

Without a definition of corporate sustainability, how to measure performance?

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BMW is the world's most sustainable corporation. This is according to the Global 100 Most Sustainable Corporations in the World index [released](#) by Corporate Knights at this year's World Economic Forum. [Last year's](#) most sustainable corporation, Biogen, was ranked 30th this year. These companies have clearly performed well on a rigorous set of environmental and social criteria, but are they sustainable? We don't actually know.

The Global 100 ranks large, publicly-traded companies that pass a number of [screening criteria](#) on the basis of 12 key performance indicators ([KPIs](#)). The KPIs address issues such as energy, carbon, water, and waste productivity; innovation capacity; safety performance; leadership diversity; and a link of pay to clean capitalism; among others. Corporations are ranked against their global industry peers. The Global 100 has been developed through a thoughtful process with admirable transparency. It has made an important contribution in helping raise the profile of corporate sustainability assessment. However, it does not allow us to distinguish sustainable corporations from ones that are unsustainable.

The creators of the Global 100 explicitly [acknowledge](#) that "determining which companies are 'sustainable' and which are not is a challenging enterprise". There is still no common understanding of what corporate sustainability performance entails. Difficulties in defining corporate sustainability, determining analytical boundaries, collecting data, and accommodating the needs of different industries are some of the challenges of measuring performance in this area. The Global 100 has made clear choices in each of these areas. What is largely missing are linkages to the broader economic, environmental, and social context in which business activity takes place.

A key performance indicator such as carbon productivity, for example, is important. Reducing the amount of greenhouse gas (GHG) emissions relative to revenue is a commendable goal and there is value in making incremental improvements on such a measure. Productivity alone, however, is not sustainability. Sustainability is fundamentally about whether nature and society can support the activity indefinitely. Therefore, to assess whether a level of carbon emissions is sustainable or not, we must consider the ability of the planet to absorb those emissions.

We simply don't know if incremental, productivity-oriented improvements may be deemed sustainable or not without that reference point.

To determine if a corporation is sustainable or not we need to address three key questions, including how to decide (1) what should be measured, (2) what the appropriate reference points should be, and (3) how resources and responsibilities should be allocated to different corporations. Each of these questions is difficult to address because they involve normative judgments. There is no one correct formulation, but they must all be answered with the broader [sustainability context](#) in mind. This is a [foundation](#) of measuring corporate sustainability.

Determining what should be measured is challenging because of the broad scope of corporate sustainability. For environmental issues, the [Planetary Boundaries](#) concept provides an example of a science-based reference point for key environmental thresholds. This could provide a starting point for identifying environmental performance indicators. For social issues, science-based reference points are in an earlier stage of development. The new [UN Sustainable Development Goals](#) offer one potential starting point from a public policy perspective. Further tailoring would be required, however, since no corporation could be expected to contribute to all 17 goals and 169 targets. That said, there will inevitably be debate on what environmental and social KPIs should be used to assess sustainability.

Selecting a reference point for some issues is easier than others. Carbon emissions are a global issue and there is widespread [agreement](#) on the need to limit the rise in global mean temperature to less than 2°C, relative to pre-industrial levels. Over 120 companies have [committed](#) to taking action on climate change through the Science Based Targets initiative. Other environmental issues, however, may not be as straightforward. Determining a sustainable level of water usage, for example, would need to be done with reference to the capacity of regional watersheds. Additionally, science-based reference points for social issues are, in many cases, difficult to identify since expectations are generally more normative in nature.

Even if agreed upon KPIs and reference points can be established, there is a need to determine what these mean at the corporate level. If, for example, it is agreed that global greenhouse gas emissions must be limited in order prevent a mean temperature rise of 2°C, what is the permissible level of emissions for any one corporation? Existing [proposals](#) include allocations based on the corporation's contribution to GDP or the size of its workforce. These are innovative approaches that provide a needed starting point, but they strongly favor existing large corporations. Assigning resources and responsibilities to individual corporations is a difficult challenge.

Are any of the corporations in the Global 100 sustainable? We can't be sure. The Global 100 provides interesting, transparent, relative comparisons between corporations on a set of clearly defined KPIs. It is a commendable effort. However, it does not tell us if companies are operating within environmental limits or if they are making positive contributions to the things society values most. These are the issues that fundamentally underlie whether a corporation is sustainable or not. Future work in this area should focus on identifying key performance indicators with clear science- or public policy- based targets for global and regional sustainability and on how these may be translated to the corporate level.



Notes:

- This post is based on the authors' paper [Measuring Enterprise Sustainability](#), in *Business Strategy and the Environment*, Volume 25, Issue 2, pages 120–133, February 2016
- This post gives the views of its author, not the position of LSE Business Review or the London School of Economics.
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