

# Right On Track

*A sophisticated evaluation tool enables students to monitor corporate responsibility*



Environmental and sustainability reports are posted on the Roberts Center's Web site, [www.roberts.mckenna.edu](http://www.roberts.mckenna.edu), ranging from graphs displaying different categories of PSI scores by industrial sector to individual corporate report scores.

Score one for the students. In response to the release of motor vehicle data published by CMCers working out of the Roberts Environmental Center, Honda executives not only visited campus, but also welcomed the current Environment, Economics, and Politics clinic to their North American headquarters to test-drive the automaker's research hydrogen fuel-cell vehicle.

Hardly your average collegiate experience, Honda's invitation delivered a clear message: Companies are paying attention to the exacting work that goes on at the Roberts Center, endowed in 1990 by Trustee George Roberts '66 P'93, founding partner of Kohlberg Kravis Roberts & Co., designed to involve students in real-world environmental issues and train them to analyze those issues from a broad perspective while considering science, economics, and policy.

Central to this goal is the Pacific Sustainability Index, a reporting tool that tracks corporate environmental and social transparency and performance. EEP majors conducting research at the Center during their junior or senior years use the PSI to study and analyze environmental and sustainability reports issued by the world's largest corporations—including the Fortune Global 500 and Fortune 1000 lists—then publish the results in technical papers and reports, commercial books, and on the Center's Web site.

Honda is not the only corporation to have taken notice. Volkswagen, reflected by PSI standards as an automotive leader in environmental intent and social responsibility, features comparative data graphics generat-



Morhardt, left, and Environment, Economics, and Politics clinic students visited Honda's North American headquarters to test-drive the automaker's prototype hydrogen fuel-cell vehicle, which is less dependent on fossil fuels and produces no significant emissions. Honda achieved high marks in environmental intent on the PSI for producing an annual environmental report.

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ed by the Center on its own Web site, and Rockwell Automation credits the PSI for refocusing the corporation's sustainability communications.

"We are heeding your advice and in mid-2006 will transition from producing an annual Environmental, Health, and Safety report to a more comprehensive corporate responsibility report that better explains who we are and how we do business," writes Matthew Gonring, vice president for global marketing and communications, responding to the Center's draft electronics sector report. "We appreciate the work of you, your colleagues, and peers in this arena."

A representative from Rockwell will join executives from Ford and Weyerhaeuser at a June conference on corporate responsibility communication and reporting, keynoted by Emil Morhardt, the Roberts Professor of Environmental Biology and director of the Roberts Environmental Center, and hosted by

Chicago-based Melcrum Publishing.

We invited student analyst Robert Heilmayr '06 to talk with Morhardt about the role social and environmental issues play in corporate responsibility and how the PSI benefits the College.



**RH:** *Why is the PSI a useful tool?*

**EM:** The purpose is to publish data that corporations have collected on environmental and social activities. Our objective is to publicize existing information and compare corporations across industrial sectors to illustrate how individual companies perform with respect to their peers. This engenders improvement in the companies that aren't performing so well, and spurs companies that are performing well to do even better.

**RH:** *How do you choose which companies to evaluate?*

**EM:** Initially we looked for com-

panies that were producing good quality reports, but we now focus on the Fortune Global 500 and Fortune 1000 lists. Our current sector reports include energy and utilities, pharmaceuticals, chemicals, electronics, petroleum, motor vehicles and parts, and forest and paper products. In production are healthcare, metals, mining, crude oil, and colleges and universities.

**RH:** *What indicators are used to evaluate the companies?*

**EM:** Students analyze the individual corporate reports using the PSI, which is based on a combination of ISO 14000 guidance documents, the Global Reporting Initiative guidelines, and a number of topics culled from the

reports themselves. If a large number of companies report on a particular topic, then we also report on it. We're looking for transparency: reporting on the issues likely to be environmentally or socially important to the company's industrial sector. We also consider measures of quantitative performance: how much energy and water they're using and how many injuries they've had, for example.

**RH:** *What types of organizations can benefit from sustainability reporting?*

**EM:** Any organization can benefit by examining its behavior more closely. Sustainability reporting requires you to look carefully at both your environmental and social performance.

**RH:** *What are some of the benefits of producing one of these reports for a small company?*

**EM:** It's hard to know. They may be difficult to measure. The question is: Is it noticed by a financial analyst? Is it noticed by customers? Is it noticed by companies to whom the smaller companies are acting as suppliers? In many cases smaller companies report because larger companies have pushed this environmental excellence down their supply chain. The main benefit may be recognition by corporate customers.

**RH:** *How have the companies reacted to the PSI?*

**EM:** Uniformly positively. We release the early sector reports in draft, so they can review our scoring and comment on any errors. The companies in the higher end, the top 10 or so, are most likely to respond, either to say they really liked what we did or to point out some things we might have missed.

**RH:** *How does the Center promote this reporting?*

**EM:** When we compare the companies in an individual sector and release the data, we send press releases to a mailing list of about 25,000 people, including financial analysts, NGOs, corporate executives, and a whole range of people interested in environmental issues associated with companies. The fact that these reports exist is quite widely known in the industrial and financial communities. It definitely

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—EMIL MORHARDT

increases the visibility of Claremont McKenna College in the international corporate community. We find that many people we deal with haven't heard of the College before this, but they certainly know about it now.

**RH:** *What is the benefit of this research?*

**EM:** It teaches students about environmental and social issues faced by corporations, and demonstrates how the companies are solving what can be a vast array of problems. One of the more interesting things is that the largest international companies are performing the best. It's somewhat enlightening to many students that,

in fact, big companies often do the right thing and often do it voluntarily. The second thing it does for students is allow them to work on something that's current, with real-world implications. We send these sector reports in draft form to the CEOs and to the environmental executives of major corporations. Students are likely to get a call in their dorm room from the vice president of environmental affairs, asking about something in the score. This encourages them to pay attention and do a professional job.

**RH:** *What role do social and environmental issues play in corporate responsibility?*

**EM:** Social issues deal with how companies interact with their employees, their communities, the financial community, and, generally, the world. Environmental issues usually are reported more systematically, because they're regulated in ways that require producing numerical data.

**RH:** *What triggered this new focus on corporate responsibility?*

**EM:** Corporations began to collect more environmental data in the mid-1980s, largely in response to a voluntary initiative called ISO 14000, a series of international standards on environmental management. With these data in hand, companies began to feel that, since they appeared to be doing reasonably well in terms of environmental performance, it would be a good idea to publicize their results.

**RH:** *The current administration's policies place a great deal of emphasis on voluntary environmental regulations and self-reporting. What role do you think government should play in regulation?*

**EM:** Our research demonstrates that large corporations often perform better than required, so self-regulation

and industry standards are valuable in increasing the quality of both environmental and social performance. While corporate self-regulation is a powerful tool, you also clearly need government regulations, without which some companies would simply ignore these standards.

**RH:** *With many executives responsible to their shareholders to profit as much as possible, can the current economic and political climate accommodate the ethics compatible with environmental and social sustainability?*

**EM:** Corporations don't see themselves that way—judged only by the amount of money they make. They believe that their ultimate success depends on how they're perceived by the public. If increasing the quality of their environmental regulation and social relations increases their reputation, they're likely to do better across the board. For example, Volkswagen produces 97,000 copies of their sustainability report for their own employees; they feel that it increases good will. The reports also are transmitted to financial analysts—many mutual funds are based on the quality of social and environmental performance—and used in corporate showrooms.

**RH:** *Is the environmentally or socially correct option ever economically beneficial, too?*

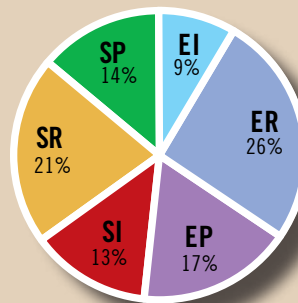
**EM:** Generally speaking, increasing the environmental performance results in a very large cost savings: the most obvious example is decreasing energy, material, or water usage. The same with social matters: clearly it is expensive to have employees injured or community lawsuits so, if the quality of the performance towards employees or the community improves, the chance of those things happening lessens.

## The PSI Scoring System

The Pacific Sustainability Index (PSI) uses two tools to analyze the quality of the sustainability reporting: a base questionnaire for all reports and a sector-specific questionnaire for companies within the same sector. The questions, based on the most frequently mentioned items in the more than 800 corporate sustainability reports analyzed by the Center since 2002, are adapted constantly, raising the bar for future sustainability reporting.

Using uniform guidelines to judge the transparency and comprehensiveness of particular topics, intent scores include discussion of the environmental intent (EI) or social intent (SI), such as vision, policies, and management strategies, while reporting scores reflect presentation of data on specific environmental reporting (ER) and social reporting (SR) indicators. The performance category is used to measure the reported environmental performance (EP) or social performance (SP) indicators.

The pie diagram below shows the weight of each category in the overall PSI score, based on the proportion of the maximum possible PSI scores of all questions in a category.



Key: EI (Environmental Intent), ER (Environmental Reporting), EP (Environmental Performance), SI (Social Intent), SR (Social Reporting), and SP (Social Performance).

**RH:** *Are the majority of environmentally beneficial initiatives focused on practical solutions to problems, like saving money?*

**EM:** We haven't been tracking the initiatives not directly related to measurable environmental issues very carefully. Our scoring system gives a maximum of two points, a small percentage of the total possible score, to external initiatives like planting trees or cleaning up towns. We've started a new program to collect information on and classify those kinds of initiatives. One of the things we hope to do is to provide a catalog of good works for use as a menu of things other companies might choose to do.

**RH:** *What other new elements are in the works?*

**EM:** We plan to continue for the foreseeable future. Two students have been writing software to automate some of the report scoring, subjecting a PDF of a company's Web-based environmental and corporate social responsibility materials to an automated search using keywords associated with the 140 PSI topics. The software returns a tentative score for each topic and stores all search hits and results, in context, to our database.