Accounting for Sustainability

Sustainability Decision-Making Model: a methodology for improving the sustainability of your organisation's products and services

ACCOUNTING FOR SUSTAINABILITY

ERM

Introduction

- One of the main issues to address in embedding sustainability is that managers, in taking day-to-day decisions, are rarely provided with the methodology and information to take the organisation's strategic sustainability objectives into account in a meaningful, consistent and robust manner.
- Addressing this issue is not, of course, easy. Variables to be taken into account in decision-making are almost infinite. The data required to make assessments, for example, of how much water a process uses or how much carbon dioxide it emits, is not always available and can be difficult to find. Furthermore, sustainability issues, for example labour practices in the supply chain and environmental management, tend to be dealt with in specialist departments rather than by line management.
- Progress must be made to enable operating managers to take sustainability issues more effectively into account in day-to-day decision making. If this does not occur then their ability to deliver sustainability objectives will be seriously inhibited.
- A central part of The Prince's Accounting for Sustainability Project has been to develop a prototype sustainability decision-making model to illustrate how sustainability issues can be more effectively taken into account in decision-making. It is hoped that the general principles demonstrated in this model can be developed and adapted to meet a wide range of circumstances.
- This prototype decision-making methodology has been developed by the Accounting for Sustainability Team in association with the sustainability consultancy firm ERM in conjunction with, and tailored by, Cadbury Schweppes, Duchy Originals, Sainsbury's and Tesco.

Sainsbury's has been very pleased to be involved from the outset with the development and design of the embedding sustainability tool. We particularly welcome the broad approach to sustainability: economic, social and environmental, which more realistically reflects the impact that businesses can have on the world. The tool provides a methodology and a structure that will help us to evaluate the way we do business in a practical way - Sainsbury's is fully committed to using it.

Justin King, Chief Executive, J Sainsbury plc.

Contents

Part 1: High level overview of the methodology

Presenting the Sustainability Decision-Making Methodology

What is the model?

The *Accounting for Sustainability* programme identified three main areas which could enable organisations to more effectively consider sustainability in their product-level decision-making.

- **Understanding the issues -** Companies need to gain a better understanding of the main sustainability issues at a product level – this should include how important those sustainability issues are to stakeholders
- **Prioritising the issues -** its important to prioritise the identified issues based on their environmental, social and economic impact. Monitoring performance is also important
- **Engaging others –** positive change can be compounded if suppliers and other stakeholders are brought into the process

The methodology demonstrated in this tutorial illustrates how a framework could be developed to help organisations – big and small – to understand and improve the sustainability of their products and services

It is important to note that this prototype model proposes an example methodology, that could be adapted and applied equally and effectively to both products and services. It is not intended to be a universal tool and will need to be adapted for your organisation.

We hope, however, that it provides an outline of how your organisation may start to embed sustainability into your day-to-day decision-making processes.

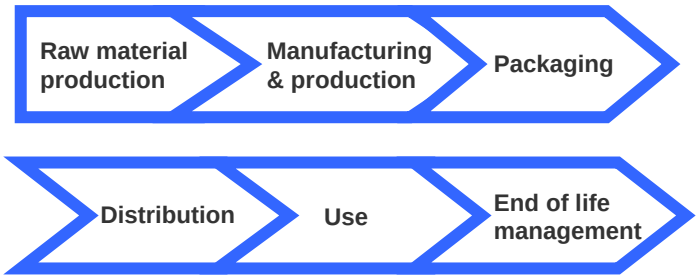
Why think about products and services?

Products and services lie at the heart of every organisation. They are what companies and their people understand best.

Whilst *sustainability* can be an unfamiliar and irrelevant term for somebody on the shop floor or with sales targets to meet, the language of products is well understood. Product quality…product safety…. cost …efficiency…consumer preference…

Sustainability should be thought of as one of the key components of delivering a product to market. Improving sustainability across the product life-cycle can create opportunities for enhancing the viability and attractiveness of your product to consumers.

A generic product life-cycle:



The structure of the Decision-Making Model

Why should I use the model?

Phase 1 : Analysis at product range level

- To enable you to understand the range of relevant sustainability issues across your organisation's product or service range
- To help prioritise which sustainability issues you should focus on
- To help to strengthen your organisation's CR / sustainability strategy

Phase 2 : Analysis of a specific product life-cycle

- To enable you to understand supplier specific sustainability impact and the extent to which they are being addressed by the supplier*
- To enable you to identify potential areas for improvement by both suppliers and buyers
- To give suppliers and products sustainability ratings that can be used to measure future progress

Phase 3 : Making more informed decisions

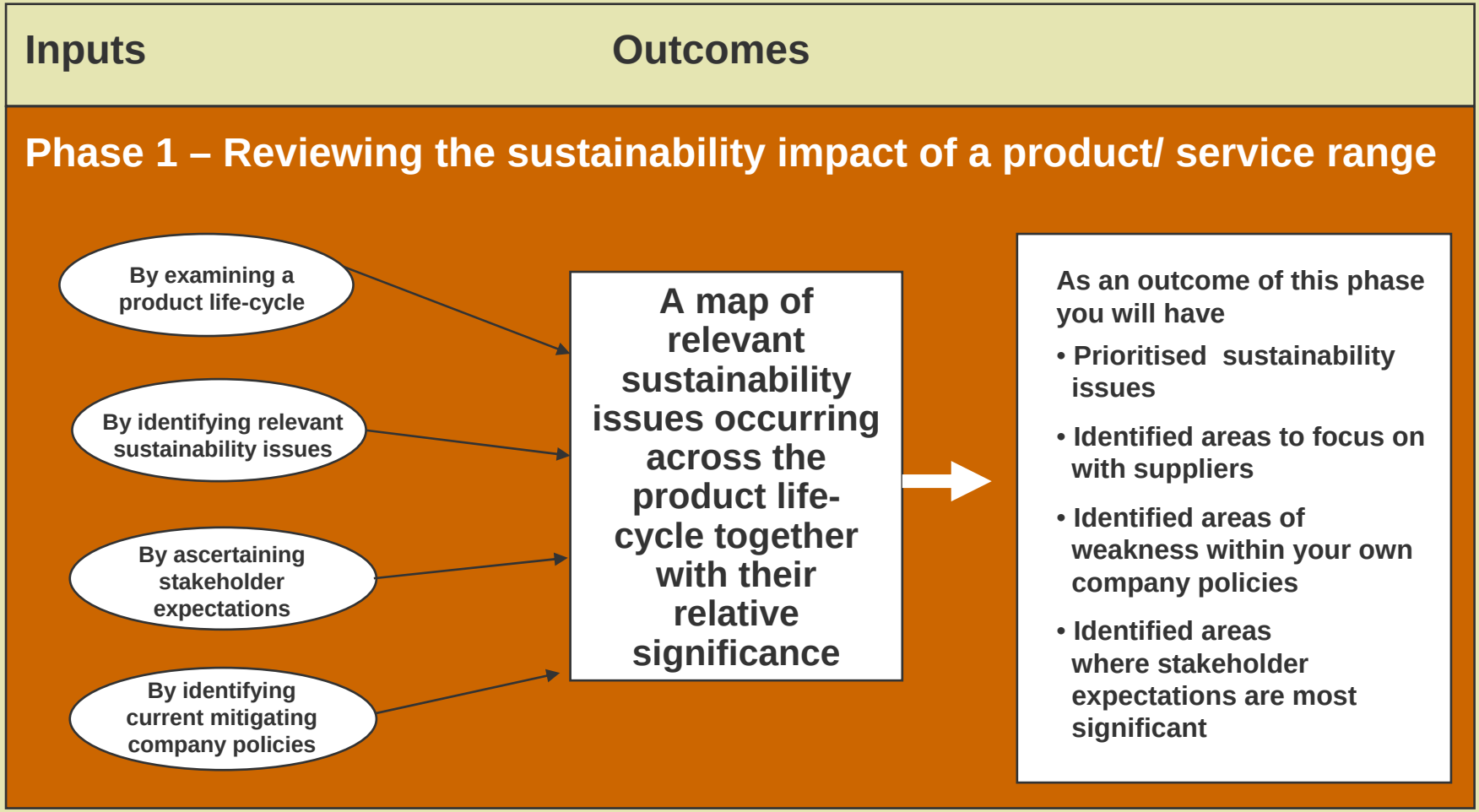
- To enable you to improve the overall sustainability of your products by providing a sound base to support business decisions

This type of methodology may help…..

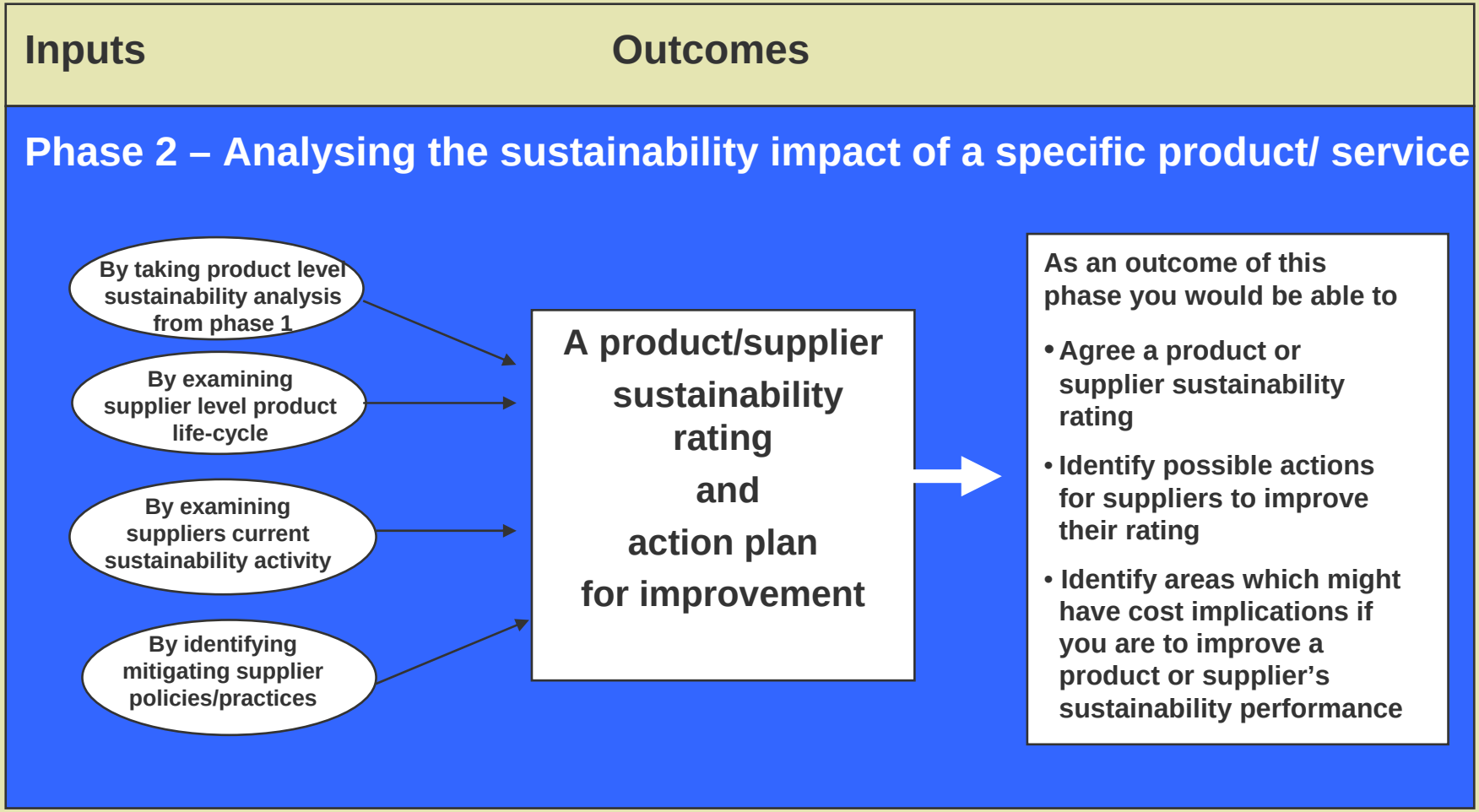
- Inform your corporate strategy
- Strengthen management processes
- Improve the sustainability of your supplier base
- Identify sustainability risks and opportunities
- Track performance improvement

*In the context of this model the term 'supplier' refers to any party, both external and internal, supplying goods or services that contribute to the final product or service.

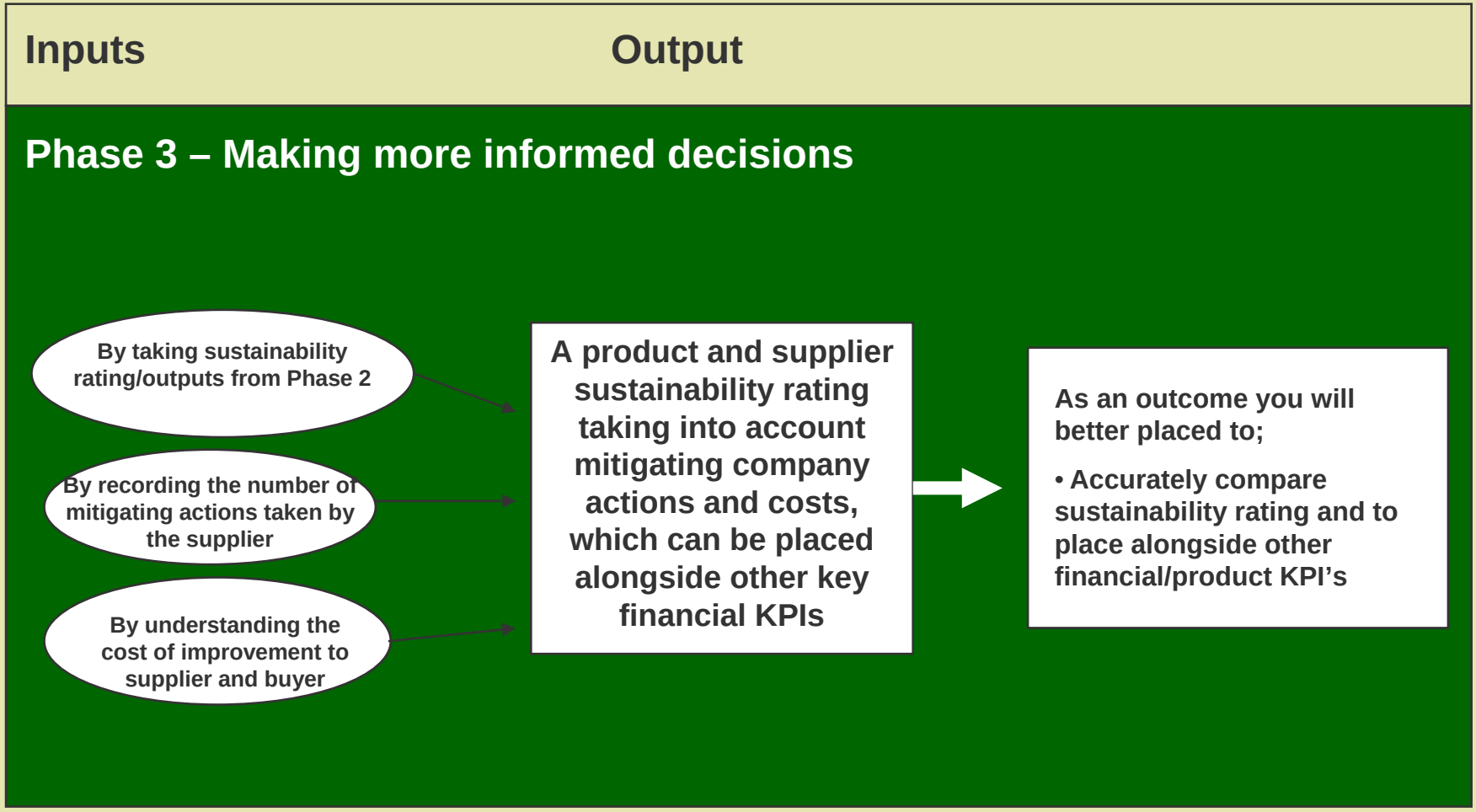
How does it work – Phase 1



How does it work – Phase 2



How does it work – Phase 3



Part 2: A detailed examination and worked examples

Presenting the details of the methodology

In practice…

The preceding pages have demonstrated the process flow of the methodology addressing the inputs required and possible outcomes in theoretical terms. The following pages show a worked example of how the Sustainability Decision-Making methodology might work in practice as a tool for your organisation.

The tutorial is presented using the language of a product being brought to market

Who should be involved?

A range of different internal and external stakeholders are likely to be needed to provide the information required to apply this model to your organisation.

- **Corporate CR/ Sustainability Manager (if applicable)**
- **Buyers**
- **Technologists/product development specialist**
- **Suppliers**
- **Operations Manager**
- **Relationship Managers**

Phase 1

Reviewing the sustainability impact of a product or service range

Introduction

- Phase 1 comprises three connected steps
  - ***Step 1 - Identifying relevant environment and social issues*** - this involves a high-level desktop review of a product and its generic life-cycle to identify significant sustainability issues.
  - ***Step 2 - Understanding and evaluation of stakeholders' expectations*** - the relevance of the sustainability issues across the generic life-cycle chain can then be assessed against stakeholders' expectations.
  - ***Step 3 - Review your company's current product sustainability standards and overall organisation sustainability policies*** - it will also be important to assess what the organisations' overall sustainable strategy and objectives are and how those issues identified from the first two stages align with them.
- Phase 1 will also help you to prioritise those sustainability issues for a product that you want to consider improving. This may result in further research of an issue being undertaken or identification of what needs to be discussed with relevant suppliers.
- By gaining a greater understanding of the major sustainability issues effecting your products it will help to strengthen overall sustainable development strategy and policy by highlighting areas that could be improved upon. It will provide an increased understanding of the areas of focus for Phase 2 of the methodology.
- Steps 1, 2, 3 are further detailed in the following slides.

Note: The kind of knowledge used to complete the steps can range from an individual's professional knowledge to quantitative data which would have been collected from various stakeholders/life cycle experts. Naturally, the better the quality of the input, the better the quality of the outcome.

Step 1: Identify Sustainability issues across the product's life-cycle

- This step requires you to:

A. Identify your product's life-cycle. As an example, a typical life-cycle from a food product is shown here:

B. Identify relevant sustainability issues against each stages of the product's lifecycle as a whole and the likely impact on the environment, workers and local community/resources. Below are some examples of sustainability issues that might be considered.

Example **Environment** Issues:	Example **Social** Issues:	Example **Economic** Issues:
- Biodiversity conservation	- Salary and working conditions	- Expenditure in local economy
- Water use & quality	- Child and/or forced labour	- Technology exchange & support
- Waste	- Workforce health and Safety	- Improving compliance standards
- Greenhouse gas emissions	- Community Health and Safety	- Contribution to taxes/revenue
- Renewable energy	- Human rights	- Livelihoods

- These inputs are the cornerstone information of the methodology and will ultimately drive assessment of the product's overall sustainability rating.

Step 2: Identify your stakeholder's needs and expectations

- This step requires you to research the needs and expectations of your key stakeholders with regards to the product's sustainability quality. A stakeholder in this context is anyone who might have an interest in the issue – consumers, NGO's, regulators, suppliers, business partners, employees etc.

- Amongst others, stakeholders to be considered would be your customers/ consumers and key opinion formers. For example, would they buy or recommend the product if they knew that it was produced under poor working conditions, or excessively using resources such as water or energy?

- Such inputs are used in the methodology to:
  - confirm your own understanding of the significance of sustainability issues for the product and the assessment undertaken in *Step 1*; and
  - escalate the significance of the given sustainability issues on top of your own risk assessment undertaken in *Step 1.*

- You should also identify whether external standards have already been developed with the aim of tackling a given sustainability issue. For example organic standards which, amongst other things, tackle the use of pesticides and fertilisers in agriculture practices.

Step 3: Identify your company's sustainability standards

- This step requires you to identify company policies and practices which might have a mitigating effect on the sustainability issues identified in steps 1 and 2.

- It requires you to qualify the quality of such internal standards and the extent to which they are being applied.

- These inputs are used in the methodology to:
  - identify your company's position on sustainability;
  - measure your organisation's status of management practices and performance against each identified significant sustainability issues; and
  - generate potential feedback for improvement on the quality of such internal standards and the performance delivered so far.

The worked example on the next slide shows you what this might look like in practice.

Phase 1 outcome: a product/ service range sustainability assessment

There are many ways to calculate the net risk of a particular issue.

The sort of calculation we have demonstrated here implies that a weighting has been given to each factor in steps 1, 2 and 3 to arrive at a net risk outcome. This calculation will naturally be individual to each company based on the weighting you choose for each of the factors in step two and three and the manner in which you rank the sustainability issues in step 1.

	STEP 1	STEP 2			STEP 3	OUTCOME
	SD issue applicable to this product	Relevance of the SD issue to this product	Consumer demand	Opinion formers demand	Existence of external standards	Quality of internal policy and performance	Net risk
Environment							
Use of water	Medium	No	No	No	Medium quality and performance	Low
Greenhouse gas emissions	High	Yes	Yes	No	Low quality and performance	High
Others						
Workers and local communities						
Worker paid a living wage	High	Yes	Yes	Yes	Medium quality and performance	Medium
Worker health & safety	High	Yes	Yes	Yes	Medium quality and performance	Medium
Others						
Consumers						
Consumer health	Low	Yes	No	No	Low quality and performance	Medium
Packaging re-use/ recyclability	High	Yes	Yes	No	Medium quality and performance	High
Others						

Phase 1 outcome: an action plan for improvement

- As a result of having undertaken the Phase 1 assessment, various decisions will be informed, such as:
  - identifying areas that you might wish to work on with suppliers;
  - identifying areas for further research on the given sustainability issues and current market practices;
  - strengthening the organisation's understanding of stakeholders' expectations and considering to further engage to gain improved consensus on identified challenges; and
  - strengthening your organisation's policy and management practices which might have an impact on sustainability.
- Having also undertaken this high level assessment on an overall product/ service range, you will have strengthened your knowledge about sustainability issues. This knowledge should enable you to look more closely at the product on a supplier by supplier basis. This is examined in Phase 2.

Phase 2

Analysing the sustainability impacts of a specific product or service

Introduction

- Phase 2 of the methodology involves a more detailed “on-site” assessment of a specific product/ service life-cycle from raw material production to manufacturing, distribution, consumer and post-consumer use.
- The key steps are:
  - ***Step 1: Understanding the supplier’s sustainability context*** - examining the suppliers main environmental and social issues and their relative significance.
  - ***Step 2: Reviewing the supplier’s sustainability management practices*** – examining the suppliers approach to managing issues that impact on sustainability. Identifying areas requiring further improvement to match your expected sustainability product standards.
  - ***Step 3: Developing and action plan for improvement -*** in relation to the significant sustainability issues identifying what options are available for improving the sustainability performance of the products, for example implementing new technology, negotiating deals to improve performance or working with suppliers to improve on certain areas. At this step you could also capturing the time frame set for any improvements you wish to happen.
- In our methodology a performance rating is shown to reflect the suppliers sustainability quality. Potential cost implications should be captured which might be considered in the next phase of the tool.

  In a similar way to step 1 the kind of knowledge used to complete the steps can range from an individual professional knowledge to quantitative data which would have been collected from various stakeholders.

Step 1: Understanding the supplier's sustainability context

- The purpose of this step is to gain awareness on the supplier's local environmental and social context to ensure that:
  - the on-site assessment is informed and guided by appropriate and tailored knowledge rather than a generic checklist;
  - adequate weight is provided to the significance of identified sustainability issues; and
  - the dialogue with the supplier is constructive and as close to the local reality as possible.

- Such information can be gained through various means eg desk-based research (web, etc) or in discussion with the supplies/others.
- A way of formalizing such information could be as follows. We have picked two particular issues, water and energy use as examples. In a similar manner to phase one we have illustrated how the level of significance of the issue in the local environment might affect the end summary rating.

Local Environment	Resource abundance	Sensitivity of environment	Extent of pollution	Number of resource users	Risk of aggregated pollution	Capacity to sustain growth	Local community access and enjoyment of environmental resources	Local community capability and capacity to mitigate environmental impacts	Summary analysis of status of environment
Water use	High	High	High	High	High	High	High	High	Critical
Energy use	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Moderate	Severe

Step 2: Assessing a suppliers' sustainability performance

- In order to assess a product's sustainability quality, it is important to assess the suppliers' sustainability performance across the product in question's life-cycle.

- By carrying out analysis across the product life-cycle and with suppliers that play a part in that life-cycle, you can produce an aggregated summary of the product's sustainability performance.

- The supplier assessment process is in concept fairly similar to the one undertaken in Phase 1, and follows the following tasks:

  A. Identifying relevant sustainability issues based on the outcome of the Phase 1, your understanding of the supplier's local sustainability context, and your review of the supplier's sustainability practices and performance

  B. For each identified relevant sustainability issue, identify the type and severity that the impact the given sustainability issue may have on the local environment, workers and the local community

  C. For each identified relevant sustainability issue, identify the likelihood for the impact to occur in the short/ mid/ long term

  D. For each identified relevant sustainability issue, identify the quality of the supplier's management practices and performance

- Again in a similar manner to phase 1, you will need to decide what sort of weighting you will apply to the identified sustainability issues (A), the social or environmental impact (B) likelihood (C) and quality of management/policies governing the issue (D). The next slide shows what this might look like.

Step 2 outcome: a supplier sustainability performance rating

- As a result of having undertaken the assessment, please find below a way of presenting the outcome of a supplier assessment.
- A similar summary of results can then be generated for the whole product life-cycle by combing the ratings of the suppliers that form a part of bringing the product to market. You will then have a product sustainability rating.

	A	B				C			D			OUTCOME
		SD issue impact on:				Liklihood of impact to occur in:			Quality of management practices:			
	SD issue applicable to this supplier	The local environment	The workers	The local community	The consumer	The short-term	The medium-term	The long-term	Policy	Performance	Stakeholder consultation and responsiveness	Risk rating
Environment												
Use of water		Critical	N/A	Critical	N/A	Yes	-	-	Moderate quality	Moderate quality	Low quality	Critical
Greenhouse gas emissions		Critical	N/A	N/A	High	-	-	Yes	None	None	None	High
Others												
Workers and local communities												
Worker paid a living wage		N/A	Above market practices	Positive influence	N/A	Yes	-	-	High quality	High quality	High quality	Positive
Worker health & safety		High	Critical	High	N/A	Yes	-	-	Low quality	Low quality	Low quality	Critical
Others												
Consumers												
Consumer health		N/A	N/A	N/A	Moderate	N/A	N/A	N/A	High quality	High quality	High quality	Negligeable
Packaging re-use/ recyclability		Moderate	N/A	N/A	Moderate	N/A	N/A	N/A	Moderate quality	Moderate quality	Moderate quality	Moderate
Others												

Step 3 outcome: an action plan for improvement

- As a result of having undertaken the Phase 2 assessment you will be in a better position to:
  - agree a supplier and/or product sustainability rating;
  - identify areas for improvement with each supplier within the product life-cycle; and
  - potentially identify the costs related to improving the product' service's sustainability.

- Having also undertaken such detailed assessment on a specific product/ service, you would have established, in a sound and diligent manner:
  - a more accurate understanding of key sustainability issues with the range of suppliers you might use;
  - a number of actions which might bring about performance improvement and that are real and feasible to deliver; and
  - strengthened your relationship with suppliers.

Having arrived at supplier/product level sustainability ratings, ways to improve performance and an action plan to help deliver those improvement you will be in a better position to integrate this information into your everyday decision making processes. We'll show you what we mean in Phase 3.

Phase 3

Reaching a balanced and informed decision as to how the product/ service's sustainability performance can be improved

Introduction

- Phase 3 consists of integrating information obtained from Phase 2 about the products' sustainability performance rating, into your organisations commercial decision-making processes.

- This is ultimately the step within which enriched technical information is provided to decision-makers for them to truly deliver their organisation's sustainability strategy and policies by considering and taking business decisions which will lead to improved sustainability performance.

- Companies have diverse ways of making decisions on product and suppliers' performance, but they tend to be based on similar core principles. The methodology presented here is one way of presenting sustainability information within a decision-making model. Further tailoring will naturally be required to ensure it fits your business processes and approach to taking decisions.

Integrating sustainability information into your buying decision (1)

- Please find below an example of how sustainability information generated in Phase 2 might be integrated into your decision-making process:
- It comprises three steps:
  - ***Step 1:*** presenting a summary of the information generated in Phase 2 e.g. the product's sustainability rating prior mitigation actions, the number of mitigation actions to be undertaken by the supplier and the buyer, and as a result a post-mitigation product sustainability rating;
  - ***Step 2:*** integrating the product's sustainability information into the product's performance dashboard; and
  - ***Step 3:*** using this information to inform decisions on how you might proceed with suppliers that have been assessed in the future.
- The information presented below is based on a qualitative analysis within phase 1 and 2. Ultimately, such information should be based on quantitative information as and when it becomes available.
- You can see that the sustainability factors identified with each supplier in Phase 2 can be mitigated by actions taken by the supplier to improver performance. This is what the methodology ultimately aims to achieve.

	STEP 1						STEP 2									STEP 3
	Net risk rating	Number of mitigation actions agreed to be delivered by the SUPPLIERS	Cost of improvement for SUPPLIERS	Number of mitigation actions agreed to be delivered by the BUYERS	Cost of improvement for BUYERS	Revised inherent risk rating	Product cost	Sales	Product quality	Sustainability rating	Innovation	Ability to manage challenges	Product availability	Brand value delivery	Reputation value delivery	Support buyer's policy	Buyer's decision
Product A.1.	Severe	10	Moderate	2	Low	Moderate	=	+	=	+	+	+	=	+	+	Yes	Continue and increase market share
Product A.2.	High	2	High	2	High	High	=	-	-	-	-	-	=	-	-	No	Discontinue
Product A.3.	Severe	7	Moderate	2	HIgh	High	=	+	Different	+	+	+	+	+	+	Yes	Continue and increase market share

Integrating sustainability information into your buying decision (2)

This is the product sustainability rating generated by Phase 2, prior to the consideration of improvement actions

This is a summary of improvement actions and their related costs identified at Phase 2 for both the suppliers and the buyers

This is the product's net sustainability rating if improvement actions are being delivered

This the product's performance dashboard including product cost, quality, and now sustainability. A"+" means improved; "=" equal; "-" worst than before

This is whether the given overall product's performance complies to the buyer's policy requirements, including on sustainability performance

On the basis of the product's performance, the buyer can then decide whether to continue or discontinue product line, inline with its company's policies of delivering more sustainable products to the market

Three products taken from the same range but with 3 different life-cycles are assessed (e.g. roses from Kenya, Netherland and the UK)

	Net risk rating	Number of mitigation actions agreed to be delivered by the SUPPLIERS	Cost of improvement for SUPPLIERS	Number of mitigation actions agreed to be delivered by the BUYERS	Cost of improvement for BUYERS	Revised inherent risk rating	Product cost	Sales	Product quality	Sustainability rating	Innovation	Ability to manage challenges	Product availability	Brand value delivery	Reputation value delivery	Support buyer's policy	Buyer's decision
Product A.1.	Severe	10	Moderate	2	Low	Moderate	=	+	=	+	+	+	=	+	+	Yes	Continue and increase market share
Product A.2.	High	2	High	2	High	High	=	-	-	-	-	-	=	-	-	No	Discontinue
Product A.3.	Severe	7	Moderate	2	HIgh	High	=	+	Different	+	+	+	+	+	+	Yes	Continue and increase market share

Acknowledgements

The methodology has been developed by the Accounting for Sustainability Team in association with the sustainability consultancy firm ERM and with the participation of Cadbury Schweppes, Duchy Originals, Sainsbury's and Tesco.

Contacts

ERM

Dominique Gangneux, Partner

8 Cavendish Square
London, W1G 0ER

Tel: +44 207 465 7200

www.erm.com

Accounting for Sustainability:

www.accountingforsustainability.org.uk

Sustainability at Work:

www.sustainabilityatwork.org.uk

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