Doing Well by Doing Good: Ports and the Sustainability Challenge

BY
Aston A. Hinds, Ph.D.
Chairman, AAPA Port Sustainability Task Force
AAPA Port Finance Seminar, June 10-12, 2008
Sustainability - Defined in Many Ways

“…Sustainable Development: meeting the needs of the present without compromising the ability of future generations to meet their needs…”

~Bruntland Commission

Corporate Social Responsibility: The overall relationship of the corporation with its stakeholders. Elements of social responsibility include financial performance, creation and maintenance of employment, environmental stewardship, employee relations and investment in community outreach.

~Conference Board of Canada

Corporate Social Responsibility: The commitment of business to contribute to sustainable economic development – working with employees, their families, the local community and society at large to improve their quality of life. ~WBCSD
AAPA’s Definition

For Ports, Sustainability Means Business Strategies and Activities that Meet the Current and Future Needs of the Enterprise and its Stakeholders, while Protecting and Sustaining human and Natural Resources……..
What is Sustainability?

- Sustainability Triple Bottom Line: Economy, Environment and Equity (Society): E3 or People, Planet, Profits (P3)
A “Balanced” Definition

“A three-legged stool’ balanced between economic, environment and social considerations”

– Mark Moody-Stuart, Chairman
Royal Dutch/Shell
Stakeholder Accountability

- **Society**
  - Neighbors
  - Communities
  - Public at Large
  - Indigenous People
  - Media
  - NGOs
  - Future Generations

- **Authority**
  - Regulators
  - Legislators
  - Governance Standards
  - Codes of Practice

- **Customers**
  - Immediate
  - End User
  - Informed Consumer

- **Employees**
  - Current Staff
  - Staff Families
  - Prospective Employees
  - Former Employees

- **Business Partners**
  - Suppliers
  - Contractors
  - Joint Venture Partners

- **Environment**
  - Local
  - Global
Triple Bottom Line

Accountability extends across the triple bottom line

- Economic and Financial
- Health, Safety and Environmental
- Social and Ethical

Triple bottom line accountability demands
- STEWARDSHIP of economic, ecological and social resources
- Progress towards SUSTAINABILITY as an ultimate goal
- SOCIAL RESPONSIBILITY as a corporate citizen
Meeting Stakeholders’ Expectations is Critical for Protecting “License to Operate” & Long Term Industry Viability.

Delivering Specific, Measurable Business Benefits Enhances Environmental Initiatives Ensuring Maintenance.

Reframing Environmental Initiatives/Strategies in Broader Sustainable Development Context Perpetuates Bottom Line Results/Benefits

Actively Participating in the Sustainability Movement, Increases Port Industry’s Ability to Shape its Destiny
5 Stages and Emerging Drivers

1. Pre-Compliance
   • Regulatory Pressure / Enforcement

2. Compliance
   • Regulatory Threat
   • Public Relations Crisis

3. Beyond Compliance
   • Regulatory Threat
   • Public Relations Crisis

4. Integrated Strategy
   • Business Opportunities – “Carrots”
   • Risk Management – “Sticks”

5. Purpose / Passion
   • Passionate Founder / CEO

Proactive

Reactive
Seven Business Case Benefits Of Sustainability

1. Increased Revenue / Market Share
2. Reduced Operational Expenses
3. Reduced Risk – Making for Easier (cheaper) Financing
4. Reduced Expenses at Commercial Sites
5. Increasing Employee Productivity
6. Higher Retention of Best Talent
7. Easier Hiring of Best Talent
Sustainability & Financial Performance

- 85% of Total Studies Assessed Found Positive Correlation Environmental & Financial Performance

  - Winslow Green Growth Fund – Out Performed Benchmark 20.41%, 5.79% & 11.49%
  - Forest & Paper Companies w/ Environmental Governance & Track Record Out Performed Companies w/Below Average Standards > 43% (1999-2003)
  - 3M Pollution Prevention Program Saved > $894 Million (1972-2002)
## The Business Case – Reduced Operational Expenses – Baxter International

<table>
<thead>
<tr>
<th>Reduction Area</th>
<th>Goal %</th>
<th>Base Year</th>
<th>2005 Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce air toxic emissions</td>
<td>85</td>
<td>1996</td>
<td>$1 million</td>
</tr>
<tr>
<td>Reduce hazardous &amp; regulated waste generation</td>
<td>35</td>
<td>1996</td>
<td>$4 million</td>
</tr>
<tr>
<td>Reduce nonhazardous waste generation</td>
<td>35</td>
<td>1996</td>
<td>$15 million</td>
</tr>
<tr>
<td>Reduce energy use (and assoc. Greenhouse Gases)</td>
<td>30</td>
<td>1996</td>
<td>$30 million</td>
</tr>
<tr>
<td>Reduce packaging materials</td>
<td>20</td>
<td>1996</td>
<td>$25 million</td>
</tr>
<tr>
<td>Reduce:</td>
<td></td>
<td></td>
<td>$25 million</td>
</tr>
<tr>
<td>Employee work related lost-day-case rate</td>
<td>60/50</td>
<td>1996/1999</td>
<td></td>
</tr>
<tr>
<td>Rate for all employee work-related injuries and illnesses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
<td>$100 million</td>
</tr>
</tbody>
</table>
"Perfect Storm" of Business Risks

<table>
<thead>
<tr>
<th>10 Market Forces</th>
<th>5 Demanding Stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>5 Mega-Issues</strong></td>
<td></td>
</tr>
<tr>
<td>Climate Change</td>
<td>Awakened Customers</td>
</tr>
<tr>
<td>Pollution &amp; Health</td>
<td>Activist Shareholders</td>
</tr>
<tr>
<td>Globalization Backlash</td>
<td>Civil Society/NGOs</td>
</tr>
<tr>
<td>Energy Crunch</td>
<td>Government Regulators</td>
</tr>
<tr>
<td>Erosion of Trust</td>
<td>Financial Sectors</td>
</tr>
</tbody>
</table>
Seven Business Case Benefits Of Sustainability

1. Increased Revenue / Market Share
2. Reduced Operational Expenses
3. Reduced Risk – Making for Easier (cheaper) Financing
4. Reduced Expenses at Commercial Sites
5. Increasing Employee Productivity
6. Higher Retention of Best Talent
7. Easier Hiring of Best Talent
Company Value Iceberg

Tangibles
/ Financial Capital
/ Balance Sheet

Intangibles
/ Nonfinancials
/ Stakeholder Relationships

Market Capitalization
Company Value Iceberg

Financial Capital

Stakeholder Capital
- Customer Loyalty and Ideas
- Distribution and Marketing Channels
- Strategic Alliances
- Regulators, Communities, NGOs

Sustainable Governance
- Organizational Capabilities
- Innovative Capabilities
- Learning Dissemination Mechanisms
- Strategy, Vision & Culture
- Structure

Human Capital
- Individual Competencies and Innovation Potential
- Capacity for Teamwork
- Values

Eco-Value
- Strategic Management Capacity
- Cost Reduction
- New Business Opportunities
- "Innovation Effect"

The Innovest Iceberg
GE “Ecomagination”

May 2005 Announcements by GE CEO Jeffery Immelt

- #7 Fortune 500: $157B Revenue 2005
- 30% Green House Gas (GHG) Intensity Reduction by 2008
- 1% Absolute GHG Reduction by 2012 vs. 40% Increase
- 30% Better Energy Efficiency by 2012 over 2004
- 2X Research Investment in Cleaner Technologies, from $700M - 2004 to $1.5B - 2010
- Sell $20B of 17 “ecomagination” – Tagged Products per year by 2010, up from $10 Billion Sales in 2004
For Ports Sustainable Development can be Translated into Operational Issues such as:

- Phasing out Use of Substances that are Costly to Manage and Persistent in the Environment

- Ability to Meet Customer Requirements in Areas where Social Accountability is an Important Issue

- Eco-Efficiency – Deploying New Technologies – Handling Larger Volumes of Cargo in Less Space with Fewer Emissions

- Concurrent Development of Wetlands, Habitats, Nature Centre and Educational Materials
Foundations of Sustainability

Organizations Must Be:

**Transparent** – Open to Third Party Verification

And

**Accountable** – Report Progress
Action Plan: PDCA

- Establish a Forum to Address Issues Related to Sustainability – Aspects & Impacts
- Evaluate Wider Impact of “Products & Services” - Including Social Impacts
- Elevate Identified Issues to Strategic Level
- Assess Significance
- Business Process Integration (i.e. Sustainability Matrix)
Closing Thoughts

Sustainable Development is now a Primary Driver of Business Strategy.

Ports Should Begin to See its Strategic Importance & Build it into their Long-term Plans: & Evaluate Progress Against those Plans as a Matter of Corporate Governance.

AAPA Should focus on increasing awareness and continue the development of tools to aid implementation.