



Sustainable Development (SD) and Value Creation

**Sustainable Development in Communities - McMaster University
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Objectives

- Define sustainable development (SD)
- Identify which industry sectors are embracing SD
- Outline the business case for SD



Sustainable Development...

“meeting the needs of the present without compromising the ability of future generations to meet their own needs”

World Commission on Environment and Development, 1987



Environment

- increase recycling efforts
- produce less waste
- support energy efficiency
- reduce spills
- lower SO₂, NO_x, greenhouse gas emissions
- support biodiversity
- manage nuclear waste
- ISO 14001

Sustainable Development

Society

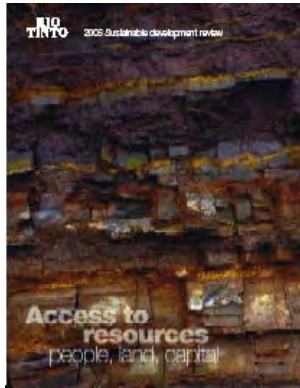
- support door-to-door community outreach, plant tours, etc.
- support work/family life balance programs (e.g. flexible work hours)
- recognize value of a diverse workforce

Economy

- support local procurement
- support local hiring
- support training and scholarship programs



Alcan



Rio Tinto



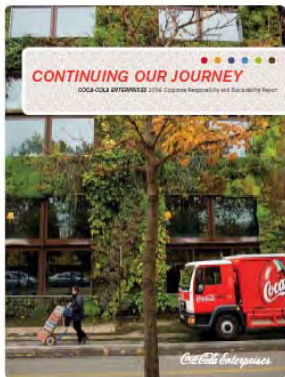
Canfor



Shell Canada



Suncor



Coca Cola



Ricoh



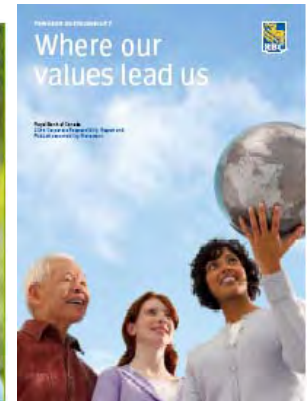
Baxter



Rezidor



L'Oreal



Royal Bank



A dense grid of corporate logos from various industries, including:

- Financial & Banking:** Rabobank International, PricewaterhouseCoopers, The Coca-Cola Company, Leif Höegh & Co, Deutsche Bank, Sompo Japan, Gruppofalck, Oji Paper, MeadWestvaco, Hitachi Chemical, Caterpillar, Volkswagen, Vodafone, Allianz, Philips, Danisco, 3M Worldwide, Eskom, Heineken, Holcim, Skanska, Sony.
- Energy & Utilities:** TEIJIN, Fortum, Suez, Zurich, Shell, Taiheyo Cement, Swiss Re, Sonaie, UBS, Hydro, UPM, ENCE, Uniland, EDF, ST, Renault, Bureau Veritas, DNV, ABN-AMRO, NOKIA, ING, Suncor, Exelon, SCA, AMCOR, Grupa Nueva, Retec, Cemex, Vitro, Conoco, Western Power, Newmont, Johnson & Johnson, RMC Group p.l.c., Monsanto.
- Manufacturing & Industrial:** AGC, Samsung, ABB, Areva, Nissan, Statoil, UBS, Hydro, UPM, ENCE, Uniland, Renault, Bureau Veritas, DNV, ABN-AMRO, NOKIA, ING, Suncor, Exelon, SCA, AMCOR, Grupa Nueva, Retec, Cemex, Vitro, Conoco, Western Power, Newmont, Johnson & Johnson, RMC Group p.l.c., Monsanto.
- Technology & IT:** NTT Group, P&G, WMC, AT&T, Novartis, Italcementi Group, Johnson & Johnson, A Family Company, ChevronTexaco, Toyota, The New York Times, LAING, Kodak.
- Pharmaceuticals & Healthcare:** Pfizer, Novozymes, Gerling, Kikkoman, Lafarge, Snutreco, Suncor, Exelon, SCA, AMCOR, Grupa Nueva, Retec, Cemex, Vitro, Conoco, Western Power, Newmont, Johnson & Johnson, RMC Group p.l.c., Monsanto.
- Other:** Deloitte Touche Tohmatsu, The Warehouse, BG, Aracruz, Unilever, Grupo IMSA, Noranda, Mitsubishi Corporation, Ford Motor Company, Votorantim, Anglo American, Acindar, CIMPOR, Epenisa, OI, ICI, Codelco, Alcoa, GM, Petro-Canada, Ontario Power Generation, Severn Trent, Rio Tinto, Alcan, Roche, Denso, StoraEnso, Syngenta, Veolia Environnement, Dow Corning, Rohm Haas, BHP Billiton, Interface.

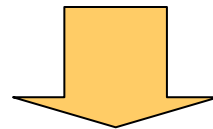
Sustainable Development, Quality of Management and Shareholder Value

Causal Factors/ Direct “Bottom Line” Impact

- access to markets/new build
- employee attraction/productivity
- discount on borrowed capital/
lower insurance premiums
- address customer demands
- facilitate partnerships
- increase efficiency
- inclusion in “SD” Funds

Correlational Factors/ “Quality of Management”

- corporate governance
- product innovation
- financing options
- manufacturing processes/
production line efficiency
- skills upgrade
- continuous improvement



SHAREHOLDER VALUE

Sustainable Development Index -- SDI

Method

- Quantitative
- Comprehensive
- Proprietary



Measures

- Practical
- Meaningful
- Cost Effective



Analysis

- Industry Specific
- Rigorous

Level 1 Metric	Level 2 Metric	Ranking					
		0	1	2	3	4	5
General	SD Policy				■		
	Goals and Targets					■	
	Contact Persons						■
	Stakeholders Identified						■
	etc., etc.	Avg. _a = 3.5		n _a = 4			
Environment	Waste Production						■
	Energy Consumption						■
	Energy Conservation				■		
	Water Consumption						■
	Land Remediation						■
etc., etc.	Avg. _e = 3.8		n _e = 5				
Economy	Share Best Practices				■		
	Local Procurement						■
	Local Hiring						■
	Contribution to Research						■
	Wage Based Economy						■
etc., etc.	Avg. _{ec} = 3.4		n _{ec} = 5				
Society	Town Hall						■
	Open House						■
	Community Meetings						■
	Public Hearings						■
	Recreation						■
	Aesthetic						■
	Heritage Sites						■
etc., etc.	Avg. _s = 3.7		n _s = 7				

**40 - 160
Performance
Measures**

Evaluating Performance

- site visits
- questionnaires
- interviews
- reviews of SD and Environmental Reports

SDI = weighted average score

**SDI > 70% = SD Company
= Superior Quality of Management**

ABC Co. = 72.3%



DJSI World / MSCI World:
Correlation: 0.9760 Tracking Error: 3.64%
DJSI Volatility: 16.49% MSCI Volatility: 15.51%





February 2006

THE SDEFFECT™: TRANSLATING SUSTAINABLE DEVELOPMENT INTO FINANCIAL VALUATION MEASURES

A Pricot Analytical Framework

Key messages:

- The SDEFFECT is a new tool for measuring and comparing the financial value of sustainable development.
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Yachnin Associates
CORPORATE KNIGHTS



Conclusions

- SD is industry pervasive
- SD, properly applied, creates value (it is not charity)
- Companies must be practitioners of SD if they are to retain their “license to operate”