emitted per unit of energy burned. The lifecycle carbon footprint from fracked natural gas can be nearly double that of coal!

Lifecycle analysis of fracking takes into account other impacts as well, including the immense amounts of water taken from aquifers without attention to aquifer capacity, and often from those that are already overdrawn. The wastewater is filled with multiple chemicals (some known to be carcinogens, some non-disclosed) and pumped into “permanent” storage (reportedly associated with clusters of small earthquakes), where methane has been known to leak from the wellheads into neighboring drinking water wells. There is a plethora of literature regarding complaints about impacts on water resources. Regulation complexities are compounded by what is known as the “Halliburton Loophole,” provisions in the Energy Act of 2005 that exempt fluids used in fracking from the Clean Water Act and Safe Drinking Water Act.

A peer-reviewed study by Cornell University and Boston University

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Step 2: Guiding marketplace signals to reflect true costs and opportunities

This step requires building collective will to resolve the dilemma between self-interest and common interest. Cooperation is key to optimizing everyone’s common interest, such as the protection of natural ecosystems. The greatest “material” return for an individual person or entity, however, is in maximizing their self-interest. In game theory, these situational dynamics are known as “the prisoner’s dilemma.” The optimal outcome for the entire group comes from everyone cooperating, but is jeopardized by the fact that the optimal outcome for each individual is to not cooperate while others do.

To illustrate this in economic terms, if all companies agreed to internalize the cost of carbon, climate change would be mitigated. However, if a few companies choose not to internalize the costs of their carbon emissions, they can sell their products at a much lower price and gain a larger market share. We have seen state governments use this logic to oppose carbon tax, which they argue would put local companies at a disadvantage.

These same dynamics cut across other public “goods” as well, such as taxes to support education, healthcare, the disabled, and living wages. The argument goes that if we reduce such public expenditures we will become a “more business-friendly” state than others. This, of course, prompts other states to reduce their public expenditures or corporate taxes, or offer subsidies in order to compete. Economists have called this “the race to the bottom.” A recent editorial in the New York Times offers some examples of states that have ended up suffering from playing the self-interest card in this “game.”

In the global economy, the victims of this “prisoner’s dilemma” game include less economically developed nations that have been forced to compete through lower environmental and labor standards. Capital has tended to move to countries that have done the least to internalize environmental and social costs, often those that offer the lowest tax structure. This lowest standards competition has pressured weak nations to keep wages low and to reduce the safety and environmental standards that raise costs.

An illustrative case:
Small coffee shop owners in Britain are upset because while they are paying taxes, Starbucks, despite doing a prosperous business, utilizes accounting shifts between international divisions to pay no taxes in Britain. Starbucks violated no laws, but volunteered to pay about $16 million in additional taxes in future years, saying it understood its British customers were upset.

Good for Starbucks. Although keeping their British customers happy was in their self-interest, they are also committed to corporate social responsibility.

A higher level form of CSR would be market stewardship; for example, to advocate for tax equity through the finance ministers of G-20 nations working cooperatively to develop policies that fix this flaw in the marketplace. When market signals are corrected, the dynamics of capitalism can help scale positive results beyond the impacts achieved through corporate philanthropy alone. It also becomes an opportunity for small businesses to advocate for a more equitable tax structure through their associations and participate in the stewardship of the marketplace.

The global economy may make our common fate more visible and elevate self-interest to an enlightened self-interest, but CSR is more than that. CSR is the corporate sector stepping up to lead and catalyze cooperation between the private sector, NGOs, and governments to create a sustainable marketplace.
CHANGING DIRECTION: A ROADMAP FOR CSR

Coined by the late CEO of Interface, Ray Anderson, Climbing Mt. Sustainability is a metaphor for the company’s mission and identifies CSR as a potential game changer.

In July 2013, the implementation process began for the Accord on Fire and Building Safety in Bangladesh. This legally binding accord led by European companies includes several labor groups, more than 70 clothing companies, and is supported by Bangladesh government and factory stakeholders.

The Accord goes further than previous voluntary efforts to monitor factories. For instance, it allows labor groups to take clothing brands that refuse to live up to their commitments to arbitration or, failing that, to court in the companies’ home countries. This will give unions a crucial tool to help ensure that industry keeps its word.

A foundation underwritten by clothing companies will send inspectors to identify hazards and propose safety measures at factories. The cost of repairing factories and paying workers who are temporarily furloughed will be covered by the companies, loans from international financial institutions, and Bangladeshi and foreign government funds. Retailers will commit to keep buying from factories that agree to make repairs and will stop buying from any that refuse.

American retailers like Wal-Mart, Gap and Target have also been responsive, but more cautious in their commitments. They, together with 14 other companies, developed their own plan because of objections to the binding nature of the EU accord. Though it would provide loans, their program basically puts the onus for improving conditions on the factories and does not subject the American companies to legal liability. It also does not give labor unions a role in overseeing its implementation.

These corporate collaborations are a laudable beginning to prevent future tragedies in Bangladesh. But the negative impacts of the global marketplace on Bangladesh communities and ecosystems cannot be resolved in a timely manner without corporate leadership that more fully engages with international trade and labor associations, the Bangladesh government, and the US and EU Governments to shepherd Bangladesh’s marketplace regulations and incentives toward sustainable capitalism. Reporting journalists from Reuters and the Globe and Mail indicate timelines of 5+ years just to complete cursory factory safety inspections, let alone implement needed improvements. The dynamics of a capitalist market calibrated to sustainability are necessary to scale needed improvements in a timely way.

A Tipping Point

The business community, in collaboration, has the power to steward the marketplace and provide the education and advocacy needed to internalize critical environmental and societal costs.

The ecosystem and societal crises outlined in the beginning of this paper are a wake-up call to accelerate corporate social responsibility. Ecosystem and societal crises are the proverbial “stick” and the quest for a sustainable marketplace the “carrot.” The pressures to respond to present crises and the ethical desire to pursue true sustainability are growing in tandem.

Earlier, I pointed to the Climate Declaration signed by more than 600 corporations as sign that CSR is advancing toward marketplace stewardship and advocacy in response to ecosystem crises. Societal crises are also calling companies to put CSR supply-chain policies into action. Fires and collapses of Bangladesh garment factories serving Western retailers have killed 1,800 people in the last seven years. Reaction to these tragedies has triggered unprecedented responses from corporate coalitions, reaching across NGO and government sectors, and revealing the potential to overcome the self-interest-driven Tragedy of the Commons and related race to the bottom.
B Corporations

There is evidence that the private sector is moving to steward the regulations and incentives necessary to create a sustainable marketplace.

One example is Benefit and Social Purpose Corporations, or B Corporations. The following is an excerpt from an article by the co-founders of B-Lab, a 501(c) 3 nonprofit that serves a global movement of entrepreneurs using the power of business to solve social and environmental problems.

July 17, 2013 / Today is an historic day. It marks the coming home of a capitalism that returns business to its proper role in society to create shared and durable prosperity.

With Delaware Governor Jack Markell signing benefit corporation legislation into law, business leaders have a new freedom to make decisions that are in the best interests of society as well as their bottom line, and we – as citizens, customers, workers, and investors – have the tools to identify and support them.

Until recently, corporate law has not recognized the legitimacy of any corporate purpose other than maximizing profits. That old conception of the role of business in society is at best limiting, and at worst destructive.

The benefit corporation legal structure is a new and useful tool for everyone. For policy makers and the public interest, it combats the plague of short termism. For business leaders, it helps attract the best talent and turn customers into evangelists. For customers, it offers greater transparency to protect against pretenders. For employees, it promises higher quality jobs where they can bring their whole selves to work every day. And for investors, it mitigates risk, reduces transaction costs, creates additional rights to hold management accountable, and accelerates the growth of a big market opportunity to meet the needs of people who want to invest to both make money and make a difference.

Today, Delaware became the 19th state to enact benefit corporation legislation, but as home to 1 million businesses, including 50% of all publicly-traded companies and 64% of the Fortune 500, it is the most important state for businesses that seek access to venture capital, private equity, and public capital markets. The path is now clear to scale business as a force for good.


Three Recommendations

Triple bottom line and continuous improvement practices provide a strong foundation for moving forward, but to advance at a scale commensurate with our environmental and societal challenges, we need to prioritize zero impact growth and stewardship for a sustainable marketplace.

1) Strengthen CSR practices through reporting that utilizes baseline metrics and targets improvements in lifecycle product attributes and social/environmental practices.

For example:

- Tackle sustainable consumption by making products endurable and recyclable from recycled materials, and sharable when feasible.
- Participate in the Global Reporting Initiative.
- Report to the Carbon Disclosure Project or Carbon Registry.
- Utilize ISO certifications as appropriate.
- Calibrate sustainability initiative targets toward zero impact growth.

2) Expand the constituency of consumers committed to sustainability through education and branding.

- Branding becomes a tool to deepen employee engagement and stakeholder commitment to sustainable products.
- Utilize eco-labels and product declarations to raise consumer awareness.

3) Collaborate on marketplace stewardship with other companies and across sectors to shape a marketplace in which economic signals support healthy ecosystems and social well being.

Collaborate with:

- Industry organizations to upgrade supply chain manufacturers’ practices, create advances in logistics, product design, etc.
  Examples: the Outdoor Industry Association, the Sustainable Apparel Association, the Green Building Council, Sustainable Food Trade Association.

- Cross sector associations to advance sustainable business governance, practice, and collaboration around the world.
  Examples: B Lab, Business Alliance for Local Living Economies (BALLE), Business for Social Responsibility (BSR), World and US Business Councils for Sustainable Development, the Network for Business Innovation and Sustainability (NBIS), the UN International Labour Organisation, American Sustainable Business Council, Washington Business Alliance, Ceres, and Climate Solutions.
Tomorrow’s leaders

The American Sustainable Business Council (ASBC), a partnership of 63 business associations representing over 165,000 businesses, is regularly stepping up to the plate to advocate issues of market stewardship. Their membership includes 300,000 entrepreneurs, managers, investors, and others. Their mission is to advance public policies that ensure a vibrant, just, and sustainable economy.52

At the global level, the Tomorrow’s Leaders Group of the World Business Council for Sustainable Development has set out a manifesto for global business: From Challenge to Opportunity. It includes a commitment to cross-sector collaboration to steward the marketplace.53

MOBILIZING NOW FOR THE FUTURE

This decade places our business and political decisions in a unique historical moment. Advancements in geoscience enable us to visualize the future consequences of our environmental decisions on Earth’s ecosystems. Natural catastrophes go further by providing us with a real sensory and emotional preview of where we are heading if we don’t change course.

Socially, we see regionally intertwined movements and counter-movements of dissatisfaction whose directions are yet to be determined. We see the potential for moving toward shared prosperity with relative equality and tolerance for gender, ethnic, and religious diversity. Also, we see hardened withdrawal into sectorial boundaries defended with violence and aggression. Business has the technological tools, leadership potential, and marketplace know-how to take environmental and social sustainability to scale in a timely way.

Can business live up to this challenge? In creating Interface’s Mission Zero, Ray Anderson knew that his answer to this question had to be given to “Tomorrow’s Child,” and often read this poem to bring our challenge into sharp focus.

“We believe that the leading global companies of 2020 will be those that provide goods and services and reach new customers in ways that address the world’s major challenges — including poverty, climate change, resource depletion, globalization, and demographic shifts. In each of these phases, we will engage broadly with a range of groups and organizations, including governments, international bodies, customers, employees, partners, academics, NGOs, civil society institutions, and the general public.”

TOMORROW’S CHILD

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Without a name; an unseen face
and knowing not your time nor place
Tomorrow’s Child, though yet unborn,
I met you first last Tuesday morn.
A wise friend introduced us two,
and through his sobering point of view
I saw a day that you would see;
a day for you, but not for me.
Knowing you has changed my thinking,
for I never had an inkling
That perhaps the things I do
might someday, somehow, threaten you.
Tomorrow’s Child, my daughter-son
I’m afraid I’ve just begun
To think of you and of your good
Though always having known I should.
Begin I will to weigh the cost
of what I squander; what is lost
If ever I forget that you
will someday come to live here too.54

Karl A. Ostrom, PhD

Karl is Co-Executive Director of NBIS, the Network for Business Innovation & Sustainability. Located in Seattle, Washington, NBIS provides regional leadership and professional development programs to advance sustainability through the business sector. More information at www.nbis.org

Contact: karlo@nbis.org
ENDNOTES

2 See this outstanding video: http://www.stockholmresilience.org/21/research/research-news/5-31-2013-getting-the-facts-true.html; Stockholm Resilience Centre Executive Director Johan Rockström, along with Jeffrey Sachs and other scientists, provided scientific support for "an urgent world transformation to global sustainability" during a UN General Assembly debate on future sustainable development. Rockström's presentation starts 1h:56 min into the video; Jeffrey Sach's presentation is about 25 minutes into the video.
6 Dr. Jeff Masters, July 13, 2009, "How much will global sea level rise this century?", http://www.wunderground.com/blog/JeffMasters/comment.html?entrynum=1255
8 This phrase was coined by John Elkington in his 1997 book, Cannibals with Forks: the Triple Bottom Line of 21st Century Business, and subsequently influenced a number of other phrases, such as "People, Planet & Profit."
9 A point made by many ecologically-oriented economists.
10 The WBCSD 2050 vision report is downloadable at http://www.wbcsd.org/vision2050.aspx
11 Andre Kofmehl, Financial Manager, Bill & Melinda Gates Foundation, NBIS board member, personal communication.
13 Ibid., p.6
14 Ibid., p.6
16 Chris Coulter and Mark Lee, Op. Cit., p. 20
22 http://www.nrdc.org/energy/dirtyfuels_tar.aspx?gclid=CIJR_7WD7lCfS9eQgodTS8AfG