

Extended Abstract  
What Gets Measured Matters: Metrics that Reflect Environmental Leadership

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No longer can businesses say that the only purpose of an organization is to make profits and continue growth. This model of profit-making has encouraged companies to ignore their externalities while pursuing short-term and destructive policies. A triple bottom line accounting, where high priority rests on social and environmental needs, is imperative in the drive to make organizations more environmentally responsible.

Instead of tracking profit, number of wells, and pounds of coal extracted, the measures of success for the organizations should include privileged metrics such as energy savings, absolute (rather than relative) carbon reduction, number of renewable company startups, investment in research and development, community involvement, and renewable energy usage. These metrics require companies to focus not just on short-term bottom line measures but to be accountable for their environmental performance. The SEC should require these metrics to be included and audited as part of a company's annual report. This shift in emphasis will help change the organizational and industry culture as well, as the changing definition of success will bring with it changing values.

The Global Reporting Initiative (<http://www.globalreporting.org/>) has already taken steps to help organizations report the social and environmental results from the triple bottom line perspective, and their G3 framework is the most comprehensive model for reporting social and environmental impacts. The purpose of a G3 reporting system is to define content and quality of information while providing performance metrics companies can use to meet the needs of a diverse stakeholder group. From a large laundry list of possible metrics, organizations first evaluate how relative, or material, the information is to its major social and environmental impacts. To meet an expectation of transparency, organizations must identify its stakeholders and explain how they have responded to their expectations. Additionally, organizations should report positive as well as negative information. This aspect contributes to the completeness of such a report. Consistency of reporting is also important, as higher consistency allows stakeholders to compare performance over time. The process of gathering data must be reliable and examinable so quality of reporting can be determined. Then the organization must select appropriate performance metrics to track and report on, and these metrics fall under several possible categories.

To utilize environmental metrics, a company must cover performance of both inputs and outputs. The aspects of materials, energy, water, and biodiversity are all organizational inputs that historically have been abused. There are multiple ways to report on the sustainable usage of these inputs. Some include volume of usage, direct and indirect consumption, location and size of land use, as well as recycling percentage and energy savings. The aspects of emissions, effluents, waste, products, services, and transportation are organizational outputs concerned with the sustainability of an organization. It is important for companies to report on total direct and indirect outputs and initiatives implemented to reduce environmental impact.

Social performance indicators are concerned with impacts an organization has within the social systems they operate. These include labor practices, human rights, society, and product responsibility. Aspects under labor practices are employment, management practices, occupational health and safety, training, education, diversity, and equal opportunity. Human rights aspects cover investment, procurement, discrimination, child labor, forced and compulsory labor, complaint practices, security, and indigenous rights. Society indicators fall under community, corruption, public policy, anti-competitive behavior, and compliance. Finally, product responsibility reports on aspects such as customer health and safety, labeling, marketing, and customer privacy. The overarching goal of both environmental and societal performance indicators is for companies to evaluate their own performance according to the given metrics instead of simply how much profit they can acquire. As it is important for organizations to report on performance metrics, it is also important to report on management approach, goals, policy, organizational responsibility, training and awareness, and procedures related to monitoring, corrective, and preventive actions. These all contribute to the restructuring of organizational culture and behavior.

While the Global Reporting Initiative does present a wealth of ideas for metrics, because organizations chose which are relevant to their particular industry and strategy, comparison across organizations is difficult because the precise metrics may vary significantly. The G3 framework is comprehensive, but the complexity that makes it useful for a single organization over time may be the quality that minimizes its usefulness in comparing across organizations at a single time period or among different organizations over time.

A narrower alternative comes from the Greenhouse Gas Protocol Initiative (<http://www.ghgprotocol.org/>). The measures here are narrowly defined to capture an inventory of emissions; since companies adopt fewer, more universal measures, it is easier to compare the emissions over time and across companies. Like the Global Reporting Initiative, the GHG Protocol has expectations regarding the relevance, consistency, completeness, transparency, and accuracy of the reported numbers and issues guidelines for companies using the framework to follow. Thereafter, organizations use a process where they determine the specific metrics, the organizational boundary, and the specific reporting process. The initiative identifies four cross-sector metrics: stationary combustion, mobile combustion, HFC from air conditioning and refrigeration, and measurement and estimation uncertainty for GHG emissions. These are four metrics that every organization – for profit, non-profit, or governmental – could and should adopt along with targets for reduction of GHG emissions. Though this protocol loses some of the comprehensiveness of the G3 framework, it allows easy comparisons across organizations.

The U.S. Green Building Council publishes a number of ratings corresponding to LEED (Leadership in Energy and Environmental Design) certification. Some of these metrics are common to all bricks-and-mortar organizations and should be adopted as part of the standard reporting system, with as much emphasis as financial metrics. These include water usage, energy usage, water efficient landscaping, and interior lighting. Other proprietary measurements of environmental impact are available to businesses that adopt The Natural Step or the Cradle-to-Cradle frameworks.

While great strides have been made in identifying and creating metrics that assess an organization's environmental impact, the large number of frameworks reduces the ability to compare across organizations over time. We recommend that organizations adopt a few privileged cross-sector metrics that can address this issue of comparison while also evaluating

the available measurement frameworks for additional metrics important for the particular company or industry.

In management, it is a truism that “what gets measured matters.” Having strong metrics underlines the commitment to environmental and social impacts. As what matters within an organization changes over time, as new environmental metrics are as privileged as traditional financial metrics, attention is turned to the impacts represented by the measures. Employees’ behavior reflects this emphasis, and soon, the organizational culture reflects environmental values, mindful of long-term, sustainability goals, rather than simply economic values where short-term profit is embraced above all else.

### **Author Biographies**

**Justin Parlapiano** comes from Stafford Springs, Connecticut. He attended Sacred Heart University in Fairfield, Connecticut, for two years before transferring to Ithaca College. At Ithaca, Justin was a member and starting goal keeper of the division three men’s soccer team and holds a cumulative GPA of 3.83. He is expected to graduate in May of 2011 with a Bachelor of Science in Business Administration and a management concentration. Currently, he works for Northwestern Mutual Financial Network and will continue full time after graduation.

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