



Defining Corporate Environmental Responsibility

Canadian ENGO Perspectives

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About the Pembina Institute

The Pembina Institute creates sustainable energy solutions through research, education and advocacy. It promotes environmental, social and economic sustainability in the public interest by developing practical solutions for communities, individuals, governments and businesses. The Pembina Institute provides policy research leadership and education on climate change, energy issues, green economics, energy efficiency and conservation, renewable energy, and environmental governance. More information about the Pembina Institute is available at <http://www.pembina.org> or by contacting info@pembina.org

About Pollution Probe

Pollution Probe is a non-profit charitable organization that works in partnership with all sectors of society to protect health by promoting clean air and clean water. Pollution Probe was established in 1969 following a gathering of 240 students and professors at the University of Toronto campus to discuss a series of disquieting pesticide-related stories that had appeared in the media. Since the 1990s, Pollution Probe has focused on issues related to air pollution, water pollution, climate change and human health across Canada.

Pollution Probe offers innovative and practical solutions to environmental issues pertaining to air and water pollution. In defining environmental problems and advocating practical solutions, we draw upon sound science and technology, mobilize scientists and other experts, and build partnerships with industry, governments and communities. More information about Pollution Probe is available at <http://www.pollutionprobe.org>

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Executive Summary

This report, prepared by the Pembina Institute and Pollution Probe, explores Canadian environmental non-governmental organization (ENGO) perspectives on Corporate Environmental Responsibility (CER), as part of the broader area of Corporate Social Responsibility (CSR). This report is the synthesis of background research and input from a survey, interviews and a national workshop on Canadian ENGO perspectives of CER. The next step in this project is to distribute this document and consult with the corporate sector and government departments to share and discuss the results.

Several forces are driving the evolution of CER from a fringe consideration to a core business issue including consumer activism, shareholder and investor pressure, and competitive advantage. Expectations from ENGOs can sometimes differ, depending on a number of factors. This report will increase understanding of the ENGO community's expectations for CER by exploring the range and diversity of ENGO views. This is achieved by addressing three key questions:

1. How does the Canadian ENGO community define a vision for CER and the components of CER?
2. What is the ENGO role in advancing CER?
3. What is the role of governments in advancing CER?

ENGO Vision of CER

Three main themes emerged in the articulation of an ENGO vision for CER: 1) environmental commitment in which the company fully embraces sustainability and has a net positive impact on the environment and society; 2) material and energy management in which the company operates within the finite ecological limits of the environment; and 3) effective stakeholder engagement in which the company is fully transparent and accountable, with a demonstrated process in place to engage and empower stakeholders.

Components of CER

To effectively explore ENGO expectations of corporate environmental responsibility, the following components of CER were identified and explored:

- Environmental commitment and awareness;
- Stakeholder engagement;
- Measuring, reporting and auditing;
- Transparency;
- Commitment to continuous improvement; and
- Going beyond compliance.

Environmental Commitment and Awareness: ENGOs view environmental commitment and awareness as key components of CER but expressed difficulty in discerning genuine environmental commitment from public relations exercises bordering on green wash. Leaders in the ENGO community emphasize the importance of a corporate culture built to “institutionalize sustainability.”

Stakeholder Engagement: There was general consensus among ENGO representatives that current models of stakeholder engagement are inadequate. Many ENGOs also expressed frustration with lack of resources and capacity to effectively participate and the unequal degree of influence they hold relative to other stakeholders e.g., shareholders and government. There is concern that many models of engagement are predominantly driven by public relations objectives i.e., “duty to consult” rather than the establishment of effective relationships. ENGOs believe that their opportunities for meaningful engagement are constrained by a relatively narrow corporate definition of stakeholders.

Measurement, Reporting and Auditing: ENGOs support improved corporate environmental reporting based on the measurement and reporting of actual outputs and impacts to the environment. Corporate reporting should track and report trends over time and report mistakes as well as successes. Many ENGO representatives insist that credible, science-based principles of measurement, which fully account for all environmental impacts, be adopted by the business community. ENGOs strongly emphasized the importance of having the corporate auditing process verified by independent third parties.

Transparency: ENGOs identified transparency and access to information, analysis and resources to allow for effective understanding of corporate activity as essential to CER. This requires a shift from contemporary “consultation” approaches to engagement with “full, effective and empowered participation.” ENGOs expect companies to be transparent through the full, accurate and timely disclosure of information about their operations. Companies should be willing to share non-confidential information, including raw data, in an easily accessible manner.

Commitment to Continuous Improvement: Leadership in CER is shown by a company that strives to continuously improve and tracks and demonstrates environmental improvements. ENGOs identified several important recommendations for companies with respect to continuous improvement, including:

- Address CER through a framework of continuous improvement;
- Produce verifiable measurement of real results;
- Adopt a management system approach;
- Institutionalize a continuous improvement culture; and
- Seek stakeholder input.

Beyond Compliance: ENGOs expect that CER leaders should not be driven by the minimum performance level set by environmental regulations but instead move towards eliminating their environmental impact. ENGOs support numerous beyond compliance approaches and principles, including adoption of an operating philosophy based on natural systems or environmental restoration, and adoption of the precautionary principle. Many ENGOs are actively involved in setting the compliance bar by working with governments on environmental policy and regulatory reform.

In conclusion, ENGOs agree on most of the components of an environmentally responsible company. However, diversity of opinion remains in some areas, particularly regarding the role of governments and the use of voluntary initiatives and regulatory approaches.

Opportunities and Challenges for CER by Company Type

Most ENGOs agree that there is no fundamental difference in expectations of environmental performance for companies of varying ownership structures and size, as the need for corporate environmental responsibility is independent of company structure or size. However, ENGOs did

note that company structure and size presented specific opportunities and challenges both for companies in adopting and advancing CER, and for the ENGO community in engaging companies in CER.

ENGO Roles in Advancing CER

ENGOS are interested in exploring and understanding how the environmental community can most appropriately and effectively advance CER. The ENGO community is very diverse and can be described using the following four parameters:

- Issues of focus e.g., toxics, energy, climate change, wildlife habitat, water;
- Geography e.g., local, regional, provincial, national, international;
- Size and longevity e.g., ongoing, multi-issue focus versus single-issue focus;
- Approach i.e., finger pointing, educating, solving or collaborating.

This diversity of approaches is necessary for an effective environmental community in Canada, yet ENGOS explored the challenges such diversity brings. The report concludes that participant ENGOS of the national workshop increased their appreciation for the various ENGO approaches to creating change i.e., realizing that the sum is greater than the individual parts and that ENGO collaboration that capitalizes on the strengths of particular ENGOS can be very effective in advancing CER. Specific constraints and opportunities for ENGOS are described in the report.

Government Roles in Advancing CER

Governments also have a vital role to play in advancing CER in Canada. All levels of government have a responsibility for selection of appropriate combinations, and effective application, of the tools and mechanisms available to them e.g. financial incentive, regulation, market-based regulatory initiatives and pilot programs.

ENGOS asserted that government actions in support of CER involve implementing the most effective mechanisms and tools, and instituting regulation and policy changes to limit corporate lobbying and to level the playing field for ENGOS (and other stakeholder groups) to be involved in environmental policy discussions.

ENGOS differ in their opinions on the roles of regulation and voluntary business initiatives to go beyond compliance. Yet most ENGOS want governments to institute legally binding regulatory approaches, as opposed to voluntary initiatives. ENGO-identified barriers and opportunities for government in advancing CER are identified in the report.

Recommendations

Based on the insights gained through this project, the Pembina Institute and Pollution Probe offer some recommendations for further advancing CER and provide a CER Assessment Tool for use by ENGOS and companies in assessing where companies are on the CER journey (Appendix B). Companies are also encouraged to use the ENGO vision for CER to reflect on their own vision for the future and their ultimate organizational goals in environmental commitment, material and energy management, and stakeholder engagement. ENGOS are encouraged to continue the dialogue with other ENGOS and further explore the synergies between approaches to increase overall effectiveness in advancing CER. ENGOS can also use the ENGO vision for CER and the CER Assessment Tool to facilitate discussion and engagement with the corporate sector to further advance CER. Governments must develop programs, regulations and planning initiatives that advance CER. All parties are encouraged to seek opportunities for multi-stakeholder collaboration to achieve CER goals.

Defining Corporate Environmental Responsibility

Canadian ENGO Perspectives

Table of Contents

Executive Summary	ii
Foreword	1
1 Introduction	2
1.1 Project Context	2
1.2 Goal and Objectives	5
1.3 Research Methodology	6
2 ENGO Vision of CER	7
3 Components of CER	9
3.1 Environmental Commitment and Awareness	11
3.2 Stakeholder Engagement	13
3.3 Measurement, Auditing and Reporting	15
3.4 Transparency	18
3.5 Commitment to Continuous Improvement	19
3.6 Beyond Compliance	22
4 Opportunities and Challenges for CER by Company Type	24
5 ENGO Roles in Advancing CER	26
6 Government Role in Advancing CER: ENGO-Identified Barriers and Opportunities	30
7 Conclusions from Canadian ENGO Input	33
8 The Pembina Institute and Pollution Probe Recommendations	35
Appendix A – Workshop Participants	37
Appendix B - CER Assessment Tool Pull-Out	40

Foreword

The idea of defining Corporate Environmental Responsibility (CER) from the Canadian environmental community's perspective was conceived at the 2004 Globe Conference in Vancouver, B.C.¹ After attending a number of presentations on Corporate Social Responsibility (CSR), the Pembina Institute and Pollution Probe felt that the environmental community could have been better represented on panels and speaker rosters to complement the perspectives of corporate and governmental representatives. We decided to explore perspectives on social and environmental responsibility within the environmental non-governmental organization (ENGO) community.² The idea grew into a project designed to increase ENGO, corporate and government understanding of how the Canadian environmental community defines CER and the role ENGOs are playing and can play in advancing corporate leadership on environmental responsibility.

We look forward to advancing the understanding of Corporate Environmental Responsibility and trust that the report presented here will increase knowledge and stimulate dialogue among the corporate, ENGO and government sectors.

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¹ The 2004 Globe Conference provided opportunities for participants "to discuss the most recent developments in corporate sustainability, energy policy, climate change and building sustainable cities." <<http://www.globe2004.com/conference.cfm>>

² ENGOs are formed by members of the public, have no government connections and are specifically concerned with environmental issues.

1 Introduction

This report explores Canadian environmental non-governmental organization (ENGO) perspectives on Corporate Environmental Responsibility (CER) as well as ENGO expectations of companies striving to improve their environmental performance. Issues considered range from high-level concepts e.g., continuous improvement to operational practices e.g., reporting. The roles ENGOS see the environmental community and governments playing in advancing corporate environmental leadership have also been explored. This report is a synthesis of input from Canadian ENGOS and draws conclusions on an ENGO vision of CER, the key components of CER, opportunities and challenges for CER and the ENGO and government roles in advancing CER. Based on the insights gained through this project, the Pembina Institute and Pollution Probe have provided recommendations for further advancing CER and a CER Assessment Tool for use by ENGOS and companies in assessing where companies are on the CER journey.

To the authors' knowledge, this is the first report that analyzes CER from the perspective of the Canadian ENGO community. This report complements Canadian and international work on Corporate Social Responsibility (CSR) and will contribute to the debate on how CER can be used effectively as a tool to protect the environment.

CER can be considered as part of the broader area of CSR. The scope of this report focuses on Canadian ENGO expertise in this field. The elements of CER discussed here can be considered to be elements of CSR with an environmental focus that recognize the interrelationships among social, economic and environmental performance. This report will help clarify the notion of corporate environmental leadership and will help Canadian companies and ENGOS improve corporate environmental performance.

1.1 Project Context

Globally, the concept of corporate social responsibility is moving from a fringe consideration to a core business issue and a permanent part of business management. In response, the World Business Council for Sustainable Development (WBCSD) has moved the CSR issue from a WBCSD project to a "Cross-Cutting Theme" and has stated in support for CSR: "For any company, giving a high priority to CSR is no longer seen to represent an unproductive cost or resource burden, but, increasingly, as a means of enhancing reputation and credibility among stakeholders — something on which success or even survival may depend. Understanding and taking account of society's expectations is quite simply enlightened self-interest for business in today's interdependent world."³

Corporations are beginning to respond to expectations of corporate responsibility by asking what is good for the environment, society and business, as well as how performance can be measured and evaluated. For some companies improving corporate environmental performance is simply "the right thing to do," while for others it is viewed as a strategic business advantage to increase

³ Holme, R. and Watts, P. (2000). "Corporate Social Responsibility: Making Good Business Sense." World Business Council for Sustainable Development. Available at: <www.wbcd.ch>

competitiveness. These companies want to know what is expected of them so they can incorporate CER into their business strategies and become more competitive.⁴

In the past two decades, CER has changed and continues to rapidly evolve to keep pace with new markets in the global economy.⁵ Several forces are driving the evolution of CER, including consumer activism, shareholder and investor pressure, and competitive advantage. Each of these is briefly discussed below.

Consumer Activism — “The environmental and human rights scandals of the past three decades have created consumers and employees who prefer companies that are doing the right thing.”⁶ According to an Environics International global survey of public expectations of corporations, consumers say the role of business is to make profits and create jobs; however, the role of business is also to help build a better society. In the survey, 40% of respondents had thought about punishing a specific company perceived as not being socially responsible; half the respondents had avoided the products of a specific company or spoken out to others against the company. Meanwhile, consumers were just as likely to “reward” a company perceived as socially responsible.⁷

Shareholder and Investor Pressure — Increasingly, investors are calling for disclosure of environmental risk, recognizing that environmental risk often translates into financial risk. Investors do not want financial institutions lending money to “environmentally doubtful projects, for example, which might bring huge clean-up costs and reputational damage.”⁸ This call by investors and insurers for greater disclosure contributes to increasing environmental performance concerns within companies. For example, in 2005, the Carbon Disclosure Project, representing a consortium of institutional investors with \$20 trillion in assets, requested that the FT500 (Financial Times) largest publicly traded companies disclose information on their greenhouse gas emissions.⁹ Likewise, in 2002, Swiss Re Insurance, one of the world’s largest reinsurers, announced it would withdraw liability coverage for executives that failed to adopt policies to address climate change.¹⁰

Competitive Advantage — Corporations are recognizing the potential competitive advantage to be gained by responding to stakeholder expectations for environmental performance of the company as a whole, or of its products individually. “Issues that many managers think are soft for business, such as environment, diversity, human rights and community, are now hard for business ... they are hard to ignore, hard to manage and very hard for businesses that get them wrong ... managed well, these issues can be a source of competitive advantage.”¹¹ In response to

⁴ Millar J. 1995. What is ‘Green’? *European Management Journal*. 13 (3): 322-332

⁵ Business for Social Responsibility. 2003. Overview of Business and the Environment. <<http://www.bsr.org/CSRResources/IssueBriefDetail.cfm?DocumentID=49037>>

⁶ Cook S. 2003. Who Cares Wins. *Management Today*. pg.40-47

⁷ MORI. 1999. Consumers worldwide expect businesses to achieve social as well as economic goals: new study pinpoints what consumers want from corporations. <<http://www.mori.com/polls/1999/millpoll.shtml>>

⁸ Cook S. 2003. Who Cares Wins. *Management Today*. pg.40-47

⁹ Carbon Disclosure Project. <<http://www.cdproject.net/>>

¹⁰ Business for Social Responsibility. 2003. Overview of Business and the Environment. <<http://www.bsr.org/CSRResources/IssueBriefDetail.cfm?DocumentID=49037>>

¹¹ Cook S. 2003. Who Cares Wins. *Management Today*. pg.40-47

the business risks of not adopting or embracing CER, many companies are exploring how they can be more environmentally responsible. Companies realize that failing to invest time and resources in understanding stakeholder expectations and addressing their concerns upfront can increase business risk, leading to project delays and tarnished reputations.¹²

In response to these driving forces, a number of criteria have been developed to define CER, most notably by the socially responsible investing community. While the details of these criteria are generally proprietary, they find expression through public financial indexes such as the Dow Jones Sustainability Group Index and the Jantzi Social Index. Many of these criteria have been developed with the involvement of non-governmental organizations (NGOs), but to the authors' knowledge none were first driven primarily from an NGO perspective. Part of the work in this study was to explore how the Canadian ENGO community defines CER and to identify key criteria for its evaluation.

Increasingly, corporations are responding to multiple environmental performance demands and expectations from their stakeholders. Expectations from ENGOs can sometimes differ, depending on which environmental organization is consulted and which practice, policy, environmental license or business agreement is under scrutiny. This can be frustrating to corporations and to government agencies seeking to address public expectations on corporate environmental performance. Likewise, ENGOs are frustrated as they seek to encourage and promote CER with inadequate capacity and resources e.g., staff and finances. This report seeks to increase understanding of the ENGO community's expectations of an environmentally responsible company by exploring the range and diversity of ENGO views.

The rapidly evolving global dialogue on CER is engaging a new community of players interested in sustainability e.g., pension fund managers and financial analysts and creating opportunities for some traditional players, including NGOs of all types, to become involved. Internationally there are numerous examples of coalitions with mandates specifically focused on corporate responsibility, such as The Coalition for Environmentally Responsible Economies (CERES),¹³ AccountAbility,¹⁴ and CSR Europe.¹⁵ To move aspects of CER forward, businesses and NGOs are partnering in a number of ways including joint marketing projects, joint lobbying efforts and the exchange of ideas.¹⁶

Relative to other countries, there has not been much dialogue in Canada within the ENGO community on CER, and much less on CSR. In contrast, a consortium of ENGOs in Australia has articulated a common understanding of CER and explored ways of working cooperatively "to achieve better environmental outcomes in Australia through improving corporate environmental performance."¹⁷ There is also a perception that European ENGOs are further

¹² Intergovernmental Working Group on Corporate Social Responsibility (CSR). CSR: Lessons Learned 2004.

¹³ CERES is comprised of eighty environmental, investor, public and social interest groups working to foster better environmental practices within the corporate sector. More information at <www.ceres.org>

¹⁴ UK-based AccountAbility is an international non-profit membership organization committed to promoting accountability for sustainable development by developing accountability tools and standards, researching best practices and enhancing the competencies of individuals. More information at <www.accountability.org.uk>

¹⁵ CSR Europe is the leading European business network for corporate social responsibility with over 60 leading multinational corporations as members. More information at <www.csreurope.org>

¹⁶ Ogilvie, K. B., & Everhardus, E., 2004. ENGO-Business Partnerships: Lessons Learned. Pollution Probe.

¹⁷ Total Environment Centre. 2002. "Corporate Environmental Sustainability: A statement of Common Purpose" Australia.

ahead than ENGOs in Canada on organizing to collectively push corporations to perform better on environmental issues. Canada does have organizations focusing on corporate social responsibility, including Canadian Business for Social Responsibility (CBSR)¹⁸, but these organizations are not ENGOs.

Defining corporate environmental responsibility is an ongoing and dynamic process. A corporation will not easily achieve the goal of full environmental responsibility; rather, it will be continually challenged to adapt to new knowledge, technology and stakeholder expectations. As a result, the criteria presented in this report will likely evolve over time.

1.2 Goal and Objectives

The goal of this report is to increase Canadian ENGO, corporate and government understanding of the range of perspectives and expectations for CER held by the Canadian environmental community. This goal will be achieved by meeting the objectives and associated key questions outlined below.

Objective 1. Understanding how the Canadian environmental community defines CER and perceives CER as a tool to protect the environment.

Key questions:

- What does an ENGO vision for CER look like?
- How does the ENGO community define the components of CER?
 - Environmental commitment and awareness
 - Stakeholder engagement
 - Measurement, reporting and auditing
 - Transparency
 - Commitment to continuous improvements
 - Beyond compliance
- How do ENGO expectations of CER differ for publicly traded, privately held, customer-owned and crown corporations? How might ENGO expectations on CER differ for medium-sized and large companies? What are the opportunities and challenges for CER based on company type?

Objective 2. Identifying the role the environmental community sees itself playing in advancing CER.

Key questions:

- How can the ENGO community work together to promote, support and influence corporate environmental leadership?
- What are the roles that ENGOs have played and can play in helping to advance CER?

¹⁸ CBSR was founded in 1995 and is a non-profit, business-led, national membership organization of Canadian companies that have made a commitment to operate in a socially, environmentally and financially responsible manner, while recognizing the interests of their stakeholders.

Objective 3. Understanding how the environmental community views the role of government in advancing CER.

Key questions:

- What are the barriers and opportunities for government to advance CER in Canada?
- How does the relationship between industry and government in environmental policy creation and enforcement affect advancement of CER?

1.3 Research Methodology

This report is the culmination of a three-pronged exploration of Canadian ENGO views on CER — a survey, interviews and a national ENGO workshop. The project started with a review of existing literature on CER and the role Canadian ENGOs play in advancing CER. The literature review provided background information on CER (e.g., definitions, elements) and information on existing initiatives to measure, monitor and implement CER. Books, journal articles and web-based sources on corporate environmental responsibility, corporate sustainability and corporate social responsibility were reviewed. The next phase involved circulating a short survey through Canadian environmental listservs to gauge the ENGO community's interest in the project and collect stories of successful environmental leadership in the corporate sector. A list of Canadian ENGOs was compiled from survey respondents, the Canadian Environmental Network (CEN) membership, and the Pembina Institute's and Pollution Probe's own ENGO contact lists. The lists were used to identify ENGOs that represented the diversity in size, issues of focus, geographical area, approaches and strategies for creating change within Canada. Interviews were conducted with representatives from 45 Canadian ENGOs¹⁹ (Appendix A) to gather input on the key questions in Section 1.2. An additional nine interviews were conducted with organizations other than Canadian ENGOs, such as academia and other non-profit groups to develop the literature review, obtain diversity in perspectives and gain a cursory international perspective.

Input from the surveys and interviews was used to prepare a CER discussion paper distributed to ENGOs for comment and as a pre-read for a national workshop on CER. The national workshop included representatives from 28 Canadian ENGOs (Appendix A) and provided a forum for confirming, prioritizing and elaborating on the findings in the discussion paper.

This report is the synthesis of input from the survey, interviews and national workshop on Canadian ENGO perspectives of CER. Input to the report was obtained from more than 50 Canadian ENGOs participating in at least one phase of the project. Table 1 summarizes the methods used to engage Canadian ENGOs on CER, which were inputs to this report.

¹⁹ Not all the organizations interviewed can be classified as ENGOs. Some of the organizations have a mandate to promote sustainability, and balance environmental, social and economic issues equally with the goal of promoting social well-being. In such cases, the respondents explored the environmental aspects of their work.

Table 1 Summary of Methods Used to Engage Canadian ENGOS on CER

Phase	Methodology	Scale
Survey	A one-page survey was circulated through the Canadian Environmental Network and other listservs inviting Canadian ENGOS to comment on CER and offer examples of CER leadership.	16 surveys returned
Interviews	ENGOS from across Canada were contacted and invited to participate in face-to-face or telephone interviews to discuss their views on CER.	45 ENGOS 9 Others
National Workshop	ENGOS from across Canada participated in a one-day CER workshop held in Toronto in May 2005. Participants were offered a stipend for their time, and their travel and accommodation costs were covered.	27 ENGO participants

Throughout this report we refer to the opinions of ENGOS and ENGO representatives. By this we mean the interview respondents and workshop participants. The next step in this project is to consult with the corporate sector and government departments to share and discuss the results from this report to better understand how the ENGO expectations apply to them. This report will then be distributed throughout the ENGO community and the broader corporate and government sectors as a reference for helping advance corporate environmental leadership. Based on the insights gained through this project, the Pembina Institute and Pollution Probe have also provided a CER Assessment Tool, which can be used by ENGOS and the corporate sector to assess where a company is on the CER journey. The complete tool is found in Appendix B.

2 ENGO Vision of CER

Do the different perspectives, approaches and roles of Canadian ENGOS preclude the articulation of a common ENGO vision of corporate environmental leadership, or is there common ground? What does an ENGO vision for CER look like?

A clear vision provides direction for the future and guidance on current actions to advance corporate responsibility. For this project, developing a vision statement for CER has two purposes: building understanding within the ENGO community on advancing CER as a tool to protect the environment and providing the corporate sector with the environmental community’s vision for an environmentally responsible company. Companies can use this vision to reflect on their vision and ultimate organizational goals.

Based on the research for this report, most Canadian ENGOS would agree with the statements noted below. The prioritization of these statements by various ENGOS will likely differ depending on their particular issue focus area and primary approach and strategy for influencing change.

*An environmentally responsible company is...
...One that has two epiphanies: 1) the dominant social institution epiphany where it realizes that corporations have become more powerful than nations, and therefore it has a responsibility to society; 2) the environmental epiphany where it realizes that its purpose is sustainability. As an engine of society, an environmentally responsible company aligns its business with ecological principles. Its business is to help society achieve sustainability.*

ENGO interview respondent

Three main themes emerged in the articulation of an ENGO vision for CER at the national workshop: 1) Environmental Commitment, 2) Materials and Energy Management, and 3) Effective Stakeholder Engagement.

1) Environmental Commitment

An environmentally responsible company:

- has a corporate vision that fully embraces sustainability;²⁰
- sets protection and restoration of the environment as a strategic priority;
- embraces the precautionary principle²¹ and the seventh generation principle;²²
- understands that the economy operates within, and is limited by, finite ecosystems;
- questions first whether its goods or services are of environmental and/or social value to society and applies this knowledge in decision making;
- adheres to and goes beyond government regulations;
- takes full responsibility for its environmental impacts and liabilities; and
- encourages and rewards a corporate culture that fosters environmental values.

2) Materials and Energy Management

An environmentally responsible company:

- uses the earth's resources efficiently;
- creates and uses renewable materials and energy;
- implements closed loop product stewardship;²³
- commits to operating a carbon neutral business;
- applies whole-system, life-cycle-based thinking;
- evaluates performance to make continuous improvements; and
- internalizes full environmental costs and benefits.

3) Effective Stakeholder Engagement

An environmentally responsible company:

²⁰ While it is recognized that there are numerous definitions of sustainability, all have to do with 1) living within the limits, 2) understanding the interconnections among economy, society and environment; and 3) equitable distribution of resources and opportunities.

<www.sustainablemeasures.com> The World Business Council for Sustainable Development defines sustainability as "the simultaneous pursuit of economic prosperity, environmental quality and social equity. Companies aiming for sustainability need to perform not against a single, financial bottom line but against the triple bottom line." <www.wbcsd.ch>

²¹ When an activity raises threats of harm to the environment or human health, precautionary measures should be taken even if some cause and effect relationships are not fully established scientifically. From "Wingspread Statement on the Precautionary Principle", Wingspread Conference on the Precautionary Principle, January 26, 1998.

²² I.e., make decisions today considering the impacts on future generations.

²³ Closed Loop Product Stewardship involves material reuse and recycling, and extended producer responsibility for its waste and product. A company considers the life cycle of its product and has a responsibility for end-of-life disposal, reuse, de- or re- manufacturing of the product. For more about the product stewardship, see the Product Stewardship Institute's website <<http://www.productstewardship.us>>

- adheres to the principle of free and prior informed consent of indigenous and local communities;
- has a demonstrated structure and process to: 1) empower and engage stakeholders in project design and implementation, and 2) receive unsolicited stakeholder input;
- accepts accountability to communities and other stakeholders for past, current and future environmental liabilities;
- is transparent, including disclosure of its impact on the environment; and
- measures and regularly reports to stakeholders on its results and impacts.

These core elements of the Canadian ENGO community’s vision of CER provide a gauge against which companies can assess their own systems, businesses and goals. As well, ENGOs can use this vision during their engagement with the corporate sector.

During the visioning process, ENGOs acknowledged that other groups and academics have done a lot of work around the vision of a sustainable future, or the ultimate vision that a company would reach if it were to embrace all the elements listed by the ENGO participants. An example is the four system conditions put forward by The Natural Step to guide organizations towards sustainability²⁴.

The four system conditions of The Natural Step state that in a sustainable society, nature is not subject to systematically increasing

- 1) concentrations of substances extracted from the earth’s crust;
- 2) concentrations of substances produced by society;
- 3) degradation by physical means;

and, people are not subject to conditions that systematically

- 4) undermine their capacity to meet their needs.

— The Natural Step

3 Components of CER

Corporate environmental responsibility takes many forms, depending upon a company’s priorities and perceived needs, which are influenced by numerous factors such as company size, products and operations. To effectively explore ENGO expectations of CER performance, several components were identified. The components, though loosely based on the work of an ENGO consortium in Australia²⁵ exploring environmental sustainability, were identified during the interview process and further explored and refined at the national ENGO workshop.

²⁴ For more information visit <<http://www.naturalstep.ca/>>

²⁵ In 2001, the ENGO Total Environment Centre (TEC) in Australia published the *Environmental Sustainability Assessment: A TEC approach for companies seeking good performance outcomes* in which they engaged a number of environmental groups. The goal was to develop a systematic, ENGO-defined, evaluation process to inform stakeholders and encourage sustainability in the corporate sector.

The components of CER discussed in this report are listed in Table 2, including the key questions that were identified during the interview process as diverse views or ideas requiring further exploration by ENGOs. The key questions were posed at the national ENGO workshop.

Table 2 Summary of Key Questions Explored per CER Component

Component	Key Questions Explored
3.1 Environmental Commitment and Awareness	What does genuine environmental commitment mean? What policies should a company adopt and what actions can it take to demonstrate environmental commitment and awareness?
3.2 Stakeholder Engagement	What are the necessary elements of meaningful stakeholder engagement? To what extent are stakeholders proactively engaged and their ideas and perspectives considered?
3.3 Measurement, Reporting and Auditing	How can we ensure that we are getting measurable material results from CER? What policies can a company adopt and actions can a company take to adequately measure and report on CER?
3.4 Transparency	How does a company meet ENGO expectations of transparency? What policies should a company adopt and what actions can it take to demonstrate transparency?
3.5 Commitment to Continuous Improvements	What commitment exists within the company to improve its environmental performance on a continuous basis? How is this integrated into all levels of the organization and its management?
3.6 Beyond Compliance	Does the company demonstrate a willingness to move beyond compliance by adopting best practices in its operations?

Although CER has been segmented into particular components in this report, it is a holistic concept, and there is a considerable amount of overlap among the components. For example, continuous improvement is implicit throughout all components, but it is also a specific planned process for reviewing and improving the quality of products and services. Similarly, transparency is an important part of stakeholder engagement and reporting, as well as a component in its own right.

Sections 3.1 to 3.6 summarize the results from the interviews and the national workshop on each component of CER. Within these components, companies of all sectors, sizes and structures can choose appropriate methods, tools or actions to adopt and advance CER. At a minimum, it is expected that an environmentally responsible company will demonstrate some level of action in each of these components. At the end of each section a CER Assessment Tool is proposed by the Pembina Institute and Pollution Probe. The Assessment Tool contains a checklist for each component. Corporate audiences and ENGOs can use this tool to assess where a company is on the CER journey. Appendix B contains a pull-out CER Assessment Tool in which all components are listed.

Individual companies should come up with the actions, as their employees know the business better than us. We can provide them with a framework to follow on the path to sustainability; they can be innovative within that framework to achieve the vision.

ENGO interview respondent

3.1 Environmental Commitment and Awareness

What does genuine environmental commitment mean?

What policies should a company adopt, and what actions can it take to demonstrate environmental commitment and awareness?

ENGOs view environmental sustainability awareness and demonstrated environmental commitment as key components of CER. ENGOs expressed difficulty in discerning genuine environmental commitment and are concerned that some public relations exercises border on “green washing”.

To demonstrate genuine environmental commitment companies must walk the talk; that is, build sustainability into their visions, annual goals, targets and plans, and have structures and processes to incorporate environmental considerations into all levels of business and decision making. Integrated environmental commitment means that all actions, large or small, are evaluated for their environmental impact. Applying a whole-systems approach with credible, science-based and ecologically sound criteria should be part of an evaluation mechanism. Corporations must embrace the triple bottom line, which means giving equal consideration to environmental, economic and social goals and commitments, and allocating sufficient resources to research that supports these commitments.

An environmentally responsible company must develop a long-term vision of sustainability and understand its societal role in contributing to sustainability.

Corporations must show a willingness to examine and challenge current unsustainable practices. The company should openly acknowledge and fully disclose the past and present environmental impacts of the company. This may involve repaying ecological debt to communities for past environmental damages. Local communities and stakeholders must be proactively engaged in dialogue about company operations, plans, and research and development agendas (Section 4.2).

Successful corporate environmental leadership is dependent on a corporate culture that promotes sustainability and transparency. Every employee contributes to the sustainability of the company, is aware of environmental impacts and responsibility, and believes in the integrity of truthfulness.

ENGO interview respondent

Leaders in the ENGO community emphasized the importance of a corporate culture that is built to “institutionalize sustainability” and promote environmental values. Beginning with senior-level commitment, the concept and value of sustainability should be integrated throughout the company. Companies can promote environmental values through repeated educational programs and employee reward systems that empower staff to be creative and innovative on environmental initiatives. The staff of a company that takes a leadership role in environmental responsibility would understand environmental issues pertinent to the industry, be aware of regulatory requirements and company performance in these areas, and be able to disseminate best practices, internally and externally, to other companies and industries.

Attempts to practice CER can fail if visionary management does not have full “buy-in” from the operations personnel, or if operations personnel support sustainable development without cooperation from senior management.

ENGO interview respondent

There are many examples of exceptional leadership in corporate environmental responsibility. A few ENGO representatives cited examples including the visionary efforts of Interface Inc. CEO

Ray Anderson or the strong environmental commitment exemplified by Mountain Equipment Co-op and IKEA. Although there is no set path a company can take to become environmentally responsible, ENGOs have a clear idea (and a long list) of the positive actions that companies can take to demonstrate environmental awareness and genuine commitment.

The CER Assessment Tool below summarizes key indicators of the environmental commitment and awareness component of CER as proposed by the Pembina Institute and Pollution Probe.

CER Assessment Tool — Environmental Commitment and Awareness				
<i>Indicators</i>	<i>Weak</i>	<i>Needs Significant Improvement</i>	<i>Could Be Improved</i>	<i>Strong</i>
<p>The company incorporates environmental, economic and social performance into its vision and values. The company’s vision includes reference to the following concepts:²⁶</p> <p>1) Environmental commitment in which the company fully embraces sustainability and strives to have a positive impact on the environment and society;</p> <p>2) Material and energy management in which the company operates within the finite ecological limits of the environment; and</p> <p>3) Effective stakeholder engagement in which the company is fully transparent and accountable, with a demonstrated process in place to engage and empower stakeholders.</p>				
Corporate reporting readily provides an understanding of the company’s environmental, economic and social policies, and its codes of conduct.				
The company sets goals and targets to meet its vision.				
The company has environmental education and training programs for all employees.				
The CEO of the company has made a clear commitment to sustainable business practices, including a plan to progress on objectives, before analysts, to media or in other public forums.				
The company has implemented its plans for meeting its environmental, economic and social performance goals, including effective evaluation tools.				
Employee compensation and bonus packages are linked to				

²⁶ See Section 2.0 for expansion on these points.

environmental, economic and social performance.				
The company openly acknowledges and fully discloses the past and present environmental impacts of the company.				

3.2 Stakeholder Engagement

What are the necessary elements of meaningful stakeholder engagement? To what extent are stakeholders proactively engaged and their ideas and perspectives considered?

There was general consensus among ENGO representatives that the current models of stakeholder engagement are inadequate. ENGOs expressed feelings of disempowerment as a result of lack of resources and capacity, and a sense of frustration with the unequal degree of influence that they hold relative to other stakeholders (e.g., shareholders, government) in the predominant approaches to stakeholder engagement. This interest-based (e.g., economic, social, environmental) inequality, which occurs even with those companies espousing triple bottom line and sustainability objectives, underpins a commonly held view that many models of engagement are predominantly driven by public relations objectives i.e., “duty to consult” rather than the establishment of effective relationships.

While ENGOs have objectives and expectations associated with the opportunity to engage with companies, relatively few have dedicated attention towards articulating “conditions of success” for effective stakeholder engagement. Pembina and Pollution Probe recommend that the Canadian environmental community take the time and effort to articulate the actions, resources and engagement frameworks

that could best be employed by companies that wish to meaningfully engage ENGOs. This would allow an ENGO to present a framework to a company with whom it wishes to engage that can be modified, as necessary, and formally agreed to, thereby ensuring more effective engagement.

While further work is needed to describe ENGO expectations for successful engagement, the following presents some initial thoughts expressed by ENGO representatives regarding both issues and opportunities related to effective engagement.

For a company to be truly committed to stakeholder engagement, it must be willing to include input from stakeholders at all levels – global, regional and local – in such a manner that is thorough and thought-provoking, and whereby each voice is heard and considered in the decision making process.

A good example of this process in action is the creation process for the Forest Stewardship Council Canadian Boreal Standard. Over the course of several years, and across several jurisdictions, more than 2,000 stakeholders were consulted and in the end, a standard was created that all parties – business, indigenous, social and environmental advocates – could agree on.

ENGO Interview respondent

1. Defining “Stakeholders”

Numerous ENGO representatives expressed a dislike or discomfort with the term “stakeholder,” preferring other terms such as “affected groups and/or individuals,” “interested groups,” and “adversely affected parties.”

The terminology used and preferred by ENGOs varied and was dependent on whether formal, regulatory definitions or broader, more general definitions were being applied. Generally, ENGOs felt that their opportunities for meaningful engagement were constrained by a relatively

narrow i.e., exclusive conception of who is considered to be a company's stakeholder. In numerous examples discussed, this narrow definition precluded ENGOs from a satisfactory engagement with the company. In addition, there was some limited discussion about how First Nations are not merely stakeholders but in many cases a distinct order of government. It was noted that a significant gap exists between corporate and ENGO perspectives on which parties or individuals the corporate sector should engage in a project's concept, development and delivery.

2. Key Elements of Engagement

Similar to the challenge of defining "stakeholder," identifying the key elements of engagement posed a significant challenge as ENGO representatives possessed a wide variety of experiences of stakeholder engagement, both positive and negative, that differed in nature (project vs. issue-specific), intent (consultation vs. engagement) and motivation (e.g.,

voluntary vs. government requirement). Perspectives varied from the need to be able to effectively engage in a regulatory decision-making process to the possession of the authority to "veto" a proposed project or activity. However, there was a strong consensus that in either scenario access to information, analysis and resources to allow for effective understanding of the project or activity was essential.

A company's stakeholder engagement efforts are most meaningful when the company comes forward proactively for input in the concept stage of a project, when minds are still open and not a lot has been invested - emotionally or financially. This allows for open and constructive dialogue.

— ENGO Interview respondent

A shift from contemporary "consultation" approaches to engagement with "full, effective and empowered participation" includes the following:

- Long-term, open and honest relationships must exist in which either party (company or stakeholder) could initiate a dialogue, rather than short-term, project/objective-related dialogues.
- Funding and resources to allow affected parties to expand their knowledge to make informed decisions. This could come from a third-party funding source e.g., it could come from government, which would tax corporations and create this fund, somewhat like Superfund in the US.
- Two temporally distinct stages of engagement and/or dialogue should exist — one that addresses whether the project is appropriate and one that discusses how a project should proceed.
- Regulation should dictate the timing and extent of stakeholder engagement discussions.
- "Informed" consent requires access to adequate information (and a role in determining what, and how much, information is necessary) and access to independent third party review, and scientific and/or technical advice or expertise.
- Transparent documentation of stakeholder concerns must exist to a) create a record and b) ensure that monitoring programs can be implemented (and reported) on these specific topics or issues.
- Transparent and informed community and stakeholder involvement in research and development should be supported.

The Pembina Institute and Pollution Probe developed the CER Assessment Tool below to evaluate performance on key indicators of corporate stakeholder engagement practices.

CER Assessment Tool – Stakeholder Engagement				
<i>Indicators</i>	<i>Weak</i>	<i>Needs Significant Improvement</i>	<i>Could Be Improved</i>	<i>Strong</i>
The company’s governing statements (vision, mission, values) reflect its obligations to its stakeholders in environmental, economic and social performance areas.				
The company can identify its principal stakeholders and articulate the methods used to engage them.				
The company communicates the results of stakeholder engagement processes and how stakeholder input and priorities factored into decision making.				
All stakeholder engagement activities are guided by corporate stakeholder engagement standards and practices.				
Third party reviews are conducted of the company’s stakeholder engagement processes.				
The company’s Board of Directors demonstrates appreciation of, and engagement with, representatives from the ENGO community.				
The company willingly engages with its most challenging critics.				
The primary objective of engagement activities is stakeholder partnerships as opposed to stakeholder management. ²⁷				
Outside of published reporting, the company shares meaningful information about internal processes, practices and performances upon request.				

3.3 Measurement, Auditing and Reporting

How can we ensure that we are getting measurable, material results from CER? What policies can a company adopt and what actions can a company take to adequately measure and report on CER?

²⁷ For further discussion of this point see: Harrison, J. S., and St. John, C. H. (1996). “Managing and partnering with external stakeholders.” *The Academy of Management Executive*, 10 (2), p. 46.

The three main pillars of quantitative and qualitative environmental performance analysis are measuring, auditing and reporting, which together provide corporations and stakeholders with the information required to accurately analyze current performance and to identify future actions.

The Canadian environmental community generally recognizes and understands the value of measurement, reporting and auditing and believes there are shortcomings to current corporate practices. There is interest in advancing the Canadian ENGOs' understanding of how measurement, auditing and reporting processes are undertaken and how the results are used to compare performance within and across sectors and to provide information outside of the corporation. Some ENGO representatives would like to participate in steps to fully integrate environmental indicators in current CSR reporting and auditing measures. Ultimately, ENGOs are pushing for improved environmental reporting practices combined with actual environmental performance improvements.

Key ENGO expectations around measurement, auditing and reporting are outlined below.

Measurement

Many ENGO representatives insisted that credible, science-based principles of measurement (such as the system conditions promoted by The Natural Step) be adopted by the business community. Holistic measurement tools (in the style of ecological footprint²⁸ and materials intensity indices) are required to fully account for all environmental impacts from a company's daily operations and to facilitate assessment of cumulative impacts.

A company should gather measurable results i.e., actual outputs and impacts to the environment, rather than estimations, for the purposes of tracking, evaluating and learning from its efforts. In areas of high industrial or urban activity, it is important for companies to coordinate and cooperate their reporting to reflect the cumulative impacts of all the companies operating in a given geographic area e.g., within the boundary of a town or within a city's industrial park.

A commonly accepted and mandated set of indicators, developed through a multi-stakeholder process, is needed to measure corporate performance on environmental, social and financial terms. The Global Reporting Initiative (GRI) is one such program supported by ENGOs as a framework to examine when selecting indicators,²⁹ although it was noted that the GRI does not provide enough sector-specific content to provide a complete picture of corporate performance.³⁰ There is a great deal of interest from the ENGO community in the development of a carbon-intensity reporting index,³¹ with a total cost accounting scheme that would be incorporated as a disincentive for greater carbon intensity. This includes the implementation of carbon budgets on a per project and per company basis.

Reporting

²⁸ More at <<http://www.ecologicalfootprint.com/>>

²⁹ The GRI provides an outline of specific content and benchmarks for 36 environmental indicators. Visit <www.globalreporting.org> for more information.

³⁰ For a discussion of the strengths and weaknesses of GRI relative to other frameworks for measuring business sustainability, see Veleva, V., and Ellenbecker, M. (2000). "A Proposal for Measuring Business Sustainability: Addressing Shortcomings in Existing Frameworks." *Greener Management International: The Journal of Corporate Environmental Strategy and Practice*, 31 (Autumn), pp. 101-119.

³¹ Carbon intensity refers to the amount of carbon (greenhouse gases) emitted per unit of production.

Reporting is an important means of communicating information about corporate environmental performance. ENGOs asserted that useful reports use meaningful metrics; report actual, measurable results and impacts on core environmental issues (rather than

The emphasis of reporting must be on measurable, material results. Most large companies have environmental management systems in place and an environmental code of ethic, yet this can often just lead to checking of boxes. This is all process; we need to see action.

—ENGO Interview respondent

reporting on process); track and report trends over time; and report mistakes as well as successes. There was broad criticism among ENGO representatives of the current practice of producing one “promotional brochure” style annual report containing information limited to the positive environmental stories that the company wishes to communicate widely.

ENGOs expect that corporate environmental reporting practices will respond to the needs of stakeholders in a timely manner. Internal and external audiences were identified as having differing informational needs. For instance, reports designed for internal audiences i.e., employees, boards should tie directly into internal feedback loops and continuous improvement cycles with the goal of improving performance. These internal reports should also include a response mechanism to promote internal corporate dialogue and communication among all levels in the company. External reporting must be posted publicly and include full disclosure of environmental performance in a timely manner. Some ENGOs representatives suggested that environmental reporting be undertaken on fiscal reporting timelines e.g., quarterly reporting.

ENGOs encourage companies to seek best practices and key examples to improve their corporate reporting. In Canada, Stratos has published a detailed review of corporate sustainability reporting.³²

Auditing

In general, ENGOs are supportive of a rigorous auditing and verification process that feeds into corporate and public awareness and understanding of environmental performance. To ensure measurement and reporting credibility and promote greater transparency, ENGOs strongly emphasized the importance of having the corporate auditing process verified by independent third parties. While internal auditing is encouraged to promote organizational learning and accountability, and particularly to feed into the continuous improvement cycle, external audits are required. Third party auditors must be accredited under a recognized program and have relevant experience to be proficient within the sector in which they are performing audits.³³ Credible auditors must operate independently from the organizations they are auditing. An independent auditing agency for environmental compliance is needed, whereby external audits of corporate measurement and reporting could be funded from a regulated percent of a company’s sales revenue. Many ENGO representatives want to be more involved in the auditing process, whether as auditors themselves, or as advisers to the auditing process, to increase their confidence in the process.

³² See “Building Confidence: Corporate Sustainability Reporting in Canada” Stratos with Alan Willis and Associates. 2003.

³³ The Forest Stewardship Council model was cited as a good example of a rigorous and reliable third party auditing process.

The CER Assessment Tool below outlines key measurement, reporting and auditing characteristics of an environmentally responsible company proposed by the Pembina Institute and Pollution Probe.

<i>CER Assessment Tool – Measurement, Reporting, and Auditing</i>				
<i>Indicators</i>	<i>Weak</i>	<i>Needs Significant Improvement</i>	<i>Could Be Improved</i>	<i>Strong</i>
The company regularly measures and reports on both leading and lagging indicators of its environmental, economic and social performance, including targets for improvement.				
The company regularly reports on how its environmental performance objectives are integrated throughout its operations and management.				
The company’s measurement and reporting is third-party verified by accredited auditors, independent from the company they are auditing and knowledgeable within the sector.				
The company’s measurement framework and reporting methods are designed, and are modified, with the input of multiple stakeholders.				
The company compares and reviews its reporting framework to assess against the content specified in external guidelines such as those of GRI or Stratos. ³⁴				
The company has audit procedures covering the audit scope, frequency, methodologies applied, and the responsibilities and requirements for conducting audits and reporting results.				

3.4 Transparency

How does a company meet ENGO expectations of transparency? What policies should a company adopt and what actions can it take to demonstrate transparency?

ENGOS expect a company to be transparent through the full, accurate and timely disclosure of information about its operations. Companies must be willing to share non-confidential information, including raw data, in an easily accessible manner. Some ENGOS stated that definitions of confidentiality and full disclosure need further exploration to better understand the expectations of corporations, governments and ENGOS.

³⁴ See Global Reporting Initiative’s 2002 *Sustainability Reporting Guidelines (GRI Guidelines)* available at www.globalreporting.org or Stratos’s Benchmark Survey Methodology in “Building Confidence: Corporate Sustainability Reporting in Canada” Stratos with Alan Willis and Associates. 2003. Available at www.stratos-sts.com

Companies are also encouraged to openly acknowledge and fully disclose the past and present environmental impacts of the company and take full accountability for past actions. Companies that transparently share and acknowledge their history, combined with sincere and direct communication of their CER values, commitments and conduct, will undoubtedly increase ENGO confidence in their performance.

Transparency is essential in the decision-making process and in stakeholder interactions. Transparency is necessary to help build capacity among stakeholders to allow informed participation in decision-making processes. For instance, a company should provide interested stakeholders with information on how environmental, economic and social impacts and issues are incorporated into decisions. As well, companies must give feedback on how stakeholder input is incorporated into decisions.

ENGOS suggested that a progressive company could demonstrate leadership in CER and its commitment to transparency by taking a lead role in setting up a public registry to facilitate the open sharing of information.

To increase transparency and ENGO confidence, engage with critics. The strongest indicator of commitment to CER is the extent to which companies are prepared to engage with their most challenging critics. For example, invite tough environmental critics when getting CSA certified, rather than looking for the easiest route.

ENGO Interview respondent

While progressive companies are expected to take a lead role in information disclosure, the regulation of monitoring and information disclosure may be required.

ENGOS also agreed that the environmental community must demonstrate and practice transparency, including the disclosure of data, funding sources, etc.

Transparency is a critical principle to be applied throughout all components of CER, and as such, the Pembina Institute and Pollution Probe have embedded specific indicators related to transparency throughout the CER Assessment Tool.

3.5 Commitment to Continuous Improvement

What commitment exists within the company to move forward in its environmental performance on a continuous basis? How is this integrated into all levels of the organization and its management?

Continuous improvement (CI) is a planned process for reviewing and improving the quality of products and services. Commitments are made to constantly improve environmental performance in a company's processes, operations and activities. Leadership in CER is shown by a company that strives to continuously improve, tracks its improvement and demonstrates how it has improved performance and reduced its environmental impact.

ENGOS identified several important recommendations for companies with respect to continuous improvement, including:

- Address all components of CER through a framework of commitment to continuous improvement;
- Support any continuous improvement program and corporate performance claims with verifiable measurement of real results;

- Adopt a management system approach to implement and formalize the continuous improvement commitment;
- Institutionalize a continuous improvement culture throughout the entire company; and
- Seek stakeholder input to the continuous improvement cycle.

These core recommendations encapsulate the fundamentals of continuous improvement that would have to be present for a corporation to be considered a CER leader. They are discussed further below.

ENGOs observed that continuous improvement can and should be applied to all components of CER. For example, components of CER, such as transparency or reporting, should be addressed within a framework of commitment to continuous improvement, whereby companies set targets and goals for continuous improvement and report on their progress.

Improvements must be reported based on performance targets and results measured qualitatively (and quantitatively wherever possible) on specific practical measures e.g., dematerialization or reducing emissions. The company must compare these results against a baseline, the starting point for any improvements, and set targets for continuous improvement against this baseline.

To exhibit CER, companies need a long term vision, and need to show how they will sequentially and collectively move up the sustainability 'ladder' towards that vision, with benchmarks along the way.

ENGO Interview respondent

ENGOs generally supported the use of a management system approach to institutionalize continuous improvement, yet stressed that it is the actual improvements in environmental performance that occur on a continuous basis, not the mere existence of a management system, that demonstrate CER. Continuous improvements can be monitored through formal management systems, such as the ISO 14001 environmental management system (EMS) standard, which requires companies to make a commitment to continuous improvement in a corporate environmental policy. ISO 14001 and other EMS standards include environmental performance auditing and the implementation of feedback mechanisms to identify opportunities for improving performance and tracking of progress.

A continuous improvement ethic should be ingrained in a company's corporate culture to stimulate organizational change. Commitment should be driven from the top of an organization through senior management and even at the Board of Directors level. With executive commitment to continuous improvement in place, companies are encouraged to appoint leaders at all levels that can champion continuous improvement and facilitate the integration of improvement strategies throughout the organization. In addition, resources must be dedicated to educating and training employees. Company employees are an invaluable asset in the continuous improvement process, and companies are encouraged to harness this energy and enthusiasm in driving continuous improvement across the company. Employees must also be involved in the feedback loop of the continuous improvement cycle.

CER requires companies to move beyond a limited focus on maximizing shareholder value to a broader focus on maximizing total i.e., stakeholder value.³⁵ For this to occur, routinely externalized implications of business decisions³⁶ must be factored in when identifying areas for continuous improvement. ENGOs expect corporations to actively seek stakeholder input to identify and help to internalize environmental impacts associated with corporate practice, and to incorporate these into programs driving continuous environmental improvement. The continuous improvement process should also address stakeholder concerns and priorities. These would be integrated through formal mechanisms, such as an external stakeholder committee, to facilitate discussion around CER performance within the context of continuous improvement. Continuous improvement can also be advanced by seeking external guidance and feedback, including those of ENGOs, on CER initiatives. Continuous improvement requires consideration of the broad scope of sustainability issues so companies are encouraged to develop and improve contact with sustainability experts. These experts bring a broader perspective from outside the organization and can help guide the company on its continuous improvement journey.

The CER Assessment Tool below summarizes key expectations the Pembina Institute and Pollution Probe propose for companies committing to continuous improvement.

<i>CER Assessment Tool — Continuous Improvement (CI)</i>				
<i>Indicators</i>	<i>Weak</i>	<i>Needs Significant Improvement</i>	<i>Could Be Improved</i>	<i>Strong</i>
The company’s governing statements (vision, mission, values) include endorsement of a CI culture.				
Employee training programs include treatment of a CI methodology.				
Mechanisms and channels exist for employees to suggest improvement measures to senior management.				
The company uses a management system approach to achieve continuous improvements.				
The company measures environmental, economic and social performance against a baseline, sets targets for improvement and reports performance publicly.				
The company actively engages with external stakeholders for input into the continuous improvement cycle.				

³⁵ For a comprehensive discussion of this point, see in particular Freeman, R. E., and McVea, J. (2001). “A Stakeholder Approach to Strategic Management.” In Hitt, M.A., Freeman, R.E. and Harrison, J.S. (Eds.), *Handbook of Strategic Management* (pp. 189-207). For an empirical discussion of the business case underlying a stakeholder approach to management, see Wheeler, D., and Sillanpää, M. (1998). “Including the Stakeholders: The Business Case.” *Long Range Planning*, 31 (2),pp. 201-210.

³⁶ Examples of external impacts cited by ENGOs ranged from use and degradation of public lands and water to waste generation and creation of liability for future generations.

3.6 Beyond Compliance

Does the company demonstrate a willingness to move beyond compliance by adopting best practices in its operations?

Many ENGOs are actively involved in setting the compliance bar by working with governments on environmental policy and regulatory reform. Others work from a sense of how business should be performing. They regard regulatory compliance as a low bar and encourage business to perform beyond regulatory compliance. Beyond compliance is a high benchmark that encompasses much more than simply achieving slightly more than regulatory compliance and avoiding fines or penalties; rather it involves implementing environmental initiatives to achieve a superior level of performance compared to competitors and peers.

ENGOs differ in their opinions on the roles of regulation and voluntary business initiatives to go beyond compliance. Some ENGOs believe that it is unreasonable to expect companies to go beyond compliance with the current business model, which is focused exclusively on shareholder returns, which leaves only tougher regulation as a means of achieving real improvements in environmental performance. Others hold the view that beyond compliance is a tool that businesses employ to gain a competitive advantage and therefore can be used to encourage more companies to become increasingly responsible.

ENGO representatives that expect businesses to go beyond compliance stated that CER leaders:

- Implement practical environmental measures that lead to real performance improvements;
- Adopt new and innovative processes, tools and operating philosophies to enhance environmental performance;
- Measure, monitor and report on aspects of the company that make it beyond compliance in order to prove claims; and
- Exceed regulatory requirements in their stakeholder engagement (see Section 3.2) and reporting practices (see Section 3.3).

Companies are expected to develop performance metrics for evaluating their beyond compliance activities and should report on these in published sustainability or environmental reports. ENGOs expect companies to make real performance improvements and not solely make changes in response to regulatory requirements that can risk transferring environmental impacts between media (e.g., air to land or water) or jurisdictions. In fact, companies are encouraged to identify the toughest regulatory requirements from across all jurisdictions globally and strive to achieve or go beyond these in all global operations.

A sign to watch for, as an indication that CER is catching on, is progressive companies raising hell in, or breaking from, industry associations, which traditionally resist regulatory change and often cater to the worst rather than the best.

ENGO Interview respondent

Companies are expected to abide by the highest global environmental standards regardless of whether operating domestically or internationally. Some ENGO representatives also suggested that leading companies would support the implementation of increasingly stronger environmental regulations.

Companies claiming to be operating with a beyond compliance ethic are expected to be implementing practical environmental performance measures, such as pollution prevention, eco-efficiency concepts, toxics elimination and supply chain management that reduce environmental

impact (and likely reduce costs), but which are not regulatory requirements. These initiatives would ideally be developed through actively seeking partnerships with ENGOs and community groups to gain input on improving environmental performance.

ENGOs also expect that companies will enhance performance through adopting new and innovative processes and tools, as appropriate and relevant to their operations, such as external certification standards, incorporation of environmental externalities³⁷ in performance measurement, and open sharing of best practices and lessons learned. ENGO representatives encourage companies to use full cost accounting models and life-cycle analysis to institutionalize a triple-bottom-line approach to decision making and management of operations. While many companies are beginning to use life-cycle analysis, few have made the leap to true triple-bottom-line decision making in which social and environmental issues are given consideration on an equal playing field with financial performance.

A few beyond compliance philosophies supported by ENGOs include adoption of an operating philosophy based on natural systems or environmental restoration,³⁸ and adoption of the precautionary principle in which precautionary measures are taken when an activity raises threats of harm even if some cause and effect relationships are not fully established scientifically.

The CER Assessment Tool below summarizes key indicators that the Pembina Institute and Pollution Probe view as essential to a company going beyond compliance.

<i>CER Assessment Tool – Beyond Compliance</i>				
<i>Indicators</i>	<i>Weak</i>	<i>Needs Significant Improvement</i>	<i>Could Be Improved</i>	<i>Strong</i>
The company engages a broad diversity of stakeholders.				
The company tracks and openly shares best practices and lessons learned both internally and externally.				
The company quantifies and internalizes environmental and social externalities.				
The company adheres to several beyond compliance initiatives or agreements ³⁹ .				

³⁷ Environmental externalities is a term used for environmental damage that results from the consumption and/or production of a good or service that is not directly reflected in the price charged for the good or service. For more information on environmental externalities and ecological fiscal reform see www.fiscallygreen.ca.

³⁸ An environmentally restorative company does not contribute any net impacts to the environment and actually works towards improving the natural environment to leave it cleaner than it was found.

³⁹ Examples of beyond compliance initiatives supported by ENGOs include: ‘greening’ supply chain, life cycle analysis, toxics elimination, pollution prevention, precautionary principle, external certification standards, and environmental restoration.

<p>The beyond compliance initiatives adhered to by the company:⁴⁰</p> <ul style="list-style-type: none"> • are developed in a participatory way • are transparent in design and operation • are performance based and measurable • specify rewards for good performance and consequences for poor performance • encourage flexibility and innovation in meeting goals and objectives • feature prescribed monitoring and reporting requirements, including a timetable • include mechanisms for verifying the performance of all participants 				
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4 Opportunities and Challenges for CER by Company Type

How do ENGO expectations of CER differ for publicly traded, privately held, customer-owned and crown corporations? How might ENGO expectations on CER differ for medium-sized and large companies? What are the opportunities and challenges for CER based on company type?

Most ENGOs agree that there is no fundamental difference in expectations of environmental performance or leadership among companies of varying ownership structures and size, as the need for corporate environmental responsibility does not change. What does change are the opportunities and challenges presented both for the company in adopting and advancing CER, and for the ENGO community in engaging companies in CER (see Table 3). For the purposes of this report, opportunities and challenges for advancing CER have been loosely grouped based on company ownership structure e.g., publicly traded, privately held, and size i.e., large, medium and small corporations. However, depending on the context, opportunities and challenges can cut across these boundaries e.g., publicly traded companies can have visionaries and privately held companies can be managed by profit-driven, short-sighted executives.

⁴⁰ Adapted from: New Directions Group, “Criteria and Principles for the Use of Voluntary or Non-Regulatory Initiatives to Achieve Environmental Policy Objectives,” 1997

Table 3 lists the specific barriers and opportunities for CER identified by ENGOs, based on corporate profiles. ENGOs thinking about their role in advancing CER (Section 4), will consider the opportunities and challenges associated with engaging companies of various types. In doing this, ENGOs can identify strategies to leverage the opportunities and reduce challenges.

Table 3 Opportunities and Challenges for CER Based on Company Structure and Size

Company Type	Engagement of Companies in CER
Structure	
Publicly traded	<p>Opportunities for CER</p> <ul style="list-style-type: none"> • Market pressure can be applied more effectively as shareholder accountability is stronger i.e., greater potential exposure to the business value case, when and where one exists. • Direct impact on company policy by increasingly informed and concerned shareholders on CER-related issues e.g., addressing CER issues through shareholder meetings. • Greater intensity of scrutiny brought about by accountability to shareholders. <p>Challenges for CER</p> <ul style="list-style-type: none"> • Often less flexibility to be ambitious and demonstrate leadership in CER because of conservative interpretations of the notion of fiduciary duty.
Privately held	<p>Opportunities for CER</p> <ul style="list-style-type: none"> • Visionary and dynamic leadership e.g., leaders with environmental values potentially have less barriers to making change as they only have to get the owners on board. • Flexibility of private companies e.g. less responsible to shareholders. • Autonomy to do things differently allows private companies to move forward more nimbly. <p>Challenges for CER</p> <ul style="list-style-type: none"> • Stakeholders have difficulty influencing values of leadership i.e., CER laggards. • Less public disclosure and accountability. • Fewer avenues for external audience to affect change.
Customer-owned	<p>Opportunities for CER</p> <ul style="list-style-type: none"> • Members with an emotional attachment to the company care more about its actions. • More responsive to member requests, different kind of bottom line. <p>Challenges for CER</p> <ul style="list-style-type: none"> • Level of environmental responsibility dependent on the values of its members.
Crown corporations	<p>Opportunities for CER</p> <ul style="list-style-type: none"> • Higher public accountability e.g. more avenues from which to hold them accountable. • Structure does not bind crown corporations to holding shareholder profit and return on investment above environmental performance e.g. more opportunity to implement a true triple-bottom-line business plan. <p>Challenges for CER</p> <ul style="list-style-type: none"> • Transparency i.e., can be difficult to obtain information from crown corporations. • Visionaries can be limited by bureaucracy and government in power.
Size	
Large corporations	<p>Opportunities for CER</p> <ul style="list-style-type: none"> • More resources to dedicate to sustainability initiatives. • Have the capacity to make dramatic changes. • Greater concern for their corporate reputation e.g., larger companies often more in public spotlight. • Wider geographic influence with global operations — opportunity to apply high environmental standards globally. <p>Challenges for CER</p>

	<ul style="list-style-type: none"> • Higher visibility means more pressure from multiple stakeholders e.g., potentially conflicting demands. • Complexity and large size of organizations
Medium and small corporations (<500 employees and < \$50M in annual revenues) ⁴¹	<p>Opportunities for CER</p> <ul style="list-style-type: none"> • Can be more responsive to local needs and accountable to the community they operate in. • Increased opportunity for faster change. • Less complex structure for implementation of process. <p>Challenges for CER</p> <ul style="list-style-type: none"> • Lack specialist staff and resources. • Can be less concerned with company reputation. • Less exposure to public scrutiny.

5 ENGO Roles in Advancing CER

How can the ENGO community work together to promote, support, and influence corporate environmental leadership? What is the role that ENGOs have played and can play in helping to advance CER?

ENGOS are interested in exploring and understanding how the environmental community can most appropriately and effectively advance CER. In Canada, there are approximately 2200 environmental non-governmental organizations as estimated by the Canadian Environmental Network, an umbrella organization that facilitates networking among environmental organizations. The diversity of the ENGO community can be characterized by the following four parameters:

- issues of focus e.g., toxics, energy, climate change, wildlife habitat, water
- geography e.g., local, regional, provincial, national, international
- size and longevity e.g., ongoing, multi-issue focused versus single-issue focused
- approaches to affecting change

An exploration of this diversity sheds light on the appropriate roles for ENGOs to play in advancing CER. The diversity of issues is as varied as the environmental challenges we face. Geographically, ENGOs focus their efforts locally, provincially, regionally, nationally and/or internationally. Some ENGOs are relatively ephemeral, small and single-issue based, while others are long-standing, multi-issue based organizations. The final dimension contributing to the diversity of ENGOs is the approach by which different organizations seek to affect change. Approaches have been broadly characterized by the Pembina Institute as:

- Finger Pointing — “The Critic”
- Educating — “The Educator”

⁴¹ Source: Statistics Canada.

- Solving — “The Designer”
- Collaborating — “The Implementer”

Some ENGOs may focus their efforts on using entirely one approach, while others serve in various roles depending on the particular circumstance and need. Table 3 outlines key strengths and weaknesses of each approach in the advancement of CER that were identified by ENGO representatives, drawing on their experiences with each approach.

Table 4 Strengths and Weaknesses of ENGO Approaches

Approach	Strengths	Weaknesses
Finger Pointing “The Critic”	<ul style="list-style-type: none"> • strategic and informed criticism • ability to mobilize and rouse public opinion • identifies issues clearly and quickly 	<ul style="list-style-type: none"> • legal liability • reputational — labeled as complainers • scaremongering can reduce credibility • often lacking strategy and capacity in Canada — need professionals who understand corporate language and culture, government structure and economics • slow adaptation in a changing world — now more difficult to garner mass media attention • contributes to adversarial role — can lead to ENGOs being ostracized from corporate interactions
Educating “The Educator”	<ul style="list-style-type: none"> • ability to reach a broad audience • less polarizing and adversarial • can take a balanced and independent approach • use of materials by other organizations and companies • effective communicators • key to long-term change 	<ul style="list-style-type: none"> • difficulty in measuring success • disconnect between provision of knowledge and behavioral change • inability to obtain untied funding • information overload — risk of information being “lost in the sea” of education • requires in-depth knowledge of target audience • requires trust from audience
Solving “The Designer”	<ul style="list-style-type: none"> • credibility with industry • balanced approach with ENGO vetted solutions • solutions that lead to real environmental performance improvements • critical for providing different ideas and solutions in public debate 	<ul style="list-style-type: none"> • solutions risk not being adopted by corporate and government players • lack of appropriate expertise and knowledge in ENGO community • solutions may be compromises • solutions can be viewed as a form of corporate welfare
Collaborating “The Implementer”	<ul style="list-style-type: none"> • ability to integrate multiple perspectives • fosters representation • more likely to add to the voice and diversity of the movement • more enduring and broadly accepted support • potential for greater corporate or government influence through one-on-one relationships 	<ul style="list-style-type: none"> • perceived co-option by industry, which compromises approach • challenging to maintain power balance and autonomy • requires significant time and patience

Generally, discussion among the ENGO representatives of the various ENGO approaches led to recognition of, and appreciation for, the variety of approaches and roles that ENGOs play in

enhancing the environmental performance of companies. This diversity of approaches is necessary for a cohesive and effective environmental community in Canada. It is often the space created by one approach, or the interactions and successful integration of synergies between approaches, which results in success in a particular area or issue. The following key synergies among approaches were noted:

- The critic has the ability to rouse and mobilize the public around a particular issue, which creates space for other ENGOs utilizing other approaches to create change. It also creates an opportunity for leading companies to be rewarded for being ahead of others on a particular issue of concern. ENGOs identified current target areas with potential strategic space for critics as investors, corporate governance, and environmental risk and liability.
- The educational role, which promotes synergy and complementary action, policies and initiatives, can be seen as the common thread among all the approaches.
 - The educators are both the facilitators and enablers for many of the approaches i.e., education and awareness raising around a particular issue often drives the need for designers and implementers to mobilize on a particular issue.
 - It can be very effective for educators to benefit from the campaigns of critics to further raise awareness, provide more in-depth knowledge on a particular issue or work with designers to promote solutions.
 - The activities and initiatives of designers, implementers and critics can be disseminated via the educators.
- The critics, educators and designers are often key to creating an environment in which industry wishes to collaborate with the implementers.
- For their solutions to be effective, it is often necessary for the designers to operate in conjunction with other approaches in the creation, implementation and dissemination of their ideas.

While there are numerous permutations and examples of the synergistic relationship among the four ENGO approaches, two key messages surface:

- An appreciation among ENGOs for the various approaches i.e., realizing that the sum is greater than the individual parts and generally no one particular approach is better or more important than the others. The appropriate approach, or mix of approaches, for a given issue is dependent on a number of factors, such as the political and regulatory environment, public interest and knowledge, technical knowledge of the issue, availability of solutions, and the barriers and opportunities for creating change. Individual ENGOs are often strongest in one or two of the approaches, and collaboration among ENGOs on a particular issue or project will be most effective if individual ENGO strengths are taken into consideration.
- An understanding that various ENGOs operate in different niches and use different approaches to achieve results. As there is no single appropriate mechanism for ENGOs to use in improving corporate performance, ENGOs are often perceived as coming from many different directions, with no single community voice. An understanding of this diversity of approaches among ENGOs promotes a more supportive and unified environmental community. In addition, increased understanding of the various approaches of ENGOs by governments and the corporate sector can support effective relationship building and inform appropriate stakeholder engagement mechanisms in CER-related issues.

ENGO Opportunity and/or Constraints for Advancing CER

While ENGOs have a variety of roles to play in advancing CER, there was concern around the limited capacity of ENGOs to effectively take on many of these roles. Capacity constraints and opportunities are listed below.

Key constraints to ENGO capacity in helping advance CER:

- Lack of long-term, untied core funding;
- Lack of resources, particularly funding and capacity-building, to participate in stakeholder engagement and multi-stakeholder processes to advance components of CER;
- Lack of business knowledge and expertise i.e., inadequate familiarity with the corporate structure;
- Limited opportunity for collaboration and information sharing among ENGOs;
- ENGO competition for limited resources;
- Lack of appreciation by some in the ENGO community for diverse approaches, which can undermine the work of some groups; and,
- Difficulty of managing mixed relationships, which may include sharing funding and offering advice and criticism.

Opportunities identified for ENGOs in helping to advance CER include:

- Re-evaluating our approach by assessing how effective the ENGO community has been so far and considering new approaches;
- Increasing collaboration among ENGOs, cultivating opportunities; and pooling resources on particular issues;
- Being more supportive and learning from the positive efforts of other ENGOs;
- Increasing dialogue and information sharing among ENGOs;
- Collaborating with industry or industry groups on initiatives that seek excellence in environmental performance;⁴²
- Leveraging the collective purchasing power of the environmental community and the public to support sustainable business and promote local markets;
- Continuing to seek out committed individuals within government and the corporate sector and working with them to strengthen and build on current successes.

ENGOs that participated in the national workshop acknowledged the value in ENGOs utilizing the spectrum of approaches to help advance CER. While ENGO capacity to help advance CER is limited by both funding and knowledge of the business environment, ENGOs may have an

⁴² An example suggested by an ENGO representative is for the Green Budget Coalition to work with industry groups, such as the Chamber of Commerce or the Canadian Council of Chief Executives, to find synergies on environmental policy issues. Policy initiatives that are mutually supported by these groups would send a strong statement to government.

opportunity to increase their effectiveness through forming collaborative relationships that actively build on the key strengths of ENGOs and ensure well-rounded approaches.

6 Government Role in Advancing CER: ENGO-Identified Barriers and Opportunities

What are the barriers and opportunities for government to advance CER in Canada? What are ENGO concerns about the current relationship between industry and government? What do ENGOs view as the appropriate relationship between industry and government in advancing CER?

Governments have a vital role to play in advancing CER in Canada. At the workshop, ENGO discussions of the government role in advancing CER focused on two main areas: 1) the tools and mechanisms available to government in advancing CER, and 2) the appropriate relationship between the corporate sector and government in environmental policy discussions.

ENGOs discussed the potential effectiveness of the following six tools and mechanisms available to governments to further advance the environmental performance of companies:

- financial incentives (grants, tax reforms, subsidies, loans, etc)
- market-based regulatory initiatives (e.g., cap and trade;
- regulations, standards and guidelines
- government procurement pilot programs
- information programs (awareness, education, data, research) voluntary initiatives

It is acknowledged that a combination of all tools and mechanisms is required to ensure a robust framework to support CER and that there are particular instances in which all the tools and mechanisms may have some merit. However, most ENGOs prefer governments to institute legally binding regulatory approaches, as opposed to voluntary initiatives or educational programs.

ENGOs also discussed the relationship between industry and government. Many ENGO representatives believe that the private sector has established itself as the leading influence on governments and environmental regulations and that the ENGO community has little, if any, influence on this relationship. To deal with this, ENGOs would like to see full and transparent disclosure of industry and government interactions, including the number and nature of all discussions. A multi-stakeholder process to review the current and appropriate influence of industry in government decision making would help to clarify expectations.

In focused discussions of appropriate government roles, ENGOs identified a number of barriers and opportunities in advancing CER.

ENGO-identified barriers that exist for governments in advancing CER include:

- A lack of strong regulation and enforcement, with a current trend towards deregulation;
- Current structure of corporate law, which ties companies first and foremost to maximizing returns to shareholders;
- Corporate lobbying to limit environmental regulation and implement voluntary initiatives as an alternative to regulation;
- Limited effectiveness of past voluntary initiatives in achieving improved environmental performance, particularly given weak participation among the majority of companies in a sector;
- Tax-deductible corporate lobbying costs in the current system, which create imbalance and encourage undue influence from the private sector;
- Government departments and crown corporations in Canada tend to be laggards in CER, which indicates poor potential for government departments to lead by example, and perhaps a limited understanding or knowledge of CER;
- Environmental policy development in government often reflects a relatively short-term view i.e., tied to the election cycle;
- Limited capacity and resources of many stakeholder groups, including ENGOs, to participate in environmental policy meetings involving industry and government.

ENGOs also identified the following opportunities and priorities for governments to advance CER:

- Implement more stringent environmental regulations and standards, and couple these with more strict enforcement and penalties;
- Provincial and federal environmental tax reform to shift from taxing what we want (personal income, production of ecologically sound goods) to what we don't want (pollution, waste, environmental impacts);
- Eliminate subsidies of businesses causing environmental harm counter to national environmental objectives;
- Implement subsidies, grants, loans, tax rebates, etc., directed at supporting environmental initiatives. A few examples cited include promotion of green technologies, renewable energy, energy efficiency, waste reduction and water conservation⁴³;
- Implement voluntary initiatives, with a progressive and continuous shift of these initiatives to binding regulation. This model will also strengthen participation in voluntary initiatives as participating companies consistently experience a strategic advantage from early adoption;

⁴³ For further initiatives and opportunities for ecological fiscal reform in Canada visit: <www.fiscallygreen.ca>

- Revamp corporate law to include environmental and social considerations and requirements, rather than solely mandating shareholder returns. A few key corporate law reforms include updating annual reporting regulations to include triple-bottom-line reporting and implementing an environmental version of the Westray Bill⁴⁴ as a mechanism to protect the environment through holding corporations and executives accountable for environmental damages;
- Leverage the enormous purchasing power of governments by implementing a strong green procurement policy. This would provide a good example and key lessons to companies in greening their own supply chains. (Municipal governments may be the best candidates for pilot programs as they often have stronger procurement policies);
- Offer incentive programs both to reward companies that adopt CER and to encourage and entice companies that are reluctant to be leaders to take steps forward in CER⁴⁵;
- Investigate governments around the world, particularly in parts of Europe, for examples of CER leadership and examples in which business has limited, or a more appropriate level of, influence over government policy. Government departments in Canada could then emulate successful outcomes in other countries and identify key lessons from which to develop programs, regulations and standards to promote CER in Canada (The UK may provide a good example);
- Develop a more strategic, long-term approach to environmental protection, while embracing the precautionary principle and seeking input from multiple stakeholders;
- Mandate transparent and full disclosure of the number and nature of communications between governments and the private sector to build public understanding of the level of influence industry has on policy decision making;
- Build capacity among ENGOs and other stakeholder groups to support their participation in environmental policy discussions⁴⁶.
- Support and drive the acquisition of environmental data in Canada, which must be made freely available, particularly to support cumulative effects assessments. It is an ENGO observation that while Statistics Canada is strong in social and economic data, it is very weak in environmental data.

Through addressing and reducing the barriers and capitalizing on the opportunities listed above, all levels of government can participate in further advancing CER in Canada. In summary, government actions in support of CER involves implementing the most effective mechanisms and tools, and instituting regulation and policy changes to limit corporate lobbying and level the

⁴⁴ The Westray Bill (Bill C-45), passed in November 2003, is legislation protecting workers' health by making it easier for companies to face criminal negligence charges if they engage in practices that endanger the health of their workers.

⁴⁵ Incentive programs could take many forms. An example cited by a few ENGO interview respondents was in recognition that some progressive companies invest significant resources in reporting beyond regulatory requirements. They suggested that government could reward these companies, and provide an incentive for others, by reducing their regulatory reporting requirements in areas where the companies are already reporting beyond compliance (with the requirement that this level of beyond compliance reporting continue).

⁴⁶ ENGOs expressed frustration with a lack of resources, which translates into an unequal ability of ENGOs to participate in multistakeholder processes. Government support could be in the form of compensation for ENGO time and expenses for participation and/or provision of resources allocated specifically for capacity building and professional development opportunities.

playing field for ENGOs, (and other stakeholder groups) to be involved in environmental policy discussions.

7 Conclusions from Canadian ENGO Input

Key conclusions from this exploration of the Canadian environmental community's views on CER are listed by topic below:

Vision

- ENGO articulation of a vision for an environmentally responsible company includes specific points contained in three main themes: 1) Environmental Commitment in which the company fully embraces sustainability and strives to have a positive impact on the environment and society; 2) Material and Energy Management in which the company operates within the finite ecological limits of the environment; and 3) Effective Stakeholder Engagement in which the company is fully transparent and accountable, with a demonstrated process in place to engage and empower stakeholders.

Components of CER

- ENGOs agree on most components of an environmentally responsible company. However, diversity of opinion remains in some areas, particularly in the role of governments and the use of voluntary initiatives and regulatory approaches. Some ENGOs feel that it is unreasonable to expect companies to go beyond compliance since the current business model focuses exclusively on shareholder returns, which leaves only tougher regulations as a means of achieving real improvements in environmental performance. Others hold the view that CER is a tool that businesses employ to gain a competitive advantage and therefore can be used to encourage more companies to become increasingly responsible.
- ENGOs recognize that there are many paths to becoming an environmentally responsible company. With a strong vision, and a commitment to act in all six components of CER outlined in this report, the company can choose how best to reach that vision.
- ENGOs expressed feelings of disempowerment because of lack of resources and/or unequal influence in current stakeholder engagement models. To begin to address this, ENGOs articulated some expectations of companies for effective stakeholder engagement, which include transparency, long-term ongoing relationships, capacity building among stakeholders and temporally distinct stages of engagement (separate discussions of whether a project should proceed and how a project should proceed).
- Companies are expected to measure and report on actual outputs and impacts to the environment (rather than reporting process), track and report trends over time, including both mistakes and successes, and be audited by an independent third party.
- ENGO expectations of transparency include full disclosure of information and reporting, particularly to help build capacity among stakeholders to facilitate informed consent. A

transparent company takes accountability for past, current and future environmental liabilities.

- A CER leader will demonstrate commitment to continuous improvement through institutionalizing the process with a management system approach, backing up a continuous improvement program with verifiable measurement of real results, and addressing all components of CER through a framework of commitment to continuous improvement.
- A company going beyond compliance is not driven by the minimum performance level set by environmental regulations; rather, it moves towards eliminating its environmental impact. ENGOs support a number of beyond compliance principles or processes, including internalizing environmental externalities, life-cycle analysis and external certification standards. ENGOs assert that beyond compliance requires instituting practical environmental performance measures that lead to actual reductions in environmental impact.

ENGO Expectations for CER Based on Company Type

- Fundamentally, ENGO expectations of environmental performance or leadership in CER do not differ for companies of varying ownership structure and size, as the necessity for corporate environmental responsibility does not change. ENGOs noted that what does vary are the opportunities and challenges the company faces in adopting and advancing CER, and for the ENGO community in engaging companies in CER.
- An observation of the ENGO community is that companies committed to CER have shown
 - senior management commitment;
 - enlightened leadership within the company;
 - a corporate culture that actively promotes environmental leadership and facilitates integration of CER concepts throughout all levels of the organization; and
 - actual, material results achieved with demonstrated reductions in environmental impact, as compared to peers.

ENGO Roles

- Participant ENGOs of the national workshop increased their appreciation for the various ENGO approaches to creating change i.e., realizing that the sum is greater than the individual parts and that collaboration among ENGOs that capitalizes on the strengths of particular ENGOs may be very effective in advancing CER.
- Increased understanding of the diversity of approaches among ENGOs promotes a more supportive and unified environmental community. In addition, increased understanding of the various approaches of ENGOs by governments and the corporate sector can support effective relationship building and inform appropriate stakeholder engagement mechanisms in CER-related issues.
- The capacity of ENGOs to help advance CER in Canada is limited by a number of resource and educational (knowledge and/or skills) constraints.

Government Role

- ENGOs identified some barriers for governments in advancing CER, such as the current trend towards deregulation, corporate lobbying for deregulation, pervasive short-term view of

governments in policy developments, and government departments tending to be laggards in CER;

- ENGOs highlighted a number of opportunities and priority areas for governments in advancing CER, which include implementing more stringent environmental regulations and enforcement, implementing ecological fiscal reform, shifting initial voluntary agreements to binding regulations, reforming corporate law, leading by example in green procurement and other CER initiatives, mandating transparency in government and private sector communications, and implementing key lessons from global governments leading in CER.

8 The Pembina Institute and Pollution Probe Recommendations

The Pembina Institute and Pollution Probe provide the following recommendations for consideration by the specified audiences.

For the Corporate Sector:

- Use the ENGO vision for CER to reflect on your company's vision for the future and your ultimate organizational goals in environmental commitment, material and energy management, and stakeholder engagement.
- Use the CER assessment tool as a starting point to reflect on your environmental performance and level of CER compared with the expectations of the Canadian ENGO community. Engage with members of the ENGO community to further expand on the ideas presented in this paper and to develop an action plan for your company.
- Use the opportunities and challenges for CER specific to your company structure and size (Section 4) as a starting point to advance CER through seeking out ways to enhance the opportunities and meet the challenges.
- Work with your stakeholders to articulate conditions of success for effective stakeholder engagement.

For ENGOs:

- Continue dialogue with other ENGOs and further explore the synergies between ENGO approaches to identify opportunities for collaboration and pooling of resources to increase overall effectiveness in advancing CER.
- When thinking about the ENGO role in advancing CER, consider the opportunities and challenges associated with engaging companies of various types. Combining these with the strengths, weaknesses and potential synergies of the various ENGO approaches can

strengthen strategy development to build on the opportunities for CER and meet the challenges.

- It is recommended that the Canadian environmental community take the time and effort to contemplate what actions and/or resources and engagement framework could best be employed, and would realistically be adopted by progressive companies, to meaningfully engage ENGOs in project conception, development and delivery. This would allow an ENGO to present a framework to a company with whom it wishes to engage that can be modified, as necessary, and formally agreed to, thereby ensuring more effective engagement.
- Use the ENGO vision for CER and the CER assessment tool to facilitate discussion and engagement with the corporate sector to further advance CER.
- Identify and pursue opportunities to advance CER in Canada via less traditional avenues, such as shareholder education and activism, pension funds or financial analysts. ENGOs may have an opportunity to both gain and demonstrate their influence by communicating directly with shareholders or securities commissions, using common investor language, and linking environmental issues to insurance and liability issues.

For Governments:

- Review the barriers and opportunities identified by ENGOs in Section 6 to guide development of government programs, regulations and planning that advance CER.
- Initiate a multi-stakeholder process to build on current reporting initiatives, such as Stratos and the Global Reporting Initiative (GRI), to develop a commonly accepted and mandated set of performance indicators with sector specific content. This may be a measurement and reporting framework that allows comparison of companies based on their triple-bottom-line CER performance both within and across sectors.

For All Audiences:

- Seek out opportunities for multi-stakeholder collaboration to achieve CER goals. Draw on key experiences from multi-stakeholder initiatives, such as the Clean Air Renewable Energy Coalition or the Canadian Boreal Initiative.

The advancement of CER in Canada will best be achieved through a coordinated effort by all stakeholders, including ENGOs, government and the corporate sector. A proactive approach to CER can position Canada as a leader on the world stage, increase the profitability of Canadian companies, and protect the environment now and for future generations.

Appendix A – Workshop Participants

Table A1 lists the individuals who contributed to this project, listed by the ENGO organization they are affiliated with. The table indicates those who were interviewed for the project, those who attended the national ENGO workshop on CER, held May 26, 2005 in Toronto, Ontario, and those who participated in both.

Table A1. ENGO Contributors by Affiliated Organization

Organization (ENGO)	Interviewee	Workshop
Bedford Mining Alert	Marilyn Crawford, Steering Committee Member	
Better Environmentally Sound Transportation	Rita Koutsodimos, Go Green Choices Program	
Canadian Arctic Resources Committee	Chuck Birchall, Chairman	
Canadian Boreal Initiative	Alan Young, Project Manager	
Canadian Centre for Pollution Prevention	Chris Wolnick, Executive Director	
Canadian Environmental Network	Brigitte Gagne, Executive Director	
Canadian Institute for Environmental Law and Policy (CIELAP)	Anne Mitchell, Executive Director	Iana Nikolova, Communications and Fund Development
CPAWS Calgary/ Banff	Dave Poulton, Executive Director	
CPAWS Edmonton	Helene Walsh, Boreal Campaign Director	
CPAWS Nova Scotia	Karen Potter, Chapter Coordinator	
CPAWS Yukon	Jim Pojar, Executive Director	
David Suzuki Foundation	Morag Carter, Director Climate Change Program	Pierre Sadik, Sustainability Program Campaigner
Dogwood Initiative	Will Horter, Executive Director	
Ducks Unlimited	Dr. Brian Gray, Director of Conservation Programs	Barry Turner, Director, Government Relations
Ecology Action Centre		Tamara Lorincz, Member
Ecology North	Doug Ritchie, Board Member	
EnerACT	R. Mark Singh, Executive Director	
Équiterre	Sidney Ribaux, General Coordinator	
Evergreen	Melanie Sharp, Development Associate, Business Relations	

First Nations Environmental Network	Steve Lawson, Steering Committee Representative	Priscilla Settee, Member
Fraser Basin Council ⁴⁷	Bob Purdy, Director, Corporate Development	
Green Communities Association	Clifford Maynes, Executive Director	
Greenpeace	Tamara Stark, Forests Campaign Coordinator	Andrew Male, Communications Coordinator
Green\$aver	Keir Brownstone, General Manager	Alastair Fairweather, Board Member
Groupe de développement durable du Pays de Cocagne Sustainable Development Group	Jocelyne Gauvin, Coordinator	
Harmony Foundation Of Canada	Michael Bloomfield, Founder and Executive Director	
Indigenous Environmental Network		Clayton Thomas-Muller, Native Oil/ Gas Campaign Organizer
Kettle Creek Conservation Authority & Local Advisory Committee of London	Ron Challis, Advisory Committee Member	
Manitoba Wildlands	Gaile Whelan-Enns, Director	
Nature Canada (Canadian Nature Federation)	Rob Rainer, Director of Conservation	
One Sky - The Canadian Institute of Sustainable Living	Kristin Patten, Human Security Coordinator	
Pembina Institute	Mark Winfield, Director, Environmental Governance	Dan Woynillowicz, Environmental Policy Analyst
Pollution Probe	Ken Ogilvie, Executive Director	Quentin Chiotti, Director, Air Programme
Le Regroupement national des conseils régionaux de l'environnement du Québec	Philippe Bourque, Director	
Saskatchewan Environmental Society	Ann Coxworth, Program Coordinator	
Sierra Club — Atlantic Canada Chapter	Emily McMillan, Director	Bruno Marcocchino, Campaigns Coordinator
Sierra Club — Quebec Chapter		Michael Kerr
Sierra Club of Canada	Martin von Mirbach, National Conservation Director	
Sierra Legal Defence Fund	Rob Mitchell, Executive Director	
Southern Alberta Environmental Group	Cheryl Bradley, Member	

⁴⁷ Not defined as an ENGO.

The Natural Step, Canada	Saralyn Hodgkin, Outreach Coordinator	
Toxics Watch Society of Alberta	Myles Kitagawa, Associate Director	
Tree Canada Foundation	Jeff Monty, President	
West Coast Environmental Law	Susan Rutherford, Staff Council	Barbara Everdene, Community Coordinator
Western Canada Wilderness Committee	Gwen Barlee, Policy Director	
Wildsight (East Kootenay Environmental Society)	Kat Hartwig, Wilderness Recreation Campaigner & John Bergenske, Executive Director	Kat Hartwig, Wilderness Recreation Campaigner
World Wildlife Fund Canada (WWF)	Monty Hummel, President Emeritus	Hadley Archer, Director, Corporate Alliances
Yukon Conservation Society	Shirley Roburn, Executive Director	

Appendix B - CER Assessment Tool Pull-Out

CER Assessment Tool — Environmental Commitment and Awareness				
<i>Indicators</i>	<i>Weak</i>	<i>Needs Significant Improvement</i>	<i>Could Be Improved</i>	<i>Strong</i>
<p>The company incorporates environmental, economic and social performance into its vision and values. The company’s vision includes reference to the following concepts:⁴⁸</p> <p>1) Environmental commitment in which the company fully embraces sustainability and strives to have a positive impact on the environment and society;</p> <p>2) Material and energy management in which the company operates within the finite ecological limits of the environment; and</p> <p>3) Effective stakeholder engagement in which the company is fully transparent and accountable, with a demonstrated process in place to engage and empower stakeholders.</p>				
Corporate reporting readily provides an understanding of the company’s environmental, economic and social policies, and its codes of conduct.				
The company sets goals and targets to meet its vision.				
The company has environmental education and training programs for all employees.				
The CEO of the company has made a clear commitment to sustainable business practices, including a plan to progress on objectives, before analysts, to media or in other public forums.				
The company has implemented its plans for meeting its environmental, economic and social performance goals, including effective evaluation tools.				

⁴⁸ See Section 2.0 for expansion on these points.

Employee compensation and bonus packages are linked to environmental, economic and social performance.				
The company openly acknowledges and fully discloses the past and present environmental impacts of the company.				

CER Assessment Tool – Stakeholder Engagement				
<i>Indicators</i>	<i>Weak</i>	<i>Needs Significant Improvement</i>	<i>Could Be Improved</i>	<i>Strong</i>
The company’s governing statements (vision, mission, values) reflect its obligations to its stakeholders in environmental, economic and social performance areas.				
The company can identify its principal stakeholders and articulate the methods used to engage them.				
The company communicates the results of stakeholder engagement processes and how stakeholder input and priorities factored into decision making.				
All stakeholder engagement activities are guided by corporate stakeholder engagement standards and practices.				
Third party reviews are conducted of the company’s stakeholder engagement processes.				
The company’s Board of Directors demonstrates appreciation of, and engagement with, representatives from the ENGO community.				
The company willingly engages with its most challenging critics.				
The primary objective of engagement activities is stakeholder partnerships as opposed to stakeholder management. ⁴⁹				
Outside of published reporting, the company shares meaningful information about internal processes, practices and performances upon request.				

⁴⁹ For further discussion of this point see: Harrison, J. S., and St. John, C. H. (1996). “Managing and partnering with external stakeholders.” *The Academy of Management Executive*, 10 (2), p. 46.

<i>CER Assessment Tool – Measurement, Reporting, and Auditing</i>				
<i>Indicators</i>	<i>Weak</i>	<i>Needs Significant Improvement</i>	<i>Could Be Improved</i>	<i>Strong</i>
The company regularly measures and reports on both leading and lagging indicators of its environmental, economic and social performance, including targets for improvement.				
The company regularly reports on how its environmental performance objectives are integrated throughout its operations and management.				
The company’s measurement and reporting is third-party verified by accredited auditors, independent from the company they are auditing and knowledgeable within the sector.				
The company’s measurement framework and reporting methods are designed, and are modified, with the input of multiple stakeholders.				
The company compares and reviews its reporting framework to assess against the content specified in external guidelines such as those of GRI or Stratos. ⁵⁰				
The company has audit procedures covering the audit scope, frequency, methodologies applied, and the responsibilities and requirements for conducting audits and reporting results.				

⁵⁰ See Global Reporting Initiative’s 2002 *Sustainability Reporting Guidelines* (GRI Guidelines) available at www.globalreporting.org or Stratos’s Benchmark Survey Methodology in “Building Confidence: Corporate Sustainability Reporting in Canada” Stratos with Alan Willis and Associates. 2003. Available at www.stratos-sts.com

<i>CER Assessment Tool — Continuous Improvement (CI)</i>				
<i>Indicators</i>	<i>Weak</i>	<i>Needs Significant Improvement</i>	<i>Could Be Improved</i>	<i>Strong</i>
The company’s governing statements (vision, mission, values) include endorsement of a CI culture.				
Employee training programs include treatment of a CI methodology.				
Mechanisms and channels exist for employees to suggest improvement measures to senior management.				
The company uses a management system approach to achieve continuous improvements.				
The company measures environmental, economic and social performance against a baseline, sets targets for improvement and reports performance publicly.				
The company actively engages with external stakeholders for input into the continuous improvement cycle.				

<i>CER Assessment Tool – Beyond Compliance</i>				
<i>Indicators</i>	<i>Weak</i>	<i>Needs Significant Improvement</i>	<i>Could Be Improved</i>	<i>Strong</i>
The company engages a broad diversity of stakeholders.				
The company tracks and openly shares best practices and lessons learned both internally and externally.				
The company quantifies and internalizes environmental and social externalities.				
The company adheres to several beyond compliance initiatives or agreements ⁵¹ .				
The beyond compliance initiatives adhered to by the company: ⁵² <ul style="list-style-type: none"> • are developed in a participatory way • are transparent in design and operation • are performance based and measurable • specify rewards for good performance and consequences for poor performance • encourage flexibility and innovation in meeting goals and objectives • feature prescribed monitoring and reporting requirements, including a timetable • include mechanisms for verifying the performance of all participants 				

⁵¹ Examples of beyond compliance initiatives supported by ENGOs include: ‘greening’ supply chain, life cycle analysis, toxics elimination, pollution prevention, precautionary principle, external certification standards, and environmental restoration.

⁵² Adapted from: New Directions Group, “Criteria and Principles for the Use of Voluntary or Non-Regulatory Initiatives to Achieve Environmental Policy Objectives,” 1997