Financial Value of Corporate Sustainable Development

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Dr. Blair Feltmate
Professor and Director, Sustainability Practice
Faculty of Environment
University of Waterloo
bfeltmat@uwaterloo.ca
Overview

1. Define corporate sustainable development (SD)
2. Discuss which companies/industry sectors are embracing SD
3. Profile the “business case for SD”
4. Emerging SD business drivers
Environment
- waste
- energy efficiency
- biodiversity
- \( \text{SO}_2, \text{NO}_x \)
- \( \text{PM}_{2.5}, \text{PM}_{10} \)
- mercury
- spills
- \( \text{CO}_2\text{eq.} \)
- PCBs
- ISO 14001

Society
- All Injury Rate, Accident Severity Rate (AIR, ASR)
- Internal/external education
- community outreach, tours
- stakeholder concerns
- support work/family life balance programs
- Aboriginal outreach
- diversity training

Economy
- support local procurement
- support local hiring
- support training and scholarship programs
- charitable donations
- cost of product

Business Proxies for SD
- Triple Bottom Line, Sustainability, ESG, Corporate Social Responsibility, Corporate Responsibility

* The above metrics reflect those of the Canadian Electricity Association’s Sustainable Electricity Program: *Sustainable Electricity Annual Report, 2008*
Business Case for SD

Causal Factors/
Direct “Bottom Line” Impact

- due diligence protection/assurance
- industry self-regulation/limit regulation
- access to markets/new build
- employee attraction/productivity
- discount on borrowed capital/lower insurance premiums
- address customer attraction/retention
- address media/NGO pressures
- facilitate partnerships
- increase “eco”-efficiency
- inclusion in “SD” retail/institution funds

Correlational Factors/
“Quality of Management”

- corporate governance
- product innovation
- financing options
- manufacturing processes/production line efficiency
- skills upgrade
- new market opportunities
- new lines of business
- management consolidation
- compensation innovation
- overall continuous improvement

SHARE PRICE and SHAREHOLDER VALUE
Indices/Studies Profile the Value-Add of SD

- Dow Jones Sustainability World Index (Aug. 1999 - Aug. 2008: DJSWI -7.70% vs. MSCI -9.57%)
- Jantzi Social Index (Jan. 2000 - July 2009: JSI 60.8% vs. S&P/TSX Composite 56.5% total return: JSI 5.1% vs. S&P/TSX 4.7% annualized)
- Research Network for Business Sustainability -- 160 “SD” studies reviewed, 75% showed positive impact of SD, 25% neutral
- United Nations Environment Programme Finance Initiative – 20 “SD” studies reviewed, 50% showed positive impact of SD, 10% showed positive/neutral impact, 20% neutral relationship, 5% neutral negative, 15% negative effect
- sdEffect™
The sdEffect:
Translates environmental, social and economic performance (e.g. metals recycling, community outreach programs) for 6 mining companies into impact on share price, using:
- Ratio Analysis
- Discounted Cash Flow
- Rules of Thumb Valuations
- Economic Value Add (EVA)
- Options Pricing

"The report provides the first steps in using financial language to measure the impact of sustainable development on the bottom line. This report… lays the foundation in linking sustainable development to company performance and provides another tool for financial professionals to use in their on-going analysis."

Donald Reed, President and CEO
Franklin Templeton Investments Corp.
Ongoing and Emerging SD Drivers

a) **OSC, 2008/09**: MD&A discussion must focus on material environmental [social/economic] risk disclosure -- e.g., cost of carbon, water availability, reputational risk, etc.

b) **UK Turnbull Report** -- companies listed on LSE disclose all risk -- financial, environmental, social, ethical. Companies listed on the Toronto Stock Exchange (TSE) will be required to produce a “sustainable development” style report in the not-too-distant future (Barbara Stymiest, former President, TSE)

c) **Pension Legislation** -- UK requires pensions to disclose the degree to which they factor “environmental, social and ethical” performance of companies into their investment decision-making -- France, Germany, Belgium, Sweden, Australia adopting similar legislation. **Ontario Expert Commission on Pensions** *(recommendation to OSC, Nov. 2008)* - "plan statements of investment policy should reveal whether, and if so, how, SRI practices are reflected in the plan's approach to investment decisions."

d) **Canadian SRI Assets Under Management** -- 2004 = $65 billion, 2006 = $504 billion : increase due primarily to SRI mandates by several major pension funds. Note: SD investing and ethical investing differ.
e. **Canada Pension Plan** -- created the position of “Manager, Responsible Investing” -- CPP manages > $100 billion.

f. **MBA Programs** -- many MBA programs now feature “Corporate SD” courses -- Ivey now *requires* a course in Corporate SD.

g. **Global Reporting Initiative (GRI) and ISO 26000 Guidelines** -- International standards have been developed to guide corporate SD reporting. Standards are now in place for industry sectors. [2,000 - 2,500 companies produce SD Reports]

h. **Cost of Carbon** -- CO$_2$ at $30-75$ per tonne
   - Kyoto Protocol, RGGI, WCI, European Emissions Scheme, Japan’s Voluntary Carbon Market, Australian Carbon Scheme

i. **Al Gore** - An Inconvenient Truth       **James Lovelock** – Gaia

j. **President Obama** -- John Holdren/Jane Lubchenco (advisors to President)

k. **World Population Growth** -- another 2.25 billion people by 2025 – 2030. Current global challenges are a fraction of those coming, as we increasingly exceed “carrying capacity”.
Conclusions

1. Sustainable development is the new business imperative, regardless of industry sector. Commitment to SD is a long-term trend, not a fad.

2. SD, properly applied, is a revenue generator -- not the “cost” of doing business -- that correlates with “quality of management”.

3. To advance SD within business, key “actors” in the capital markets must be “won over” -- financial analysts, retail/institutional managers, institutional money management consultants, CFOs/Treasurers. This will, in part, be driven by changes in MD&A disclosure requirements.