Integrating Social and Environmental Commitments into Business Strategy and Operations

The case study of Mountain Equipment Co-op

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Abstract

Corporate sustainability research and practice are beginning to move beyond eco-efficiency. In our search to conceptualise sustainable development in terms that make sense to business, a growing range of frameworks, tools and management systems have emerged to support efforts to improve the social and environmental performance of companies. One of the challenges for business is to sort through these available approaches in order to effectively integrate social and environmental issues with business strategy and operations.

This study describes and analyzes the efforts of a recognized Canadian leader in social and environmental responsibility, Mountain Equipment Co-op (MEC), to integrate social and environmental issues with its business strategy and operations. MEC is a member owned and directed retail consumer co-operative, which provides products and services for self-propelled wilderness-oriented recreational activities. Using an action research methodology, the study examines the strategic framework that MEC has utilized to conceptualise sustainability, considers its link with MEC's business planning cycle and internal systems, and identifies opportunities to improve the effectiveness of integration at MEC. It then links the MEC case study to various frameworks, theories, tools and management systems that shaped the conceptual context for the research area.

The research found that the key to effectively integrating social and environmental issues with business strategy and operations is to align business success with overall principles of sustainability. Specifically, it recommends focusing efforts at integration where value is created in the organization. For MEC, this implies a focus on Product Sustainability, since products are its main source of social and environmental impact and its main point of interaction with the market. It also suggests the use of a planning technique called backcasting to align business success with principles of sustainability.

Executive Summary

Social and environmental issues are becoming increasingly important for most business organizations. While they have traditionally been viewed largely as peripheral issues, a growing number of organizations view social and environmental issues as business issues – key to their competitive strategy. In response to the call for increased corporate attention to social and environmental sustainability, a plethora of strategic frameworks, tools, and management systems have emerged to guide corporate efforts to address the issues. Nevertheless, social and environmental issues are still frequently managed as non-core issues at the periphery of a business.

This thesis therefore examined the following research question:

How can organizations integrate social and environmental issues into business strategy and operations?

In order to answer this question, the author chose an action research methodology, where the efforts of one organization to integrate social and environmental issues with business strategy and operations were described and analysed in detail. In order to draw lessons and implications for other organizations and for theory, the case study was framed in relation to some of the theories, conceptual frameworks, tools and systems that have, thus far, guided corporate sustainability efforts.

Before beginning the action research, therefore, the author studied the conceptual context for the research by exploring the following questions in a literature review:

1. Why would a company want to integrate social and environmental issues into its business strategy and operations?

2. How can an organization manage its social and environmental performance?

3. How can an organization evaluate the success of its efforts to integrate social and environmental issues with business strategy and operations?

A number of common approaches to corporate sustainability were reviewed, including the triple bottom line, the "capitals" approach, and The Natural Step Framework. The most important point to mention about the literature review on corporate sustainability was that it revealed an emerging desire for organizations to go beyond strategies to improve efficiency and resource productivity (i.e. eco-efficiency), to begin in strategic planning to consider the issue of sustainability on a more macro scale. It also revealed that the business case for corporate sustainability is more sophisticated than a simple statement that "it pays for businesses to be green." In fact, the particular strategies that an organization should take in their work on sustainability depend on a number of factors, including perhaps most importantly its relationship with the market. To summarize the findings of the literature review, a list of common barriers and key considerations for the integration of social and environmental issues with business strategy and operations were developed.

Case study: Mountain Equipment Co-op

The subject of analysis for the case study was Mountain Equipment Co-op (MEC). MEC is a Canadian member owned and directed retail consumer co-operative, which provides products and services for self-propelled wilderness-oriented recreational activities. With a membership of over 1.6 million people, a product range of over 8000 products, and a leadership position in the marketplace for outdoor gear in Canada, it is a highly successful business enterprise. It is also broadly recognized as a leader in social and environmental responsibility, having been recognized for its green-building program, organic cotton clothing line, and supplier audit program, among other initiatives. In early 2002, MEC had formalized its social and environmental commitments in a Sustainability Policy, and was considering a social and environmental management system (SEMS) that would help it integrate social and environmental responsibility into the core of its business operations. On this basis, it was identified as an appropriate subject of analysis for the research, since the stage of its work would allow the research

to be focused on the issue of *integration* rather than on the articulation of social and environmental objectives for the organization.

The author spent two months at the MEC head office in Vancouver, Canada. The case study research began with a familiarization with MEC's strategic business planning cycle, its various internal systems, and the background to its work on sustainability. Interestingly, MEC had recently adopted a 5-year Strategic Plan that was structured around the capitals approach described above. Then, the issues involved with the integration of social and environmental issues with MEC's business strategy and operations were explored in more depth through a series of semi-structured interviews with senior managers and staff members from across the organization. The interviews revealed that there was a high degree of alignment among staff members about the mission of the organization and strong support for the new Sustainability Policy. It also revealed, however, a tension within the organization about the appropriate pace toward which the organization should pursue its commitments. This was especially true for the critical area of Product Sustainability. In addition, staff members were generally unclear about the role and purpose of a social and environmental management system.

On the basis of the input gathered during the interviews, the research then focused on what MEC could do to improve the integration of social and environmental issues with business strategy and operations. This stage of the research involved a workshop with MEC senior managers to identify priorities, followed by an iterative development process, where a set of guidelines and two draft tools were developed to support the integration of the commitments in MEC's Sustainability Policy with business strategy and operations. The two tools were a **Management System Review Process**, which could be used to evaluate the extent to which appropriate systems were in place for MEC to fulfil each of its social and environmental commitments, and a **Project/Initiative Evaluation Tool**, which was designed to support MEC staff with decision-making. Finally, these draft tools were evaluated. The Management System Review Process was tested by applying it to MEC's sourcing-related commitments and activities. The Project/Initiative Evaluation Tool, along with the output of the review of the sourcing program, was presented for feedback and discussion to the same senior managers who had attended the first workshop.

The overall research findings were outlined beginning from the basis of the barriers that MEC faced in its efforts to integrate social and environmental issues with business strategy and operations, and the strengths and weaknesses of its approach. It concluded that MEC had *already* integrated social and environmental issues with business strategy and operations, but the question for MEC was how it could be done more effectively. The recommendation to this effect was that MEC would need to align its business success with principles of sustainability. The key to doing so is an increased focus on Product Sustainability. Products are the source of MEC's most significant ecological impacts and its main point of contact with its market. The research recommended that MEC utilize a planning technique called backcasting to guide its Product Sustainability journey.

The lessons and implication from the MEC case study for other organizations considering how to integrate social and environmental issues with business strategy and operations are many. Organizations can learn from the content of the MEC Sustainability Policy, from the degree to which social and environmental responsibility factors into business planning, from the process through which it has built organizational awareness and support for the integration of social and environmental issues. There are also lessons to be learned from the weaknesses of MEC's approach, such as its lack of emphasis on measurement and reporting, the misalignment of some of its internal systems, including its individual performance systems, and the reasons for its relative lack of emphasis to date on product sustainability.

In general, the lesson from the MEC case study is that an organization seeking to integrate social and environmental issues with business strategy and operations should focus on the main areas where it creates value. Such an emphasis frequently results in an emphasis where the most significant impacts are created, but more importantly, also ensures that the work is focused on the point where the

organization most directly interacts with the market, ensuring a boundary with which to determine an appropriate pace for the organization's innovation activities. Among other things, this thesis suggests an increased research emphasis on corporate sustainability strategies beyond eco-efficiency.

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1. Introduction

Growing public concern about environmental issues and the social responsibilities of the corporate sector has placed sustainable development firmly on the business agenda. In the early years of the 21st century, no firm can afford to be seen as ignorant of the social, environmental and economic impacts of their business - the so-called "triple bottom line" of sustainability (Elkington, 1997). In response, a growing number of companies have taken such measures as implementing environmental management systems and producing reports of their efforts to be socially and environmentally responsible. Nonetheless, in most companies, sustainability remains a non-core element of the organization, often unrelated to its core business strategy (Figge et al, 2001). Environmental issues are frequently tucked away in a relatively uninfluential Environment, Health and Safety department, while social issues are generally considered primarily as a part of corporate philanthropy programs.

Leading corporate initiators of sustainability in business have recognized the strategic nature of social and environmental issues and have sought to manage them not just as costs to be minimized but also as sources of business opportunity and innovation. This approach requires a long-term perspective that can appear at odds both with the historic view of environmental and social issues as outside the strategic business scope of a firm and with the focus on short-term results and financial performance that dominates the corporate and market environment today (Nattrass & Altomare, 2002).

Even where it has been done relatively successfully, if sustainability is integrated at a strategic level with the core of the business, it is often a result of a supportive organizational culture and/or a dynamic leader or internal champion (Schendler, 2002), rather than as a systematic integration of social and environmental factors into strategic planning and management systems and operations. This can lead to a somewhat scattered approach to sustainability, where the link between social and environmental performance and business success is unclear and/or anecdotal (Figge et al, 2001). In a competitive business environment, a lack of clarity about the strategic relevance of social and environmental performance clearly makes it vulnerable to management indifference or underallocation of resources. Many leading practitioners and researchers of sustainable business are therefore attempting to integrate the systems for managing social and environmental issues with general business planning and operations at a strategic level, in effect to "operationalize sustainable development" in such a way that the strategic value of social and environmental issues is captured.

1.1 Research Problem and Questions

Mountain Equipment Co-op (MEC) is a Canadian retailer of outdoors equipment and clothing and a widely recognized Canadian leader in sustainable business. Its success is largely the result of an organizational culture that has had environmental protection and social responsibility at the core since its creation in 1971.[1] The organization has grown tremendously since 1971, to the point where its membership in 2002 was over 1.6 million people and its revenue almost $180 million in 2001. Rapid growth and an increasing consumer awareness of social and environmental issues have brought forth a need for a more systematic approach to sustainability efforts where social and environmental performance are planned and managed in an integrated fashion and are consciously treated as drivers of strategic value for the organization.

This thesis aims to make a contribution to the emerging field of integrated sustainability management by describing and analysing an action research project involving a recognized leader in sustainable business currently dealing with these issues, Mountain Equipment Co-op. The primary research question for the thesis was the following:

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[1] "MEC employees wear their values on their sleeve, sometimes quite literally" (MEC Social and Environmental Responsibility Task Team Baseline Report, 2001)

How can organizations integrate social and environmental issues into business strategy and operations?

Additional subsidiary research questions were identified in order to establish a flow of logic to answer the primary research question. Two levels of research were utilized to answer the question and to organize the subsidiary questions. First, the conceptual context for the research was described, building on literature and best practices. This level of research was useful in order to establish a theoretical base for the work. It also helped identify key considerations and common barriers faced by organizations in integrating social and environmental issues into business strategy and operations. The second level of research was the case study of Mountain Equipment Co-op. Answering the question for Mountain Equipment Co-op was useful in order to root the research strongly in the context of organizational reality and to draw lessons from one organization's approach that could be useful for other practitioners and researchers of sustainability management.

The questions leading the literature review were the following:

1. Why would a company want to integrate social and environmental issues into its business strategy and operations?

2. How can an organization manage its social and environmental performance?

3. How can an organization evaluate the success of its efforts to integrate social and environmental issues with business strategy and operations?

The questions leading the MEC case study were the following:

1. What approaches and systems does MEC use for business planning and performance management?

2. What are MEC´s social and environmental commitments and how were they developed?

3. What does integration mean for MEC?

4. How can MEC improve the integration of social and environmental issues into business planning and operations?

1.2 Scope

This thesis contains an overview of many of the theories, concepts, frameworks and models relevant to the integration of social and environmental issues with business strategy and operations. This overview is not meant to include every program or tool that has been used by organizations to support their work on integrating social and environmental issues, nor does it introduce any new conceptual frameworks. Instead, it is a review of some of the most widely used concepts and tools and those that the author felt would be most relevant to frame the analysis of the case study findings.

The thesis also contains an in-depth analysis of the factors that have affected the integration of social and environmental issues into business strategy and operations at Mountain Equipment Co-op. The analysis and conclusions are mainly based on the interviews and observations of the case study. Thus, they are to some extent specific to the situation and characteristics of MEC. However, since many factors that potentially influence the integration of social and environmental issues with business strategy and operations are common across organizations, the results should be of general interest. The primary research question was phrased broadly so that the outcomes of the case study research could

be tied to general concepts and theories in order to make the conclusions and recommendations applicable to more than just the organization studied.

The author spent two months at the head office of Mountain Equipment Co-op, where he was granted access to internal documents and senior managers. The research was positioned to the rest of the organization as a collaboration between the author and the Social and Environmental Responsibility Coordinator of MEC in order to ensure that individuals within the company would be as responsive as possible to requests for information or meetings. While a high degree of access was granted to the author for the purpose of the research and while there was a fairly high degree of openness to suggestions made by the author during the action research, some actions were beyond the scope of the action research project. For example, MEC's newly adopted Sustainability Policy would not be redeveloped during the two months that the author was at the organization, nor would the basic structure of the MEC Strategic Plan. Reflections and suggestions about these items are, however, factored into the analysis and conclusions to the thesis as a whole.

1.3 Outline of the thesis

Section one of this thesis introduces the research problem and questions and provides background and justification for the research. Section two describes the methodology used to undertake the research. Section three sets the conceptual context by outlining various theories, tools, frameworks and models relevant to the integration of social and environmental issues with business strategy and integration. Section four describes the case study research at Mountain Equipment Co-op, while section five provides an analysis of this research. Finally, section six outlines the conclusions, including lessons for other organizations, implications for theory, and recommendations for MEC.

2. Methodology

The research methodology for this thesis was exploratory in nature. Perry (1994) explains the difference between exploratory and explanatory research: "Essentially, exploratory research is qualitative and asks 'what are the variables involved?'; in contrast, explanatory research is quantitative and asks 'what are the precise relationships among variables?'" In his book on qualitative research, Maxwell (1996) identifies five particular research purposes for which qualitative studies are especially suited:

1. Understanding the meaning, for participants of the study, of the events situations and actions they are involved with.
2. Understanding the particular context within which the participants act and the influence that this context has on their actions.
3. Identifying unanticipated phenomena and influences and generating new founded theories about the latter.
4. Understanding the process by which events and actions take place (rather than the outcomes).
5. Developing causal explanations, where causality means "the actual events and processes that led to specific outcomes."

The research question for this thesis would be difficult to approach quantitatively. It deals with the functioning of organizations, as determined by the motivations, behaviours, skills, values and attitudes of individuals and the dynamic developments of market and other external forces. These factors and the relationships among them are best understood by interpreting the experiences of individuals and organizations. Their implications are best understood by contextualizing them. The integration of social and environmental issues with business strategy and operations depends on the perceptions of individuals within an organization about the issues, the organization's culture, leadership and structures, the series of internal and external events that has led the organization to its current situation, and the context within which the organization operates. This research is, therefore, consistent with all of the particular research purposes for qualitative research suggested by Maxwell.

Maxell further identifies three practical objectives for qualitative research:
1. Generating results and theories that are understandable both to the people you study and to others.
2. Conducting formative evaluations that have the aim to help improve existing practices rather than simply stating the value of a program.
3. Engaging collaborative or action research with practitioners or research participants.

The research for this thesis aims to achieve all of these. It aims to help readers and MEC representatives themselves understand the factors that have affected MEC's work on sustainability. It aims to help MEC improve the integration of its social and environmental commitments with business strategy and operations. It also aims to make a contribution to other organizations and researchers exploring the challenges of our collective journey to sustainability by producing lessons, recommendations, and implications that can be generalized to a certain extent.

This section describes the methods used to answer the primary research question. It will address what was done in each phase of the research, how it was done and why. The chapter is divided into six sections. Section 2.1 provides a justification for the action research approach. Then, section 2.2 outlines the main phases of the research. The next three sections describe each of the three main phases of research in more detail. Finally, section 2.6 points out some of the limitations of the research methodology employed.

2.1 Rationale for the action research approach

A wide body of academic literature exists on corporate strategy and on strategic management. Similarly, considerable research has been undertaken on environmental management in a variety of contexts – from the level of the individual corporation to municipalities and other levels of government. More recently, some authors (Porter & van der Linde 1995, Reinhardt 1999, King and Lenox 2002) have studied the impact of environmental issues on business strategy. In addition, numerous strategic frameworks have been developed and recommended by various authors, researchers, and institutions to guide an organization's work on sustainable development. Section 3 of this thesis describes some of these frameworks, such as those put forward by Elkington (1998), Forum for the Future (1999), and Robèrt (2002). Most of these are, however, conceptual frameworks or principles that may serve to help an organization articulate its social and environmental commitments but do not provide a great deal of direction on the integration of these commitments into a business.

Only a few authors (Johnson 1998, Figge et al 2001, Orssatto & Zingales et al 2001) have addressed the issue of integrating social and environmental issues with an organization's core business strategy and operations. In particular, there are few practical examples and case studies in academic literature of organizations that have attempted to do so. Nattrass and Altomare (1999, 2002) have written two books that provide useful case studies of approximately 8 organizations and their respective journeys toward sustainability. The founder and Chief Executive Officer of Interface Flooring, Ray Anderson (1998), has described his organization's journey in his book, while Brady et al (1999) have also documented 14 case studies in their book. Otherwise, interested practitioners and researchers of sustainability management can read about the efforts of a handful of companies who are frequently mentioned in media, or they can sift through information provided by membership and collaborative organizations such as the World Business Council for Sustainable Development. On the whole, however, the same case studies are often cited as examples and few of these case studies are explicitly focused on the issue of integration. The examples are few in number, relative to the number of organizations for whom sustainability presents a fundamental business challenge.

Why action research?

Action research is a process by which change and understanding can be pursued at the same time (Dick, 2002). The action research methodology was deemed an appropriate approach for this research because participant observation seemed the best way of gathering data, given the early stages of both the academic literature and management practice on this topic. It was deemed important that the theory be applied to an existing company, in order to ensure that the ideas are practical and rooted in reality. It was also deemed important to examine a company on the leading edge of the sustainable business movement with explicitly stated social and environmental commitments. This would help ensure that the research was more focused on the issue of integration of those commitments into the business strategy and operations than on the definition of social and environmental priorities for the business.

Why Mountain Equipment Co-op?

The efforts of Mountain Equipment Co-op to be a leader in social and environmental responsibility are extensive and are described in section 4 of this thesis. In early 2002, the organization developed an overarching Sustainability Policy to govern its sustainability efforts. The Sustainability Policy describes MEC´s beliefs about sustainability, defines its role in working toward sustainability, and outlines its specific social and environmental commitments. The next challenge that the organization identified for itself was to improve the effectiveness of the integration of the commitments in its Sustainability Policy into its business planning and operations. To do so, MEC has contemplated the development of a Social and Environmental Management System (SEMS) to guide decision-making, priority setting, planning and eventually reporting.

The stage of MEC's work on sustainability and its status as a leader in the field made it well suited to serve as the subject of analysis. Perry and Zuber-Skerritt (1992: 38) suggest that, "it is wise to consider

the thesis as something distinctly separated from the action research project, that is the candidate will have <u>two</u> projects – the action research project and the thesis project which uses the data from the action research project." Following this thinking, the action research involved in this thesis has two separate but related objectives. On one hand, the intended outcome was concrete and actionable – the basis for an improved and integrated social and environmental management system within MEC and for MEC´s pending work on sustainability reporting and product sustainability. In addition, however, the outcome of the action research included lessons from MEC's experience that could be useful both for other organizations and for the academic literature. The case study research therefore aimed to achieve the dual goals of supporting MEC in the practical implementation of its SEMS and of contributing to current management research in this field within the academic community.

2.2 Research Phases

The initial definition of the research problem and questions took place over a number of months and was an iterative process involving the researcher, various advisors, and representatives of Mountain Equipment Co-op. From the moment that the initial research design was completed, however, the research can be divided into three distinct phases, basically following the chronology of the work and further characterized by the location of the researcher. The first phase established the conceptual context for the research. It took place primarily in Sweden and involved a literature review of related literature on corporate strategy, performance indicators, strategic sustainable development, and sustainability management systems. The second phase was the case study research and took place at the Mountain Equipment Co-op head office in Vancouver, Canada, where the author spent two months. It basically involved three stages itself – familiarization with the organization, exploration of the issues involved with integration for MEC, and the identification of opportunities to improve the effectiveness of integration in MEC. These stages of the case study research are described in more detail in section 2.3. The final phase of the project was the analysis and interpretation of the data. This phase took place away from the case study location in order to ensure an appropriate distance from day to day issues of the organization.

These phases are depicted in Figure 1. It is important to note that, although this figure describes a relatively linear methodological approach, the definition of the methodology was an iterative process. In particular, the methodology for the case study research was redeveloped somewhat as the interviews and workshops yielded results that suggested slightly new directions for the research. Similarly, the data generated in the case study research itself presented new opportunities to shape the research as a whole.

Phase 1: Conceptual Context   Phase 2: Case Study Research   Phase 3: Analysis / Interpretation

What? Process
How? Data Sources / Tools/Methods
Why? Outcome

Preliminary Research Design

Phase 1: Conceptual Context

- Identify keys to integration and common barriers
- Books and articles on strategy, social and environmental management
- Experts and practitioners in sustainability management
- Literature Review
- Informal interviews
- Keys to integration and common barriers identified

Phase 2: Case Study Research

- Describe the business of MEC, including existing planning and management systems
- Describe past MEC efforts at social and environmental leadership
- Develop guidelines and tools for integrating MEC social and environmental commitments into business planning and operations
- MEC senior managers and staff
- Internal MEC documents
- Semi-structured interviews, and workshops
- Sourcing Program Review
- Literature Review
- Guidelines and tools for integrating MEC Sustainability Policy with Business Planning and Operations

Phase 3: Analysis / Interpretation

- Analyze MEC approach to integration
- Understand implications for other organizations and on theory
- Keys and barriers to integration identified in Phase 1
- Reflections on the lessons from MEC and their link to theory
- Identification of strengths and weaknesses of MEC approach to integration
- Conclusions and recommendations; answer research question

Figure 1: Research Methodology in Phases

2.3 Phase 1: Conceptual Context

The first phase of the research aimed to establish the conceptual context to the research question. This refers to the theoretical background that served to inform the case study research in the second phase. Specifically, it includes the various tools, theories, frameworks, and models that could be useful in examining how an organization can integrate social and environmental issues into business strategy and operations.

The conceptual context for this thesis was largely informed by a literature review. The literature is described later in this section. In addition to a review of literature, the author interviewed some practitioners and experts from organizations other than the case study organization. These interviews were all non-structured in nature and focused either on identifying some of the common barriers faced by organizations in integrating social and environmental issues or on descriptions of the efforts that particular organizations had undertaken. The individuals that were interviewed were either from organizations who had some kind of particular relevance to MEC (e.g. in the same industry, other co-operatives) or were published authors on related issues. A total of six such non-structured interviews were performed. Finally, the author also drew upon some of his own professional experience.

The literature review aimed to build a strong foundation in concepts related to the integration of social and environmental issues with business strategy and operations. It used as a starting point material that had been provided for a masters-level course on Strategic Environmental Management at the International Institute for Industrial Environmental Economics. This included material and examples on corporate strategy, corporate environmental strategy, codes of conduct, environmental management systems, environmental performance indicators, and corporate sustainability reporting. From this starting point, the review was extended and eventually structured around the following questions:

1. Why would a company want to integrate social and environmental issues into its business strategy and operations?

2. How can an organization manage its social and environmental performance?

3. How can an organization evaluate the success of its efforts to integrate social and environmental issues with business strategy and operations?

The literature review was undertaken to set the conceptual context for the case study research. Although the literature review did result in some propositions for approaches that could be taken during the action research component, these propositions were not finalized into any preferred theoretical framework for testing in the case study. This approach, though unlike some more quantitative research methodologies where the hypotheses are crystallised before the data collection project begins, is important to remain "true to the spirit of action research," where the outcomes should have reflections which include practical and experiential knowledge, in addition to propositional knowledge (Perry 1994: 38).

Instead of a preferred theoretical framework for testing, the author summarized the literature and best practice review by outlining some of the common barriers that organizations face in integrating social and environmental issues into business strategy and operations, as well as some key considerations. These common barriers and key considerations served merely as a reference point for the final analysis of MEC's approach to integration.

2.4 Phase 2: Case Study Research

The case study research aimed to answer the primary research question from the point of view of one organization in order to draw lessons on the integration of social and environmental issues into

business strategy and operations for other organizations and implications for theory. Thus, the overall questions guiding the case study research were:

> ➢ **How has Mountain Equipment Co-op integrated social and environmental issues into business strategy and operations?**

> ➢ **What can it do to make the integration more effective?**

In order to answer these questions, the author spent two months at the Mountain Equipment Co-op head office in Vancouver. Mountain Equipment Co-op provided access to internal documents and to MEC senior managers and staff in order to perform the research. The Social and Environmental Responsibility Coordinator of MEC supported the author throughout the case study research.

Four subsidiary questions were developed to guide the case study research. These questions would provide the author with the necessary information about MEC's efforts to integrate social and environmental issues into business strategy and operations to allow the author to analyze MEC's efforts in sufficient detail to draw conclusions that would be useful for other organizations and for understanding implications on theory. The questions were the following:

1. What approaches and systems does MEC use for business planning and performance management?

2. What are MEC´s social and environmental commitments and how were they developed?

3. What does integration mean for MEC?

4. How can MEC improve the integration of social and environmental issues into business planning and operations?

2.4.1 Familiarization with MEC

The first two questions basically involved a familiarization with MEC´s strategic planning process, management systems, and sustainability initiatives. The methodology for this familiarization consisted of a review of internal MEC documents and a series of informal interviews with MEC senior managers. The interviewees for these informal interviews included the Finance Manager, Information Services Manager, Learning and Development Manager, Social and Environmental Responsibility Co-ordinator, and a consultant who has been a part of MEC´s sustainability work since 1998. This sampling of interviewees can be classified as purposeful sampling, as described by Maxwell (1996). These individuals were selected deliberately because they could provide information that could not be gathered as effectively from other sources. They were identified as appropriate for the informal interviews largely due to the fact that, as a group, they had responsibility for a significant proportion of MEC´s existing management systems and improvement programs, including business planning, financial systems, human resource systems, information systems, and sustainability. Each of these individuals met at least once with the author, and then also responded to specific requests for information via e-mail or brief personal meetings over the course of two months until a picture of MEC's business planning, performance management systems, and sustainability-related work to date was completed.

2.4.2 Uncovering the meaning of integration for MEC

To answer question number three about the meaning of integration for MEC, a second round of interviews was undertaken with various representatives of MEC´s head office departments and program areas. Interviews were chosen as the best data collection method for this question, because it

was deemed essential to gather a diversity of views from across the organization about the issues involved with integration. This time, the interviews were semi-structured, in that pre-determined themes guided the contents and direction of the interviews (Falkheden, 1999). Approximately the same questions were posed to all of the interviewees, in order to identify consistent messages as well as areas of uncertainty or inconsistency. Additional questions, specific to the individual's role in the organization were also posed. The questions were designed by the author with the input of the Social and Environmental Responsibility Coordinator of MEC and were designed to identify and explore some of the key issues involved in the integration of social and environmental issues into MEC's business strategy and operations. They covered issues ranging from the business strategy of MEC, the value proposition that MEC offers to its customers, definitions of success for MEC in terms of sustainability, to views on the role of a Social and Environmental Management System (SEMS) for MEC. The questions were piloted with the Social and Environmental Responsibility Coordinator of MEC in order to ensure that they communicated the intended meaning and solicited the right level of response. All of the interviews were tape recorded, with the permission of the interviewees, in order for the author to ensure the data for each interview was captured in its entirety. The list of interviewees appears in Appendix 1 of this thesis, while a list of the questions posed appears both in section 4.4 and in Appendix 2.

The interviewees for the semi-structured interviews were selected based on a number of criteria, including the recommendations of the senior managers involved in the first round of informal interviews, the availability of the individuals, and most importantly the desire to ensure a broad range of representatives and perspectives from across the organization. Only head office employees were interviewed, largely due to the fact that widespread and well-documented staff and stakeholder consultation had informed MEC's previous sustainability work and due to the fact that responsibility for integration issues fell mostly on the shoulders of head office staff. This round of semi-structured interviews included all of the individuals who had been interviewed informally in the first round of interviews, plus the following individuals:

> ➢ Chief Executive Officer
> ➢ Hard Goods Manager - Merchandise Department
> ➢ Trainer - Operations Support Team
> ➢ Production Coordinator - Creative Services Department
> ➢ Communications and Marketing Manager – Information Services Department
> ➢ Web/Communications Strategist - Information Services Department
> ➢ Co-operative Development Coordinator
> ➢ Buyer and Organic Cotton Line Manager – Merchandise Department
> ➢ Buyer - Merchandise Department
> ➢ Designer - Merchandise Department

In total, 13 MEC representatives were interviewed for the semi-structured interviews. A summary of the responses were distributed to all interviewees in order to ensure that they were an accurate reflection of the organization's views on the issues and that no major views had been missed. Some feedback that resulted from this check was incorporated to improve the summary. This summary was used as a basis for the next stages of the research.

2.4.3 Improving integration at MEC

The methodology to answer question number four about improving the integration of social and environmental issues into MEC's business planning and operations was the most highly involved. Since the aim of this phase of the research was to identify opportunities for MEC to **improve** the integration of social and environmental issues into business strategy and operations, the research became very practical and rooted in organizational reality. While answering the question and identifying barriers to

more effective integration at MEC, the outcome of this stage of the research was intended to be as concrete and actionable for MEC as possible.

Workshop with MEC representatives

The first step in answering this question was to convene a workshop to discuss the findings of the interviews and to identify barriers and priorities for the improvement of MEC's integration efforts. A workshop was deemed appropriate because the interviews had raised a number of issues that required some degree of interpretation by MEC representatives and that suggested the need for some degree of consensus among senior MEC representatives about next steps and priorities. The workshop was attended by the MEC Finance Manager, Learning and Development Manager, Social and Environmental Responsibility Coordinator, Co-operative Development Coordinator, and the same consultant who had worked with MEC on its sustainability strategy since 1998. The Information Services Manager was also invited, but unable to attend. These individuals were essentially the same individuals who had been interviewed in the first round of informal interviews. They were invited to attend the workshop primarily because they had the most extensive background with MEC's sustainability work to date and because they had sufficient seniority in the organization (i.e. 3 senior managers) to credibly speak for the organization as a whole and to ensure any recommendations could be acted upon in the organization.

The author developed the agenda for the workshop with input from both the Social and Environmental Responsibility Coordinator of MEC and the Finance Manager, who has overall responsibility for sustainability in the organization. It was agreed by these three individuals that the workshop would be primarily exploratory (i.e. no major points of consensus were required at this point) and would serve to provide input to the author and the Social and Environmental Responsibility Coordinator for further steps. On this basis, the author designed the agenda in order to gather information that would be useful in developing guidelines and/or tools to support the integration of MEC's social and environmental commitments with business strategy and operations.

The workshop began with a presentation of the key findings from the interviews. Workshop attendees had been sent the detailed summary of the interviews in advance. The author's presentation, therefore, focused on consistent messages, areas of uncertainty or inconsistency in the responses, and key considerations. Workshop attendees commented on each of these topics during the presentation. Then, the focus of the workshop turned to defining the key needs for MEC from a Social and Environmental Management System (SEMS) and gaining basic agreement on a conceptual understanding of the role of the SEMS in supporting the integration of social and environmental issues with business planning and operations. Finally, the author presented two examples of approaches to integration in other organizations and one management tool to support integration. The two organizations selected for benchmarking were VanCity Credit Union and the Resort Municipality of Whistler. Both of these organizations were selected because they are organizations with which MEC has relationships and because their work on integration is highly respected by MEC representatives and others in the Canadian "corporate social responsibility" community. The author met with representatives of both example organizations prior to the workshop to gather information on their respective approaches to integration. The management tool that was discussed was the Balanced Scorecard, because it has been the tool most frequently cited in literature as a potential tool to support the integration of social and environmental responsibilities into business strategy and operations. Workshop attendees discussed the strengths and weaknesses of each approach to integration and the lessons that MEC could glean from them for its own work.

Guidelines and tools for integration

Following the workshop, the author initiated an iterative development process with the Social and Environmental Responsibility Coordinator of MEC to synthesize the information gathered in the workshop and interviews. This synthesis and analysis initially identified a **set of guidelines** for MEC to use to guide its work on integrating its social and environmental commitments with business planning and operations. In addition, a review of management systems was deemed necessary in order to

identify gaps and opportunities in management systems to support MEC´s social and environmental commitments, as articulated in the Sustainability Policy. On this basis, a draft **management system review process** was developed to compliment the guidelines for integration. Finally, in the process of developing review questions for the management system review process, the researcher and Social and Environmental Responsibility Coordinator of MEC identified the need for an additional tool to support MEC staff and decision-makers to **evaluate individual projects and initiatives** as they surfaced. Therefore, a draft framework consisting of three components – a set of guidelines for integration, a management system review process, and a project/initiative evaluation tool – was eventually developed for testing and evaluation.

Sourcing program review

The next stage of the research was to evaluate the guidelines and tools and identify opportunities for further development and application in the organization. The first step in this evaluation was to "test" the management system review process by applying it to one strategic program area of MEC. Although it was designed to apply broadly in the organization, a test with one specific program area affected by social and environmental issues would provide a basis from which to evaluate the general usefulness and specific design of the tool.

Representatives of MEC suggested the selection of Sourcing as the test program area because multiple objectives could be accomplished by the review. Sourcing is perhaps the most visible and widely discussed area of MEC´s social and environmental commitments among stakeholders. In addition, the organization was planning to undertake a review of its Sourcing Policy and program in the fall of 2002. Thus, testing the tool with Sourcing would achieve the additional benefit of providing a baseline analysis of the systems that support the Sourcing Policy. This analysis would be useful for the more in-depth review of the Sourcing Policy that would take place later in the fall. The immediate needs in the Sourcing program were also the main reason why the management system review tool was prioritised for testing. The draft project/initiative evaluation tool was not tested in the same manner, but was evaluated along with the management system review tool in a second meeting of the MEC representatives who had attended the first workshop.

The Sourcing review involved a 2-hour brainstorm between the author and the Social and Environmental Responsibility Coordinator of MEC, from which resulted an initial draft of the answers to the review questions. This draft was then sent to the Hard Goods Manager from the Merchandise Department of MEC for editing and further development. This was deemed the most appropriate method for the review because the Hard Goods Manager was responsible for the Sourcing activity and was best suited to speak to its various components. A one-hour meeting of these three individuals finalized the answers to the questions for the Sourcing program area.

Evaluating the guidelines and tools

Following the Sourcing review, a final meeting was convened to present the results of the Sourcing review and the draft Project/Initiative Evaluation Tool and to discuss the usefulness of the tools for MEC as a whole. In order to create continuity from the first workshop, this meeting was attended by the same individuals who had attended the original workshop (Finance Manager, Learning and Development Manager, Social and Environmental Responsibility Coordinator, Co-operative Development Coordinator, and sustainability consultant), plus the Information Services Manager. The author developed the agenda for the meeting. In contrast to the first workshop, which was quite open and exploratory, this meeting was designed with very specific pieces of feedback in mind. It began with a presentation of the draft Management Systems Review Process, including a discussion of each of the guiding questions in the tool and the answers that had been provided in the Sourcing review. Attendees commented on the content of the Sourcing review, and provided input on each specific question in the tool and on the tool as a whole. Then, the draft Project/Initiative Evaluation Tool was discussed. This discussion was somewhat more conceptual, since no test had been performed for that tool. The outcome of the meeting was a detailed set of suggestions, considerations, and recommendations about the tools themselves and about the next steps for MEC with this work. Following the meeting, the

tools were updated based on the feedback and some of the recommendations for next steps were undertaken immediately.

2.5 Phase 3: Conclusions and Recommendations

The final phase of the research involved an analysis of MEC's approach to integration, in relation to the concepts raised in the literature and best practice review, and conclusions about the research. The aim of this phase of the research was to draw lessons from MEC's experience that could be useful for other organisations and to identify some of the implications of the MEC experience on a theoretical level. The author identified strengths and weaknesses of MEC's approach to integration, using the key considerations and common barriers that were raised in phase one of the research as a starting point for the analysis. From that analysis, conclusions were drawn about lessons for other organizations, implications on theory, further areas of research, and recommendations for MEC.

2.6 Limitations

Although the methodology established a process through which to answer the primary research question, the research presents a number of limitations. First of all, the structure of the thesis and the various decisions involved in designing the research are clearly influenced by the conceptual framework that the author brings to the research. The author's prior experiences, personal goals for the research, and personality can all affect the choice of literature, the questions asked during interviews and workshops, and the interpretation of the results of the various stages of the research. To overcome this inherent limitation, it is crucial that the author become aware of the biases that he or she brings to the research. For example, the author of this thesis has previous experience with a number of organizations involved in the sustainable business movement. These experiences clearly shaped his perceptions of what could be done within the case study organization and how. In addition, the author is one of the 1.6 million members of Mountain Equipment Co-op and came to the case study organization with a high regard for the organization, partly due to past experience in the field and partly due to MEC's unique position in Canadian society. As Maxwell (1996) suggests, such bias is nearly impossible to avoid and is common for all ethnographic studies and action research, but understanding their potential impact on the research can best mitigate the biases. For this reason, the author frequently checked assumptions and interpretations with advisors both inside and outside of the case study organization.

Another key limitation to the research stems from the position that the author occupied for the two months during the action research. The scope of his relationship to the organization during this period is described in section 1.3. The relationship afforded numerous advantages such as the degree of access to senior managers and internal documents. It also contained certain limitations. For example, there was always a danger of becoming too focused on solving the organization's problems, rather than focused on answering the research questions. Fortunately, the research question and methodology were designed to make some degree of focus on improvement at MEC appropriate to answer the research questions.

Although a number of experts and practitioners were interviewed for shaping the conceptual context to the research or for particular pieces of information relevant to the case study, the majority of interviews dealing with Mountain Equipment Co-op as a case study were undertaken with internal MEC representatives, most of whom were from the head office. No external stakeholders, Board members, customers, suppliers or store staff were interviewed for the case study, although their previously stated views on numerous issues were noted. This could be seen as another limitation of the thesis. However, this focus on senior managers and head office staff was largely by design. As described in various parts of section 2.3, the selection of interviewees and workshop attendees was deliberate. The major reason for the focus on senior managers and head office staff was that the project itself was focused on internal, operational systems. In addition, extensive MEC staff and stakeholder consultation had

characterized much of the sustainability work that had informed the development of the various pieces that were used as the basis for the integration discussions central to this thesis.

Interviews are inherently affected by the biases of the interviewer in shaping the questions and by the interaction between interviewer and interviewee. For example, in the case of the MEC case study, the author's role as an "outsider" to the organization could affect both the manner in which the interviewee responded and the manner in which the responses were interpreted. In order to overcome these biases, clarifying questions were frequently asked during both the interviews and workshops and interpretation of the interview dynamics were frequently discussed with the Social and Environmental Responsibility Coordinator of MEC. Because numerous interviews were performed and the results were expressed as a summary, the author's biases could affect the interpretation and summarization of the results. For these reasons, representatives of MEC reviewed all of the interview questions and workshop agendas for organizational relevance, while interviewees and workshop participants themselves reviewed the interview and workshop summaries for accuracy.

Finally, the fact that the core of the research was an in-depth case study of one organization has both advantages and disadvantages. Spending two months in one organization allowed the researcher to gain an in-depth understanding of the business and the issues that it is dealing with. On the other hand, the particular case study of MEC contains many unique attributes that may limit the extrapolation of the results to other organizations. For example, MEC is a co-operative business with a unique financial structure. As such, it has somewhat different business drivers than strictly profit-oriented and/or public companies. MEC is also recognized as very progressive with respect to social and environmental responsibility. It has clearly articulated social and environmental goals and a basic structure to support their implementation. Again, this may make the results of the research difficult for a company at a much earlier stage of their sustainability journey to model. Nevertheless, the intent with this case study was to work with a company on the leading edge of the sustainability movement in order to focus on the issue of integration rather than on developing or articulating social and environmental aspects for a business. Specific reference will be made to the author's views on the comparability and applicability of the lessons learned in this research in section 6.

3. Conceptual Context

Maxwell (1996) defines the conceptual context as the "system of concepts, assumptions, expectations, beliefs and theories that supports and informs the research." For the purpose of this thesis, the conceptual context includes concepts, frameworks, theories, arguments and experiences that can support and inform the integration of social and environmental issues into an organization's business strategy and operations. It includes material from the fields of corporate strategy, performance measures, social and environmental management systems and other conceptual frameworks that have been proposed or used by organizations and researchers to manage sustainability issues. The aim of this section is to draw from this material a set of key considerations and common barriers to the integration of social and environmental issues into business strategy and operations.

The methodology used to gather the data for this section consisted primarily of a literature and best practice review, as well a small number of informal interviews with experts and practitioners in the field of sustainability management. The conceptual context is primarily practitioner-oriented. Thus, the review of literature is mainly focused on conceptual frameworks and tools with a very normative character.

The research was guided by a series of questions that represent a flow of logic that aims to channel the material from the various topics into a useful synthesis of key considerations and common barriers to the integration of social and environmental issues with business strategy and operations. This section is organized around those questions. The questions are the following:

1. Why would a company want to integrate social and environmental issues into its business strategy and operations?

2. How can a company manage its social and environmental performance?

3. How can an organization evaluate the success of its efforts to integrate social and environmental issues with business strategy and operations?

Although these three questions represent somewhat of a flow of logic, the research can also be framed as an intersection of the literature on the topics raised by the questions. This is represented in Figure 2.
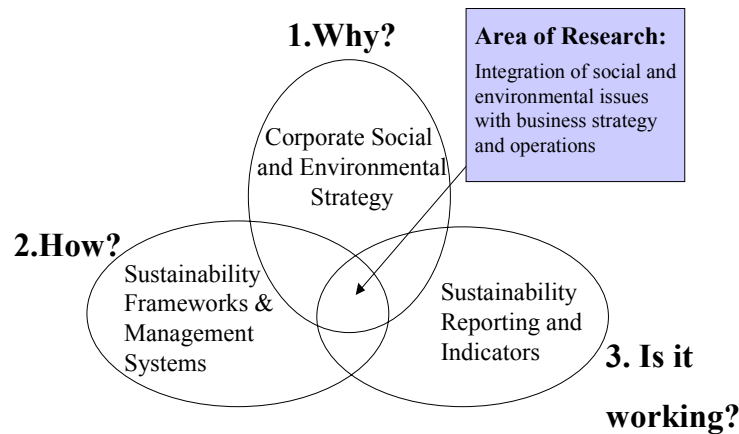
Figure 2: Schematic frame for the area of research

On the basis of the research undertaken to answer these questions, the author developed a set of key considerations and common barriers to the integration of social and environmental issues into business strategy and operations. These key considerations and common barriers would be useful in contextualizing the data gathered in the case study research and ultimately served as the basis for the final analysis of MEC's efforts at integration. They appear in sections 3.4 and 3.5.

3.1 Why would a company want to integrate social and environmental issues into its business strategy and operations?

Sustainable business advocates are quick to draw forth examples of companies that have achieved business success by pursuing a corporate strategy that emphasizes social responsibility and/or improved environmental performance. Indices such as the Dow Jones Sustainability Index[2], for example, enhance the argument that "it pays to be green" by revealing the companies deemed most "sustainable" generally outperform other companies. Indeed, the notion that saving resources also saves money and therefore makes good business sense was widely promoted during the 1990s under the term "eco-efficiency" (Schmidheiny, 1992). Nevertheless, the obvious question remains: if it pays to be "green," why aren't more companies pursuing that business strategy?

Reinhardt (1999) argues that the debate on business and the environment is not as simple as many advocates of eco-efficiency and sustainability would have us believe. He suggests that environmental issues should be approached much as business issues and require a more sophisticated strategic approach. He suggests that rather than asking "does it pay to be green," managers should ask, "under what circumstances do particular kinds of environmental investments deliver returns to shareholders?" In this way, Reinhardt emphasizes the potential of environmental issues to deliver value to a company and suggests that this is where the emphasis should be placed in dealing with them. He suggests five main ways that environmental investments can provide value to a firm, either by delivering positive returns or reducing risks:

> Some companies can distance themselves from their competitors by **differentiating products** and commanding higher prices for them. Others may be able to **"manage" their competitors** by imposing a set of private regulations or by helping to shape the rules written by government officials. Still others may be able to **cut costs** and help the environment simultaneously. Almost all of them can learn to **improve their management of risk** and thus reduce the outlays associated with accidents, lawsuits, and boycotts. And some companies may even be able to make systemic changes that will **redefine competition in their markets**. (Reinhardt, 1999)

Orssatto (2001a) further elaborates the range of corporate environmental strategies available to a firm by distinguishing between those that focus on processes and those that focus on products and services, and those whose competitive advantage is based on cost versus those where competitive advantage is based on differentiation. This work is summarized in Figure 3.

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[2] See the Dow Jones Sustainability Index website at: http://www.sustainability-index.com

Generic Types of Business Environmental Strategies
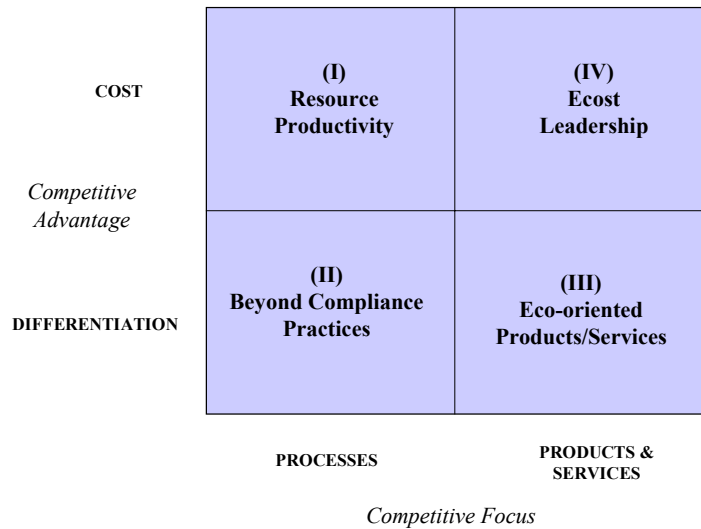
Figure 3: Environmental Strategy Framework (source: Orssatto 2001a)

Each of these strategies suggests that, under certain circumstances, a firm can add value by pursuing a strategy that emphasizes environmental performance. The four generic types of environmental strategies are only relevant under certain conditions, which Orssatto describes, and represent a decoupling of the elements involved in corporate environmental management.

The *Resource Productivity* strategy is taken when the efficiency of resource use is maximized. Orssatto proposes three conditions that might indicate this as a good strategy to pursue: 1) low level of resource utilization, 2) high processing costs, 3) high levels of generation of by-product. An *Environmental Cost Leadership* strategy is explained as a strategy that is based on low cost, but that also carries with it environmental benefits. These strategies are pursued when the full life cycle of the product is taken into account in the design phase by extending the resource productivity beyond the process to the use and disposal phase. The *Beyond Compliance Organizational Practices* involves a firm differentiating itself based on the use of some recognised best operational practice in environmental management, such as the ISO 14001 Environmental Management System described later in this thesis in section 3.2.2.1. This strategy is useful, for example, in industrial markets where buyers may require such practices as evidence for environmental criteria in procurement. An *Ecologically Oriented Products and Services* strategy focuses on a market niche for ecological products. In this strategy, competitiveness is derived from customers' preference for the ecological product because it poses fewer burdens on the environment.

The boundaries between the four possible strategies are not rigid – a firm may pursue some combination of the strategies, examples of which are also described in Orssatto's work. However, Orssatto (2001a) contends that "by showing the distinctiveness of each strategic choice, the (framework describes) why such distinction is imperative for advancing both the practice and theorization of strategic environmental management."

Orssatto's work, therefore, further develops Reinhardt's contention that environmental investments and strategies must be treated by organizations as any other strategic business issue. The research into specific types of environmental strategies in specific types of circumstances represent a more sophisticated approach to corporate environmental strategy than simple advocacy of eco-efficiency.

The growing importance of social issues

Much of the academic literature focuses on the relationship between environmental issues and business strategy. Nevertheless, there is also a growing awareness among companies and researchers of the importance of social issues (Dyllick & Hockerts, 2002). In fact, social issues – more so than environmental issues - were the focus of a series of high profile public controversies in the 1990s involving multinational corporations such as Shell, Nike, The Gap, and others. Largely as a result of the growing importance of social issues to business, the United Nations initiated something called The Global Compact in 1999 to promote good practices by corporations. The Global Compact[3] articulates nine principles that cover human rights, labour, and environmental issues. Although it is simply a set of principles to guide practice and does not require any specific actions or compliance, the high profile and widespread adoption of The Global Compact by multinational corporations demonstrates the growing importance of social issues to business.

Many corporations are increasingly attempting to manage social issues in the same way as they manage other strategic business issues. In 2000, the World Business Council for Sustainable Development (WBCSD), a coalition of mostly multinational companies who have committed to work toward sustainable development, published a study on corporate social responsibility (CSR) as the culmination of a two-year program aimed at providing a better understanding of CSR. The report made the following conclusions:

> *A coherent CSR strategy, based on integrity, sound values and a long-term approach, offers clear business benefits to companies and a positive contribution to the well-being of society;*

> *A CSR strategy provides the opportunity to demonstrate the human face of business;*

> *Such a strategy requires engagement in open dialogue and constructive partnerships with government at various level, IGOs (inter-governmental organizations), NGOs (non-governmental organizations), other elements of civil society, and, in particular, local communities;*

> *In implementing their CSR strategies, companies should recognize and respect local and cultural differences, whilst maintaining high and consistent global standards and policies; and*

> *Being responsive to local differences means taking specific initiatives.*

One of the most successful approaches to managing social issues is **stakeholder dialogue**. Because of difficulty in managing differing values and expectations, transparency and dialogue with those groups and individuals affected by the company are key to managing social issues and deriving value from them. In this sense, a socially sustainable enterprise could be viewed as one that is seen as fair and trustworthy by all stakeholder groups (Zadek et al., 1997). In their book The Stakeholder Corporation (1997), Wheeler et al argue that those enterprises that learn to maximize their relationships with all of their stakeholders are more likely to succeed.

The work and research on corporate social responsibility is clearly not as sophisticated as the research on corporate environmental strategy. Because they inevitably boil down to subjective differences of opinion and expectations that involve of ethics and values, social issues are more complex to deal with than financial or environmental issues, which are easier to objectively quantify (Figge et al, 2001). Nevertheless, social issues are increasingly seen as issues that must be managed, largely due to their impact on increasingly important intangible elements of value for an organization, such as brand, customer loyalty, and license to operate (Figge & Hahn, 2001). This theme of capturing the intangible sources of value is central to the efforts to integrate social and environmental issues with business strategy and operations.

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[3] See The Global Compact webpage at http://www.unglobalcompact.org

3.2 How can a company manage its social and environmental performance?

If a company accepts the notion that social and environmental issues represent business issues that have the potential to add value, the next question becomes how the company can manage them so that they do just that. The company must therefore be able to manage its social and environmental performance, in order to evaluate its strategic impact for the firm. A number of approaches exist to manage social and environmental performance. These can be divided into conceptual frameworks and management tools.

3.2.1 Conceptual Frameworks

In the context of sustainability, conceptual frameworks are the lenses through which a company views and understands its social and environmental responsibilities, and are therefore generally the basis for the management systems and tools that are used to manage them.

The most important distinction in conceptual frameworks for sustainability is likely between those who view sustainability from the perspective of the strategies of single organizations versus those who view sustainability from the perspective of the overall sustainability of the human race and/or of the earth. While these two views can be reconciled, they are frequently at the root of divergences of opinions and approaches, particularly if the distinction is not made conscious. It can also be viewed as the difference between eco-efficiency and eco-effectiveness. Eco-efficiency is the notion of delivering goods and services while progressively reducing the ecological impacts and resource intensity involved in their delivery (DeSimone and Popoff, 1997). The main criticism of eco-efficiency is that relative improvements are insufficient for sustainability if the activity is unsustainable itself. A further criticism of eco-efficiency lies in the so-called "*rebound effect*," where improvements in eco-efficiency generate increased consumption of the same or other products, thereby possibly negating the environmental improvement or even increasing the total environmental impact (Ryan, 2002). Eco-effectiveness, on the other hand, is the notion that due to the problems of non-substitutability, non-linearity and irreversibility, ecological sustainability must concern itself with absolute thresholds, in addition to relative improvements (Dyllick and Hockerts, 2002).

Dyllick and Hockerts (2002) argue that eco-efficiency has been the subject of extensive scholarly research and public debate, but that eco-effectiveness deserves equal attention, including from a corporate perspective. They also advocate the same thinking about social issues. Essentially, they are suggesting that the business case for corporate sustainability must be accompanied by the natural and societal cases if overall sustainability is to be achieved. For an organization, this means understanding not only whether it is becoming more efficient through its efforts to manage social and environmental issues, but also whether or not it is contributing to sustainability.

The spectrum from eco-efficiency to eco-effectiveness is evident in the various conceptual frameworks that are described in this section.

3.2.1.1 Triple bottom line

Proponents of sustainable business begin with the assertion that economic sustainability alone is not sufficient for the overall sustainability of a corporation (Gladwin et al, 1995). Building on this notion, the most common way of expressing overall sustainability in a business context is in terms of the "triple bottom line." John Elkington popularised the triple bottom line in his book Cannibals with Forks (1998). The triple bottom line has been interpreted in a number of slightly different ways, but is essentially the idea that companies derive their license to operate not just by satisfying shareholders through improved profits and dividends (the economic bottom line), but by simultaneously satisfying other stakeholders in society (employees, communities, customers, etc) through improved performance against the social and environmental bottom lines (Project SIGMA, 2001). The triple bottom line

concept has become widely known among corporations and researchers and is a helpful conceptual tool, especially for illustrating the importance of viewing sustainability beyond mere economic sustainability. However, some authors and practitioners have identified limitations with it. Wilsdon (1999) summarizes some of the most commonly cited limitations of the triple bottom line:

> "The triple bottom line seems to imply equal weighting between the three respective bottom lines. In fact, ecological sustainability over the long term is in fact <u>preconditional</u> – i.e. without it, there would be no other bottom lines of any description.
>
> The 'social bottom line' does not distinguish between <u>individuals</u> (i.e. intellectual and creative capital) and <u>society</u> (i.e. organisational and institutional capital).
>
> Most people automatically assume that the economic bottom line simply means increased profitability year on year, increasing per capita income, and exponentially increasing GDP. This economic orthodoxy is in fact incompatible with both ecological sustainability and social sustainability. It is of course true that companies need to be profitable in order to be sustainable, but that does not exempt either the company or its respective stakeholders from analysing the means by which those profits are created, and the degree to which they slow down or accelerate the transition to genuine sustainability.
>
> For the business community, there is much more to the economic bottom line than simply focusing on increased profitability. For instance, what other economic multipliers is a company able to develop in its dealings with its host community or business partners? What is its overall contribution to the local economy? What is it doing to build entrepreneurial / professional skills?"

Many of the criticisms of the triple bottom line are essentially rooted in the fundamental discrepancy in perspectives between eco-efficiency and eco-effectiveness outlined at the beginning of section 3.2.1. Depending on the indicators chosen, the triple bottom line is likely to lead to organizations tracking their own progress toward each of the bottom lines, without any real sense of whether or not any absolute thresholds are being approached or whether we are any closer to sustainability as a result of the organization's efforts.

3.2.1.2 The "capitals" approach

The capitals approach re-conceptualises sustainability in terms of the familiar economic concepts of capital and income. Capital is traditionally understood as accumulated wealth in the form of investments, factories and equipment. A widely accepted principle of responsible business management is that capital stocks should be maintained. Building on the same thinking that underpins the triple bottom line, the capitals approach to sustainability argues that our economy needs more than just the traditional types of capital to function properly and that these other capitals must also be maintained.

Again, the literature suggests a number of slightly different ways of categorizing the various capitals. Dyllick and Hockerts (2002) identify three main types of capital (economic, natural, and social) and suggest that within these three main types of capital, there are several subtypes. Forum for the Future (1999) breaks the triple bottom line down further into five essential capitals:

Natural capital is any stock or flow of energy and matter that yields valuable goods and services. It falls into several categories: *resources*, some of which are renewable (e.g. timber, grain, fish and water), whilst others are not (e.g. fossil fuels); *sinks* which absorb, neutralise or recycle wastes; and *processes*, such as climate regulation. Natural capital is the basis not only of production but of life itself.

Human capital consists of health, knowledge, skills and motivation, all of which are required for productive work. Enhancing human capital is central to a flourishing economy. Poverty is both morally indefensible, and socially inefficient in that it prevents millions of people from fulfilling their potential and becoming engaged in the creation of wealth.

20

Social capital is the value added to any activity or economic process by human relationships and co-operation. Social capital takes the form of structures or institutions, which enable individuals to maintain and develop their human capital in partnership with others, and includes families, communities, businesses, trade unions, schools, and voluntary organisations.

Manufactured capital comprises material goods - tools, machines, buildings, and other forms of infrastructure - which contribute to the production process, but do not become embodied in its output.

Financial capital reflects the productive power of the other types of capital and enables them to be owned and traded. However, unlike the other types of capital, it has no intrinsic value; whether in shares, bonds or banknotes, its value is purely representative of natural, human, social or manufactured capital.

Despite the different ways of categorizing the capitals, the essence of the conceptual thinking behind the capitals approach is the same: ***in order to be sustainable, society, economies, and organizations must not consume capital, but rather live off the income of invested capital***.

Whether we are dealing with three types of capital or five, the notion of managing multiple capitals implies potential trade-offs among them. This raises two important issues. First, can one capital be substituted for another? Traditional economic theory assumes that all input factors of production can be translated into monetary units, implying substitutability. Following this assumption, the various capitals could foreseeably be substituted for each other. However, many authors (Daly 1991, Constansa et al 1991, Hawken et al 1999) have pointed out that not all kinds of capital can be substituted by economic capital. In particular, ecosystem services, such as the protection from ultraviolet rays provided by the ozone layer or the climate stabilizing functions of forests, are unlikely to ever be substitutable. The difference between proponents of the substitutability of capital and proponents of non-substitutability has been termed "weak" versus "strong" sustainability. (Figge et al, 2001). The second issue raised by the capitals approach to sustainability is the fact that the deterioration of natural and social capital, as opposed to traditional capital, is often irreversible. (World Resources Institute et al, 2001). For example, the extinction of certain species or indigenous cultures cannot be reversed.

Thus, on a conceptual level, the capitals approach to sustainability begins to challenge some of the assumptions and raise some of the questions that the triple bottom line avoids. It moves beyond eco-efficiency and speaks conceptually to the concept of eco-effectiveness. However, it is unclear what a company that wished to work with the capitals approach to sustainability might do on a practical level to address some of these questions. The Natural Step Framework described in the next section goes somewhat further in doing so.

3.2.1.3 The Natural Step Framework

From a scientific perspective, sustainability can only be understood according to the basic principles of thermodynamics and cellular biology. It is this desire to ground sustainability in science which led to the development of The Natural Step (TNS) Framework.

The TNS Framework is essentially a methodology for organisational planning. Where the triple bottom line and capitals model and many corporate practitioners and academic researchers avoid absolute definitions of sustainability, the TNS Framework encourages organisations to proceed on the basis of a future point in time when society is sustainable. The prerequisite for this is a definition of the conditions that must apply in any sustainable society. These conditions, known in the TNS Framework as the "systems conditions," are four scientifically-based, non-overlapping principles that were developed by an international network of scientists led by Swedish oncologist Karl-Henrik Robèrt.

The systems conditions

The TNS Framework systems conditions state that: for our societies to be genuinely sustainable, nature cannot be subject to systematically increasing:

1. **concentrations of substances extracted from the Earth's crust.** This means that in a sustainable society, fossil fuels, metals and other materials are not extracted at a faster pace than their slow redeposit into the Earth's crust;

2. **concentrations of substances produced by society.** This means that in a sustainable society, substances are not produced at a faster rate than they can be broken down by nature;

3. **degradation by physical means.** This means that in a sustainable society, the productive surfaces of nature are not diminished in quality or quantity, and we must not harvest more from nature than can be naturally replenished;

4. **And in that society, human needs are met worldwide.** This means that in a sustainable society, basic human needs must be met with the most resource-efficient methods possible, including a just resource distribution.

Backcasting

On an organizational level, these 4 principles are meant to serve as a compass for a sustainability journey, essentially defining the landing place for an organization's sustainability efforts and giving the organization a set of systems conditions with which to attempt to align itself. This planning methodology is called **backcasting**. Where a more common approach to planning, forecasting, begins by defining the current situation and extrapolating forward, backcasting begins by defining the intended destination and working backward from that situation to determine today's strategies. In the context of sustainable development, it means to start planning from a description of the requirements that have to be met when society has successfully become sustainable, then continuing the planning process by linking today with tomorrow in a strategic way (Holmberg and Robèrt, 2000). Investments and measures are selected which develop the organization in a sustainable direction with maximum long-term flexibility and short-term profitability.

The notion of planning from principles of success is also different from working with scenarios of preferred futures. MacDonald (2002) describes a game metaphor frequently used by Karl-Henrik Robèrt to demonstrate this:

> Scenario building resembles assembling a jigsaw puzzle, where a specific image guides the successful outcome. Backcasting from principles of success, on the other hand, resembles chess, where the principle of check-mate provides the overall guiding principle for the game, and many outcomes or visions of success are possible.

MacDonald suggests that, as a result, backcasting has certain advantages over scenario building: (i) it is easier to agree on incontrovertible principles of success than on detailed visions, (ii) future technologies and innovations are by definition not known beforehand – they can be introduced while the 'game' proceeds, and (iii) detailed scenarios are not necessarily sustainable if they are not scrutinized using basic principles for sustainability. The backcasting technique has also been suggested as an approach to product design and development (Kuisma, 2000).

Applying the TNS Framework

Having first been introduced in Sweden in 1989, the TNS Framework is now being applied by a number of municipalities and organizations in different countries (Nattrass and Altomare, 1998 and 2002). These include some well-known multinational companies such as Nike, Starbucks, and Home Depot.

In practice, the TNS systems conditions mean:

1. Substituting certain minerals that are scarce in nature with others that are more abundant, using all mined materials efficiently, and systematically reducing dependence on fossil fuels.

2. Systematically substituting certain persistent and unnatural compounds with ones that are normally abundant or break down more easily in nature, and using all substances produced by society efficiently.

3. Drawing resources only from well-managed eco-systems, systematically pursuing the most productive and efficient use both of those resources and land, and exercising caution in all kinds of modification of nature

4. Using all of our resources efficiently, fairly and responsibly so that the needs of all people on whom we have an impact, and the future needs of people who are not yet born, stand the best chance of being met. (Robèrt et al, 2002)

The TNS Framework in relation to other tools and approaches
Some practitioners (e.g. SIGMA Project, 2002) have chosen to use the first three TNS systems conditions only to define environmental sustainability or natural capital within the capitals or triple bottom line approaches. The implication of this classification and of the omission of the fourth system condition is consistent with a common criticism of the TNS Framework – that it does not adequately address the issue of social sustainability. Critics have also suggested that the TNS systems conditions are oversimplified or that they may be good principles but are difficult to apply "hands on," for example as metrics.

Robèrt and a number of the scientists and authors who have pioneered well-known tools and approaches to sustainability, therefore, recently co-authored an article that introduced a five-level hierarchy for planning in complex systems (Robèrt et al, 2002). This article clarifies how all of the various approaches relate to each other and how they could be used synergistically to move an organization toward sustainability.

The five levels of the hierarchy are:

1. **Constitutional level** – principles for the constitution of the system (*e.g. the laws of nature*)

2. **Objective level** – principles for a favourable outcome of planning within the system (*i.e principles for sustainability*)

3. **Strategic level** – principles for the process to reach this outcome (*i.e. principles for sustainable development*)

4. **Action level** – concrete measures that comply with the principles for the process to reach a favourable outcome in the system (*e.g. recycling and switching to renewable energy*)

5. **Tool level** – tools to monitor and audit (i) the relevance of actions with reference to actual compliance with the plan (*e.g. indicators of flows and key figures to comply with principles for sustainability*), and/or monitor (ii) the status of the system itself, and impacts (*e.g. ecotoxicity and employment*), or reduced impacts, as a consequence of strategically planned societal actions.

The TNS systems conditions were thus positioned on the objective level, as the principles for sustainability. In this sense, they represent a definition of the "effective" in the concept of eco-effectiveness and should be used in tandem with tools and approaches on the other levels of the hierarchy. The same hierarchy and thinking has also been applied to *social* sustainability by Cook et al (2002).

3.2.2 Management Systems and Tools

A conceptual framework is not enough for an organization to manage its social and environmental performance. In order to translate the notions that emerge from any strategic thinking into tactical plans and actions, organizations use management systems. The same is true for the conceptual frameworks that shape an organization's understanding of social and environmental issues. This section describes various managements systems and tools that organizations use to manage social and environmental issues. It begins with an overview of the more common type of management system, those related to environmental issues. It then describes approaches to the management of social issues, as well as an example where an attempt has been made to integrate the management of social and environmental issues in a single integrated management system.

3.2.2.1 Environmental Management Systems

In attempting to manage environmental issues, many companies have developed or implemented an environmental management system (EMS). The aim of an EMS is essentially to continuously improve an organization's environmental performance by introducing systems and procedures to manage environmental issues. A general EMS includes the following activities:

➢ An introductory systematic assessment of all of the company's operations and activities which affect the environment

➢ The development of a set of system components for steering and controlling environmental aspects, such as environmental goals, training, measurements and audits

➢ Interplay between the above elements and a correcting mechanism so that the company can make corrections when it deviates from its goals or procedures. (Brorson and Larsson, 1999: 15)

Figure 4 outlines the continuous improvement cycle of one standardized EMS, the ISO 14001 EMS. This standard has emerged as the most widely adopted standardized EMS with over 40,000 registrations to the standard in over 35 countries (Peglau, 2002). It consists of an EMS specification and 17 clauses, or general requirements, in five categories.
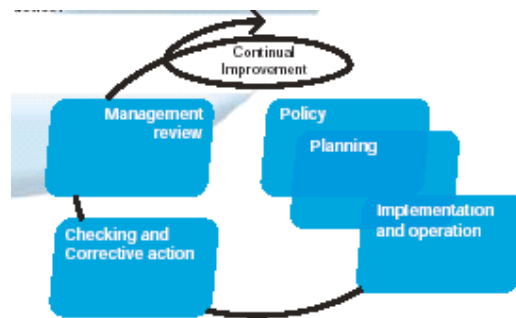
Figure 4: ISO 14001 Continuous Improvement Cycle

A standardized approach to environmental management has emerged as work on environmental issues has developed since the 1970s. Standardization means that the management system can be audited in a structured way by credible external auditors, thus increasing the confidence among customers and other stakeholders about the legitimacy of the organization's work (Brorson and Larsson, 1999). Because it is designed to apply to a wide diversity of organizations and to provide guidance as to the processes to use for managing the environmental aspects of an organization, the ISO 14001 EMS and others like it are not prescriptive (Cascio et al, 1996). They do not give any particular guidance as to the content of the environmental work or the conceptual framework to guide the formulation of strategy.

Some practitioners and researchers have, therefore, recommended combining an organization's EMS, such as ISO 14001, with other conceptual frameworks or tools. Some, for example, have integrated product design for environment (DfE) with the EMS, although this practice does not appear to be widespread (Karlsson, 2001). MacDonald (2002) proposes the integration of the backcasting technique and TNS Framework with the ISO 14001 planning requirements.

3.2.2.2 Management of Social Issues

Whereas environmental management systems have a longer history in organizations, the management of social issues by corporations has only become a more significant concern since the mid-1990s, when the concept of the triple bottom line emerged and social issues become more prominent among corporate leaders (Elkington and van Dijk, 1999). The management of social issues by corporations has taken a somewhat different path than the management of environmental issues, due to the differing nature of the issues involved. As described in section 3.1, social issues are generally more complex and more subjective and the role of the corporation in addressing them is somewhat less clear than for environmental issues.

The management of social issues by organizations has mostly been framed in terms of "social accountability." Specifically, social accountability means being accountable to the various stakeholders upon whom the organization can have an impact. In response to the demand for social accountability, an increasing number of organizations have developed so-called "social reports" to monitor and report out on their impact on and relationship with stakeholders. Social reports frequently serve as the basis for an organization's social management system. Wilson (1999) identifies three levels of measurement that can be used to measure an organization's impact on society. First, an organization can solicit the input of stakeholders about its performance against its stated objectives, usually in terms of its mission, vision or values. The second level of measurement involves stakeholders being questioned on their views about what the organization should be doing, in terms of its social performance and values. Finally, organizations can attempt to measure stakeholders' actual experience of how an organization is performing. Organizations will be at different stages of development in their social reporting, but a social report can also incorporate all three types of measures (i.e. perceptions, expectations, experiences).

Some standards and guidelines have been developed to support organizations in managing social issues, although there is no single most dominant standard, as ISO 14001 in environmental management. AccountAbility's AA 1000 Series[4] is one attempt to provide practitioners with a set of accessible standards and guidelines for stakeholder engagement and accountability systems.

The relative lack of standardization of approaches to the management of social issues is partly because social reporting is a far more recent phenomenon than environmental management and reporting and partly due to the wide range of social issues that must be addressed by different organizations in different cultural and geographical areas. In some cases, standards have emerged for particular issues. For example, labour rights and working conditions is an issue that has seen more rapid development of standards. The Social Accountability (SA 8000)[5] standard, developed by Social Accountability International, is focused on labour issues in supply chains and covers the issues of employment and working conditions. The goal of the SA 8000 standard is to define requirements to enable a company to a) develop, maintain and enforce policies and procedures in order to manage issues which it can control or influence and b) demonstrate to interested parties that policies, procedures and practices are

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[4] See information on the AA 1000 Series on AccountAbility's webpage: http://www.accountability.org.uk

[5] See information on the SA 8000 Series on Social Accountability International's webpage: http://www.cepaa.org

in conformity with the standard. The International Labour Organization's Declaration on Fundamental Principles and Rights at Work[6] addresses a similar issue.

In summary, the development of social accountability standards and the management of social issues within organizations are somewhat less mature than for environmental issues, but it is a field that is rapidly growing in attention among practitioners and researchers (Dyllick and Hockerts, 2002).

3.2.2.3 Integrated Sustainability Management Systems

As the concept of sustainability has increasingly been perceived from the perspective of the triple bottom line, some practitioners and researchers have called for an integrated approach to social, environmental and economic issues. One noteworthy approach to the management of social and environmental issues in an integrated manner is the SIGMA Project.

The SIGMA Project (SIGMA = Sustainability – Integrated Guidelines for Management) was launched in the United Kingdom in 1999 by the British Standards Institution, Forum for the Future and AccountAbility with support from the U.K. Department of Trade and Industry and is facilitated by the involvement of numerous companies and other stakeholders. It was initiated in response to the growing diversity of methods and approaches to achieve sustainability and the perceived need to understand how they relate to each other and how they could be implemented by organizations in an integrated fashion.

Project SIGMA features a set of Guidelines, based on a series of supporting components, including a set of principles that aims to help an organization understand sustainability, a management framework to help an organization integrate sustainability issues into core processes and mainstream decision-making, and a series of tools that organizations can used to implement their strategies.

The principles section of the SIGMA guidelines draws upon the triple bottom line, the capitals model, and the notion of accountability. The management framework, summarized in Table 1 below, defines a series of key phases that can be used to design, implement and maintain a management process. Like the ISO 14001 EMS, it focuses on processes, and does not include any expected levels of performance. The SIGMA toolkit features descriptions of a wide range of tools and approaches put forward by other organizations, including the Balanced Scorecard, SA 8000, The Natural Step, the Global Reporting Initiative and others. It includes direction on how an organization can apply the various tools in the context of the management framework described above.

Table 1: Summary of SIGMA Management Framework (10 Key Phases)

Management Phase	Phase Purpose
Sensitisation and Awareness	To secure sufficient commitment to undertake a baseline review and to integrate sustainability and stakeholder engagement into core processes and decision-making.
Baseline Review	To establish the organisation's values, strategies and performance with regard to sustainability.
Actions, Impacts and Outcomes	To understand and manage the relationship between organisational actions, impacts and outcomes.

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[6] See information on the Declaration on the ILO's webpage: http://www.ilo.org

Legal, Regulatory and Other Requirements	To understand and manage current and future legal and self-regulatory requirements.
Strategic Planning	To formulate long-term sustainability strategies.
Tactical Planning	To develop a series of tactical plans that address organisational strategies and the impacts and outcomes identified by the organisation.
Communication and Training	To align internal and external communications and training with strategic and tactical planning.
Control and Influence	To ensure that actions, impacts and outcomes work in alignment with and support tactical and strategic planning.
Monitoring, Objective Evidence, Feedback	To generate and maintain efficient internal and external feedback loops to monitor progress against stated values, strategies, performance objectives and targets.
Reporting Progress, Tactical and Strategic Review	To meet the information needs of internal and external stakeholders and incorporate feedback into effective strategic and tactical reviews culminating in appropriate change.

The SIGMA project's review of frameworks and tools to support sustainability management is thorough and extensive. As a result, however, it is also a somewhat overwhelming amount of information for practitioners to absorb. Nevertheless, it represents an approach to management systems that begins to speak to the issue of integration. It recommends an approach where social and environmental issues are managed in an integrated fashion. It does not, however, address the issue of how to evaluate the effect of social and environmental management on the business. The next section, therefore, explores the question of how a company can evaluate the success of its efforts to integrate social and environmental issues with business strategy and operations.

3.3 How can a company evaluate the success of its efforts to integrate social and environmental issues with business strategy and operations?

Having identified reasons to integrate social and environmental issues with business strategy and operations and developed conceptual frameworks and managements systems to help them do so, the next important question for an organization is to know whether or not their efforts are working. In order to make such an assessment, there is clearly a need to measure social and environmental performance. In fact, corporate sustainability reporting has become a major area of research and activity. As Bennett and James (1999: 47) suggest, "the emerging view is that it requires an extension of existing measurement and reporting activities to encompass all the three elements of sustainable development – economic, environmental and social - and the interactions between them." This requires a set of sustainability indicators that are comparable, complete, and credible. "Comparability makes it possible to track performance over time and across firms, completeness is required both in the scope of the indicators and their application across firms, sectors and countries; and credibility means that businesses and others trust the indicators and make reliable decisions based on the information reported" (Ranganathan, 1999: 476).

Organizations are faced with a range of possible approaches for the development of indicators to measure social and environmental performance. The approach that they take will depend on a number of factors including the conceptual framework that is guiding their sustainability work and the amount of resources that they wish to dedicate to sustainability reporting. They can develop sustainability indicators independently or adopt an approach championed by other organizations. Although there is a growing movement in favour of standardized sustainability reporting, there are no standards for sustainability reporting as there are for financial reporting (Bennett and James, 1999). There are, however, a set of guidelines to sustainability reporting that are emerging as the most prominent among the many approaches and that aim to have global applicability. These guidelines, put forward by the Global Reporting Initiative, are described in this section. In addition, the section describes one approach to performance management, the Balanced Scorecard, which is receiving increased attention in academia as a potential means of integrating social and environmental indicators with financial indicators. The Balanced Scorecard is noteworthy, because it is a broadly accepted tool that attempts to help an organization determine how non-financial performance indicators can enhance its business success.

3.3.1 Global Reporting Initiative

The Global Reporting Initiative (GRI) was established in 1997 with the mission of developing globally applicable guidelines for reporting on economic, environmental, and social performance. It is a multi-stakeholder, multi-national initiative that incorporates the active participation of over 1500 participants and hundreds of organizations, including corporations, NGOs, accountancy organisations, governmental representatives, business associations, labour, and universities. The GRI Guidelines provide a framework for reporting that promotes comparability between reporting organisations while recognising the practical considerations of collecting and presenting information across diverse reporting organisations. Because it has such widespread involvement and reach, the GRI is increasingly viewed as an emerging global benchmark for sustainability reporting.[7]

The GRI's Sustainability Reporting Guidelines contain guidelines about the full range of reporting issues (e.g. CEO statement, profile of reporting organization, executive summary and key indicators, vision and strategy, policies, organization and management systems, and performance). The section on performance is divided into four subsections - environmental, economic, social and integrated – that are the basis for a set of recommended performance indicators in over 30 categories.

The intent of the Guidelines is to provide a sustainability reporting framework that stresses the linkages between the environmental, social and economic aspects of enterprise performance. Within the environmental subsection, the GRI presents two types of indicator: **generally applicable** and **organisation-specific**. The former are relevant to all organizations, while the latter are crucial to an understanding of an organisation´s performance, but may not be relevant to all organizations. The GRI's economic, social and integrated indicators are presented for piloting and experimentation by reporting organizations. Integrated indicators are of two types – **systematic indicators** that link performance at the micro level with economic, social or environmental conditions at the macro level; and **cross-cutting indicators** that bridge information across two or more of the three components of sustainability of an organization´s performance.

Thus, the range of indicators put forward in the GRI Sustainability Reporting Guidelines is extensive. As an emerging global benchmark for performance indicators, it provides organizations with considerable depth and guidance in the selection of indicators to measure social and environmental performance. However, since they stem from a reporting framework rather than a strategic framework, the GRI guidelines do not help an organization align those indicators with the competitive strategy of the organization. For this, the Balanced Scorecard is a preferred tool.

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[7] See the 2002 Sustainability Reporting Guidelines on the GRI's webpage at: http://www.globalreporting.org

3.3.2 Balanced Scorecard

While the GRI Guidelines and other similar sets of indicators rooted in the triple bottom line approach may help an organization track its social and environmental performance, they do not necessarily help an organization evaluate the impact of its efforts to integrate social and environmental issues on its business success. Figge et al (2001), therefore, argue for a value-orientation to sustainability management. Specifically, they suggest that social and environmental issues must be evaluated with respect to the degree to which they add or detract value for an organization.

The measures of value for a corporation have traditionally been strictly financial indicators. However, in the early 1990s, management thinkers began to argue that financial indicators alone were not adequate for measuring the success of a firm's strategy, since they primarily measured the results of activities *after* the fact. The fact that companies have historically privileged financial indicators to design and monitor their strategies was the main driver for the development of a management tool called the Balance Scorecard (Kaplan and Norton, 1996). The Balanced Scorecard (BSC) was introduced by Kaplan and Norton in 1992 and has been widely used within many organizations at differing levels of strategy and operation. It is a management tool that supports the measurement of four perspectives of organizational performance: **financial**, **customer**, **internal business process**, and **learning and growth**. Kaplan and Norton's main argument is that companies may have a number of different performance indicators, but that they are generally not used in a coordinated and strategic manner (Orssatto & Zingales et al, 2001).

The BSC addresses this issue by encouraging managers to define the most important indicators in each of the four perspectives and then to link causes to their effects. It introduces the concept of leading indicators (causes) and lagging indicators (effects) within and among the perspectives. The cause-effect relationship is expressed in the BSC through **strategic maps** – tools used to describe the creation of value in the process of implementing corporate strategy. Figure 5 illustrates the basic structure of such strategic maps. In the traditional Balanced Scorecard, strategies in the learning and growth perspective drive strategies in the internal process perspective, which drive strategies in the customer perspective. All of these drive toward financial performance.
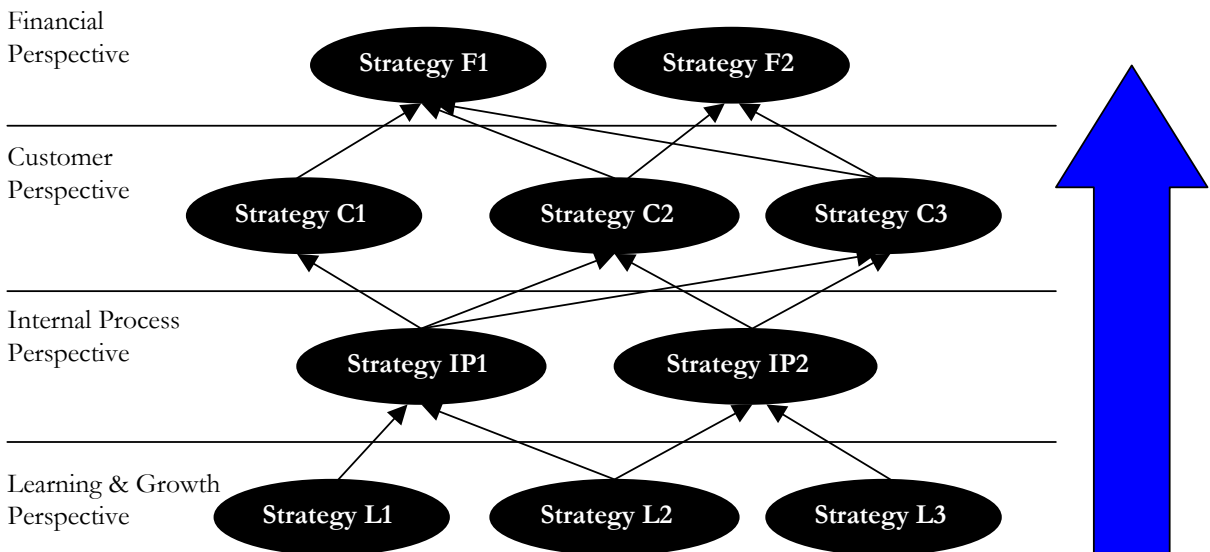
Figure 5: Example of a Balanced Scorecard Strategy Map

Although it was not initially designed with sustainability in mind, the BSC has been proposed by an increasing number of researchers and practitioners as an appropriate tool to facilitate the integration of social and environmental performance with financial performance. The use of a BSC for such a purpose would essentially aim to better align an organization's social and environmental targets with the organization's overall strategy, by integrating social and environmental indicators in such a way as to demonstrate their strategic relevance to the organization. In this way, the BSC would be a suitable tool to guarantee the value orientation of social and environmental management for an organization (Figge et al., 2001).

Figge et al. (2001) suggest three basic manners in which social and environmental issues could be incorporated into the BSC. First, the organization could incorporate social and environmental aspects into the four existing perspectives of the BSC. In this approach, those social and environmental issues or initiatives that are relevant for the achievement of the organization's strategy would be identified. It thereby focuses the organization on those social and environmental objectives that create value for the organization. Alternatively, the organization could introduce an additional non-market perspective to the BSC, which incorporates those social and environmental initiatives that are strategically relevant to the organization but that are currently not internalised by the market. Finally, the organization could formulate a separate social and/or environmental BSC. Figge et al. suggest that such a scorecard should be linked to an overall corporate scorecard and primarily serves to support coordination and organization of social and environmental initiatives.

The SIGMA Project described in section 3.2.2.3 has included a proposed "sustainability scorecard" as one of the tools in the toolkit that accompanies its guidelines and management system. Its approach is somewhat different than the three options suggested by Figge et al., in that it involves a redefinition of two of the original four perspectives – replacing the customer perspective with a **stakeholder** perspective and replacing the financial perspective with a **sustainability** perspective. The intent with these changes is to have the scorecard reflect the fact that all of the various other perspectives should, in cause and effect relationships, be driving the sustainability objectives that the organization sets for itself, including but not limited to its financial targets.

Regardless of the specific design of an organization's scorecard, the Balanced Scorecard differs from other social and environmental performance management frameworks in that it attempts to integrate social and environmental performance with the organization's competitive strategy. It does not replace any tools or frameworks for strategy *formulation*, since it is primarily a tool for strategy *implementation*. Some critics have also suggested that the BSC depends on the balance of power in and around the organization (Orssatto & Zingales et al., 2001). If that is true, then in a company where social and environmental issues are not seen as a priority by those with the most power, the BSC may not help them become more integrated with the organization's strategy. However, the research into the potential application of the BSC for sustainability management is relatively recent, so there is considerable room for development.

This last criticism of the BSC is consistent with a question raised by Dyllick and Hockerts (2002: 139) about the integration of social and environmental issues with business strategy and operations: "Future research on integrated corporate sustainability needs to ponder whether it is possibly increasing confusion and risks political compromises rather than leading to overall improvements." This question underscores the importance of developing methods to evaluate the success of integration efforts.

3.4 Common barriers to integration

Efforts to effectively integrate social and environmental issues with business strategy and operations are clearly hindered by numerous barriers, both within and external to the organization. In a sense, the various theories, concepts, systems and tools described in the previous three sections all aim to help an organization overcome the barriers that they face in attempting to do so. No two organizations face precisely the same barriers, because no two organizations face precisely the same external and internal factors that affect change. Yet, many of the barriers faced by organizations are similar. The readings, interviews and experiences that informed the contextual context of this thesis also raised a number of common barriers that organizations face in integrating social and environmental issues into business strategy and operations. The author has drawn on the literature review and on his interviews with practitioners to formulate the following general list of barriers to the integration of social and environmental issues with business strategy and operations.

> ➤ ***Market barriers*** – Probably the most significant barrier that an organization could face in integrating social and environmental issues with business strategy relates to its market. If market demand for a given product or service emphasizes product or service attributes that are perceived as being at odds with improved social or environmental performance, efforts at integration are not likely to go far (Figge et al., 2001). Of course, market opportunities can also be a main driver for integration, if new products, markets or business development opportunities arise from an organization's perception of social and environmental issues. For example, some argue that the existence of eco-designed products changes the market by projecting a new demand space for product competition (Ryan, 2002). It basically depends on the nature of the market and customers involved and the opportunities for innovation within the market.

> ➤ ***Cost barriers*** – Integrating social and environmental issues with business strategy and operations may require some investments that are deemed too expensive for an organization. This is particularly true when the value generated by an investment is intangible and therefore difficult to justify in strictly monetary terms (Schaltegger and Figge, 1998). On the other hand, many resource efficiency investments yield tangible financial returns in reasonable payback periods (Hawken et al, 1999), and some investments are made regardless of whether the benefit can be measured tangibly because the value that will be generated is deemed sufficient. The barrier to integration, though, is if the costs are perceived as too high for the value that will be created for the organization, a circumstance that is rendered more likely when the benefits are difficult to measure (Schaltegger and Figge, 1998).

> ➤ ***Misaligned vision and mission*** – If an organization's core business philosophy, including its mission, vision and values, does not contain any language that speaks to its concern for social and environmental issues, then any social and environmental commitments that it makes are likely to compete with core business objectives (Schendler, 2002). This represents an obvious and fundamental barrier to the integration of social and environmental issues with business strategy and operations.

> ➤ ***Social and environmental issues managed outside the core of the business*** – Even if an organization has included social and environmental issues in its business philosophy and has established explicit commitments or objectives, if they are managed outside of the core of the business, they are likely to compete with core business objectives.[8] This is the case with many organizations that manage environmental issues in a separate department or who manage social issues solely in their corporate philanthropy programs.

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[8] Interview with Priscilla Boucher, Manager of Corporate Social Responsibility, VanCity Credit Union

➢ **Individual goals misaligned** – One of the most common barriers to operationalizing social and environmental commitments is a misalignment between an organization's social and environmental objectives and the personal goals and incentives that are established for individuals.[9] This is particularly true in the areas of the organization that are core to its business.

➢ **Leadership and cultural barriers** – One of the most significant barriers to employees or teams that seek to drive innovative ideas to support the integration of social and environmental issues into an organization is a lack of support from the leadership of the organization (Schendler, 2002). Whether the leadership of an organization is outright against the integration of social and environmental issues or simply indifferent, the impact on organizational culture can be tremendously stifling (Nattrass and Altomare, 2002).

➢ **Skills and knowledge barriers** – Even with strong commitments and a supportive organizational culture, social and environmental issues frequently require new skills and knowledge in order to manage. If adequate resources are not allocated to training and education of staff, strong environmental and social commitments can result in frustration and disappointment when objectives are not achieved.[10]

➢ **Managing trade-offs** – Social and environmental issues generally introduce new issues and implications to business decision-making that already must deal with a complex range of factors. Efforts to integrate social and environmental objectives into business strategy and operations can, therefore, face major challenges if decision-makers are ill-equipped deal with the inherent trade-offs involved.[11]

➢ **Data collection** – The integration of social and environmental commitments with business strategy and operations can also be hindered by challenges in collecting relevant data about social and environmental performance (Rikhardsson, 1999). One significant challenge is identifying appropriate indicators to measure performance toward social and environmental objectives or to measure the impact of actions toward those objectives, on nature and society, and also on other business objectives (Dyllick and Hockerts, 2002). But even with appropriate indicators, organizations can face major challenges in capturing the data necessary to inform those indicators or in ensuring that the data are well maintained.[12]

This list of barriers is not exhaustive, but it covers many of the most common barriers that organizations face in integrating social and environmental issues with business planning and operations. It serves to enrich the conceptual context that informs the case study research in section four and in section five of this thesis will be used as a benchmark against which to describe the unique barriers that MEC faced in its integration efforts.

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[9] Interview with Ingrid Schullström, Sustainability Manager of Hennes & Mauritz (H & M)

[10] Interview with Karl-Henrik Robèrt, founder of The Natural Step.

[11] Interview with Karl-Henrik Robèrt, founder of The Natural Step.

[12] Interview with Georgette Parsons, Information Services Manager, MEC.

3.5 Key considerations

While every organization's approach to overcoming the specific barriers that it faces to integrating social and environmental issues into business strategy and operations will be unique, there are some common features of a successfully integrated approach that can be considered by all organizations. The following key considerations were formulated by the author to summarize some of these common features. They are drawn from the literature review, interviews and personal experience that have shaped the review of the conceptual context to this thesis. Many of these considerations commonly appear in various social or environmental management systems, but they are phrased here with an explicit focus on that which will support the integration of social and environmental issues with business strategy and operations, rather than simply as components of management systems that treat social and environmental issues as separate from the core business.

➢ ***Aligned mission*** – In order to be integrated into business planning and operations, social and environmental commitments must be a part of the organization's mission, vision and values, otherwise they are certain to compete with "core" business objectives. The thinking that shapes an organization's notion of the place that social and environmental issues should occupy in their business philosophy statements are often informed by the conceptual frameworks described in section 3.2.1 of this thesis.

➢ ***Awareness and education about issues*** – Since our understanding about social and environmental issues is imperfect and continuously developing, it is important that the organization have the capacity to monitor trends in social and environmental issues that could affect its business (Sillanpää, 1999). An external environmental scan is built right into most business planning cycles, but other tools such as two-way communication with stakeholders, can help an organization achieve continuous improvement both in performance and in the organization's understanding of social and environmental issues.

➢ ***Clear objectives and policies*** – The organization must have clear statements of their social and environmental commitments and/or objectives. The more specific these objectives can be stated, the more likely they are to be integrated.[13] In addition, the social and environmental commitments must be strongly rooted in the organization's understanding of its business, its market, and the unique role that it can play in dealing with social and environmental issues.

➢ ***Explicit link with business planning cycle*** – While the high level social and environmental commitments can be separately articulated, the annual goals, targets and action plans must flow out of the regular business planning cycle.[14] This is critical to ensure that parallel planning processes are not going on within the organization.

➢ ***Measurement*** – Performance against the objectives must be monitored in order to know if progress is being made. Perhaps even more important, however, is the fact that measurement makes it easier to assess the impact of social and environmental performance on other business objectives through integrated indicators (Bennet and James, 1999). Integration with existing business operations is, thus, made stronger by performance measures.

➢ ***Alignment of existing systems*** – Various systems in the organization can be leveraged to support improved performance toward the social and environmental objectives.[15] The alignment of these existing systems is crucial in order to remove barriers, align departmental and personal goals, and facilitate data capture.

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[13] Interview with Priscilla Boucher, Manager of Corporate Social Responsibility, VanCity Credit Union.

[14] Interview with Dave Waldron & Shannon Gordon, Resort Municipality of Whistler

[15] Interview with Karl-Henrik Robèrt, founder of The Natural Step.

> ➢ ***Capacity building*** – Even clear objectives and aligned systems will not sufficiently integrate social and environmental commitments into an organization's operations if its people do not have the skills and knowledge required of them to implement the objectives (Nattrass and Altomare, 2002). Training, stakeholder dialogue, and other knowledge resources are examples of capacity building tools.

> ➢ ***Decision-making tools*** – Inevitably, there are tradeoffs involved in business decisions. Social and environmental issues have the potential to make some of the tradeoffs more evident and, thus, more difficult to manage. Decision-making tools can support staff in making day-to-day operational decisions where such tradeoffs are involved. The capacity to deal with such situations is crucial for the integration of social and environmental issues.

> ➢ ***Supportive culture and leadership*** – All of the appropriate systems, tools and statements to support the integration of social and environmental issues into business strategy and operations will not be sufficient. A committed and supportive organizational culture, frequently shaped by leadership from the most senior levels of an organization, is also key to overcoming barriers and driving performance by inspiring employees, and encouraging the innovation and risk-taking that is often necessary for the integration of social and environmental issues (Anderson, 1998).

These key considerations aim to support the generalization of the findings from the case study research. Thus, they will serve as a basis for the analysis of MEC's efforts to integrate social and environmental issues into business strategy and operations. A description of the case study research is the subject of the next section (4) of this thesis, while the analysis of the case study in relation to the common barriers and key considerations, as well as the other frameworks, theories and tools in this section, appears in section five.

4. The Case Study of Mountain Equipment Co-op

This section features the case study of Mountain Equipment Co-op (MEC). Its purpose is to describe MEC's experience with the integration of social and environmental issues into business strategy and operations in order to draw lessons for other organizations and to analyze the implications of those lessons for theory.

The section begins with a general overview of MEC and follows with the story of MEC's sustainability journey to date. The data for the case study were generated through a review of internal MEC documents and a series of interviews and workshops with MEC representatives, the specifics of which are described in more detail in each section. The following questions guided the research and are the basis for the structure of this section after the general overview of MEC:

1. What approaches and systems does MEC use for business planning and performance management?

2. What are MEC's social and environmental commitments and how were they developed?

3. What does integration mean for MEC?

4. How can MEC improve the integration of social and environmental issues into business planning and operations?

4.1 General Overview of MEC

This section provides an overview of MEC´s history, its unique business model, its organizational structure, and its product and service range. The data for this section were generated through a review of MEC internal documents and of the MEC webpage, and through informal interviews with MEC representatives, including the Social and Environmental Responsibility Coordinator, Finance Manager, Learning and Development Manager, Information Services Manager, and Chief Executive Officer.

MEC in brief
Mountain Equipment Co-op is a member owned and directed retail consumer co-operative, which provides products and services for self-propelled wilderness-oriented recreational activities. The Co-op was founded in Vancouver in 1971 by a group of University of British Columbia students who wanted to find affordable outdoor equipment without having to commute to the United States. Since its early days of selling equipment out of the back of a truck, the co-operative has grown substantially. Its total sales in 2001 were $154 million - up from $147 million in 2000 and $139 million in 1999. In 2003, it will open its third new store in three years, bringing its total number of stores, through which it does the majority of its business, to 8. The company also does approximately 9% of its business by mail order and in April 2002 introduced an e-commerce store on its webpage.

MEC's place in Canada
MEC now has 1.6 million customers, or members, 10% of whom are from outside of Canada. In Canada, where approximately 1 in 20 citizens is a member, MEC has become somewhat of a symbol of Canadian identity.[16] Despite the fact that it has traditionally done almost no advertising at all, MEC

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[16] As reported in Canadian weekly magazine MacLean's in April 2002 (MacQueen 2002), the MEC logo -- two mountain peaks and the name of the Co-op -- has become both a visible brand and a declaration of social responsibility. "Something of an alternative to the Canadian flag overseas," said Ian MacPherson, director of the B.C. Institute for Co-operative Studies at the University of Victoria. "It's a less ostentatious and more typically Canadian way of making a statement."

occupies approximately 15-20% of the market for outdoors equipment and clothing in Canada. Its nearest competitor occupies approximately 5-6% of the market.[17]

4.1.1 A unique ownership and financial structure

Each MEC member has purchased a $5 share to join the Co-op, which entitles a member to lifelong access to MEC gear. In fact, one must become a member of the Co-op in order to shop at MEC. Membership in the Co-op entitles the individual the opportunity to be involved in setting the policies and rules that govern MEC. Each member has an equal vote and can participate by voting for members of the Board of Directors, by standing for a position on the Board themselves, and by participating in the Annual General Meeting of the Co-op. MEC insists that "membership in the Co-op is not about marketing or tracking customer purchases, but rather about achieving a goal that can only be achieved collectively, through joint-purchasing power — high quality gear at fair prices."[18]

The unique business model of MEC also means that it does not exist to maximize returns for shareholders. As such, it does not have profit maximization as an ultimate business driver and requires lower margins than typical businesses. MEC sets its prices based on the costs to deliver its services to its members. This fundamentally different financial structure has allowed the Co-op to build a reputation for having the highest quality product on the market, at the lowest prices.[19] For obvious reasons, this powerful combination has been a key to its success.

To illustrate the uniqueness of the MEC business model, Figure 6 compares the different components included in the price of an average product offered by an investor-owned, publicly traded corporation to the price of the same product offered by a retail co-operative.
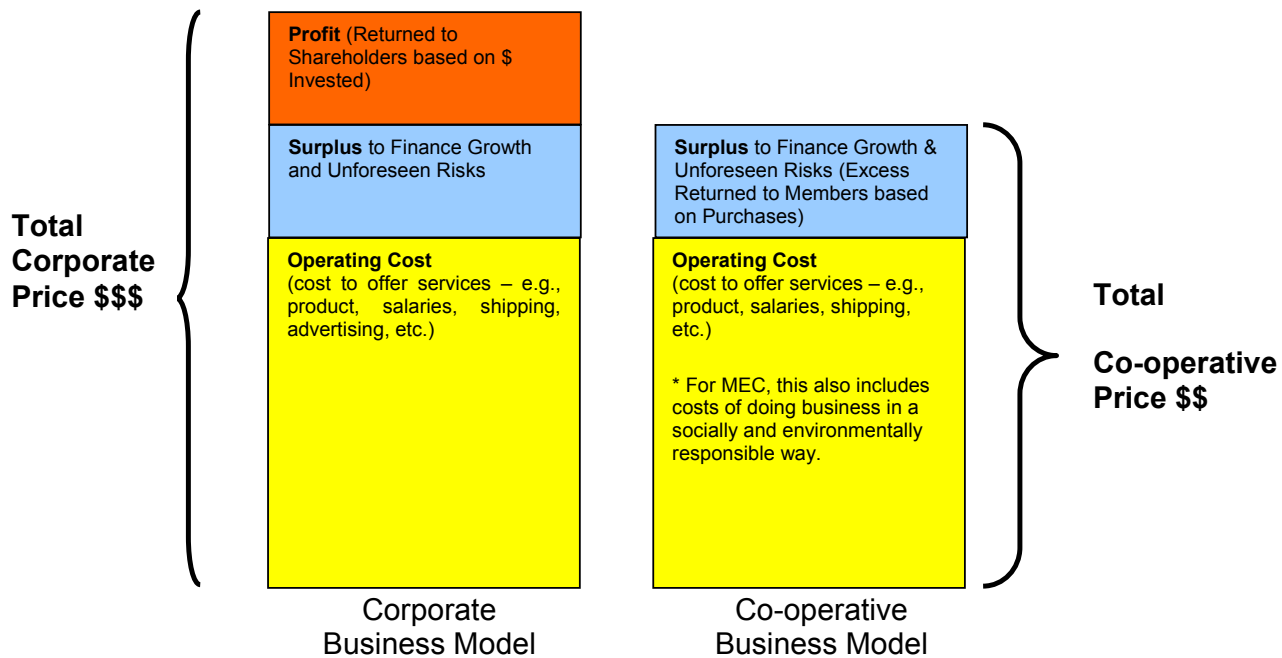
Figure 6: Corporate Business Model versus Co-operative Business Model

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[17] These market share figures are estimates put forward by the Finance Manager of MEC. In reality, MEC cuts across a number of different markets, and the exact figures are therefore difficult to pinpoint. In certain activity areas, product groups, and geographic locations, MEC occupies significantly higher or lower market shares.

[18] Quoted from material for the Leadership Program (a MEC management training and leadership development program).

[19] Interview with Rick Kohn, MEC Finance Manager.

4.1.2 MEC´s business philosophy

MEC's operations are driven by its members' needs and values rather than the financial drive to maximize profit. This is due both to its co-operative ownership structure described above and to the fundamental business philosophy that has characterized the co-operative since its inception in 1971. The strategic business philosophy of MEC is summarized in the Table 2.[20]

Table 2: Strategic Business Philosophy of MEC

MEC Core Purpose Statement	To support people in achieving the benefits of wilderness-oriented recreation.
MEC Vision	Mountain Equipment Co-op is an innovative, thriving co-operative that inspires excellence in products and services, passion for wilderness experiences, leadership for a just world, and action for a healthy planet.
MEC Mission	Mountain Equipment Co-op provides quality products and services for self-propelled wilderness-oriented recreation, such as hiking and mountaineering, at the lowest reasonable price in an informative, respectful manner. We are a member-owned co-operative striving for social and environmental leadership.
MEC Values	We conduct ourselves ethically and with integrity. We show respect for others in our words and actions. We act in the spirit of community and co-operation. We respect and protect our natural environment. We strive for personal growth, continual learning and adventure.

4.1.3 MEC Organizational Structure

MEC is governed by a Board of Directors that is elected annually by members at an Annual General Meeting. The Board is responsible for policy and strategic planning. The senior management team reports to the Board of Directors and is responsible for implementing the strategic plan, which it undertakes through the development and implementation of an annual business plan. Approximately 1000 employees work for the Co-op, approximately 180 of which are based at the head office in Vancouver. The majority of staff works in the retail stores, while approximately 100 people work in the distribution centre in Vancouver.

The organizational structure is described in Figure 7 on the opposite page.

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[20] Source: MEC Strategic Plan 2003-2007 (published April 2002 by the MEC Board of Directors and Senior Management Team)
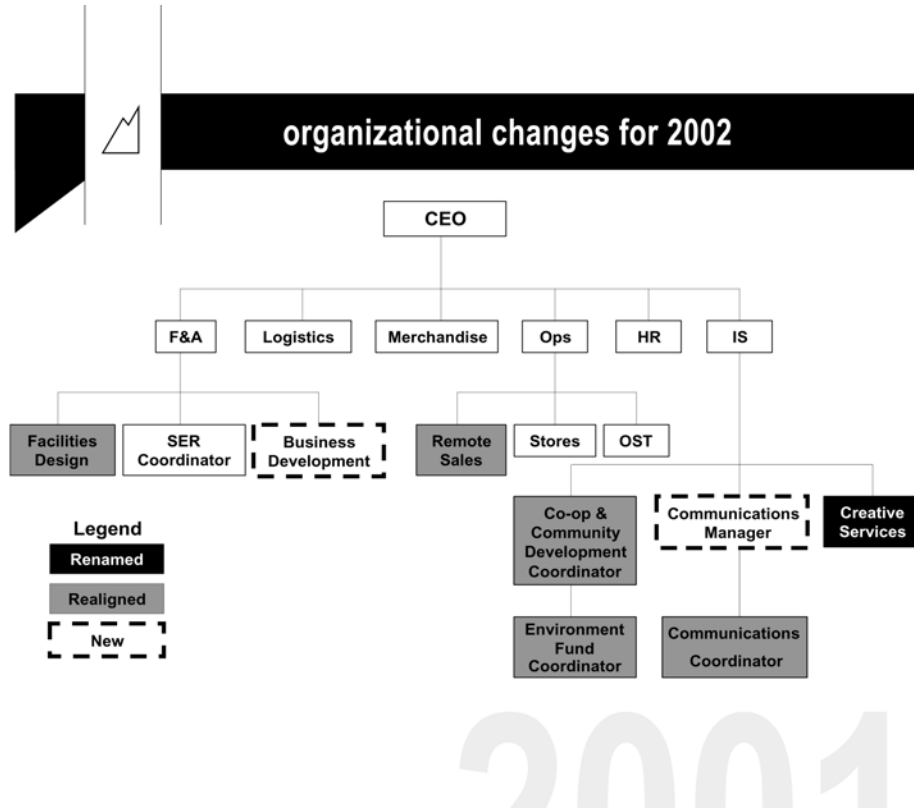
Figure 7: Organizational Structure of MEC

The *Merchandise Department* is responsible for all aspects of product development, including research and development, product design, sourcing, and buying. Thus, it could be said to be the core of the current business model of MEC.

The *Logistics Department* manages the logistics of shipping and distribution. Products are shipped from manufacturers to the distribution centre in Vancouver and then either to stores across Canada or directly to members if they purchase the products through remote sales or e-store.

The *Operations Department* is the main link between the MEC head office and the retail stores[21] and is focused on supporting retail sales efforts. It provides support to store managers, co-ordinates all activities and projects of a centralized nature, develops and delivers the store staff training program, rolls out new initiatives in the stores, and acts as the facilitator of contact between head office departments and stores. It is also charged with the operational activity of rolling out new MEC stores. In addition to its retail-store support functions, it oversees the operations of remote sales.

The *Information Services Department* provides IT and communications support to the rest of the organization for the delivery of MEC business goals. It is divided into communications and marketing,

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[21] MEC´s *retail stores* are located in Vancouver, Edmonton, Calgary, Toronto, Ottawa, Halifax and Winnipeg, with a new store to be opened in Montreal in 2003. The stores are the main retail outlets for MEC products. They are generally located in separate buildings that are owned by MEC. The stores are generally large format, ranging from 10,000 square feet to 40,000 square feet. The core function of the stores is product sales, but since they are the main interface between MEC and its members, they also house other member services such as rental programs, information booths, maps and locations, community notice boards, etc. The majority of MEC employees work in retail stores. Floor staff is generally hired with an emphasis on individuals who are experts or active participants in the various activity areas and sports for which MEC sells equipment.

creative services, and IT functions. The Communications and Marketing division provides internal and external communications support for the organization, including communication with members[22] and the management of community partnerships, co-operative development initiatives. The Creative Services division provides graphic design and other related support to the rest of the organization and manages the bi-annual development and production of the MEC catalogue.[23] The Information Services Department also coordinates all IT and information management systems as well as the MEC website.[24]

The *Finance and Administration Department* is responsible for all accounting and administrative systems, including budgeting and business planning, accounts receivable, accounts payable, and financial reporting. It is also home to the Social and Environmental Responsibility Co-ordinator, the Facilities Manager, and a new Business Development Manager who is responsible for the development of new business activities for MEC.

The *Human Resources Department* is responsible for employee recruitment, training, performance evaluation, compensation, and payroll functions. It co-ordinates the Incentive Compensation Plan and drives organizational development initiatives such as the Management Development Program and Leadership Program that are described in section 4.2.

4.1.4 Products

MEC´s product range include over 8400 products that are organized into the following categories: snowsports, climbing, paddling, cycling, packs, tents, sleeping bags, outdoor accessories, footwear, outdoor clothing, clothing accessories. Including breakdowns by colour, size, men/women designs, and other product features, there are over 24,000 variations in MEC products. The product range includes both MEC-labelled brands and other brands, including Serratus, a pannier and pack manufacturer in Vancouver that MEC actually owns. Approximately 60% of MEC sales come from MEC-label products designed in-house.

Product Development

Product development is the core of MEC´s business. The Co-op developed its internal product development capacity in the early 1980s, partly as a response to some of its suppliers pulling their lines from MEC stores because MEC refused to mark the products up to a price consistent with the margins charged by other retailers (MacQueen 2002). The MEC head office now houses a product development team, a test laboratory and a production department.

Product designers start work on products approximately one year and a half before the products hit the stores for sale. The stages of product development are generally as follows:

➢ Product designers usually work together with buyers to develop new product ideas. The buyers are responsible for selecting and planning MEC's products. Product designers put together design concepts for all MEC and Serratus label gear and focus either on soft goods (clothing) or hard goods (packs, sleeping bags, tents, panniers).

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[22] **MECMail** is a monthly e-mail newsletter that goes out to all MEC members. It generally features short pieces on social and environmental responsibility issues, membership issues, and product highlights.

[23] The **MEC catalogues** are produced twice annually, once for the fall/winter season (104 pages) and once for the spring/summer season (140 pages). They contain detailed information and pictures on the latest line of MEC products and are distributed to members. Each catalogue run produces 900,000 catalogues for distribution.

[24] The **MEC website** (www.mec.ca) features almost 4000 pages of information on products, activities, membership information and facts on social and environmental responsibility. The website is designed to be used as an encyclopedia and is a primary resource of information on the activities that MEC products support. It also features an electronic store, through which members can purchase products, and an on-line used gear swap. The website averages 250,000 hits per month.

> ➤ Soft goods designers work with pattern makers and sample sewers to come up with an apparel prototype. Gear is checked in a Testing Room for waterproofness, durability, colour bleed, loft, and wash stability.

> ➤ Once the designers and buyers agree on a prototype, the production coordinators are brought on board, to oversee manufacturing logistics. MEC's raw materials coordinator ensures that fabric and parts are where they need to be when they need to be there.

> ➤ Buyers and production coordinators work with an extensive network of people to bring products into MEC stores. Figure 8 shows the country of origin of MEC´s suppliers and manufacturers.
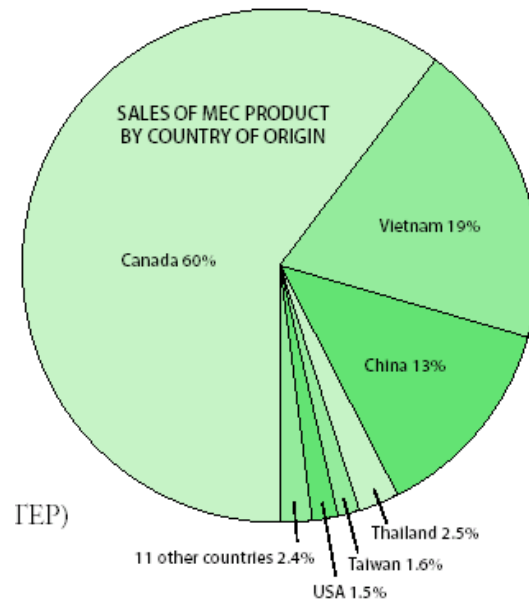
Figure 8: Sales of MEC Product by Country of Origin

> ➤ Data about the products, including material content, costs, vendor information, product classifications, physical dimensions, catalogue and web details, and other information, are entered into a series of **product information systems** that link the product development group with MEC operations and financial systems. These product information systems do not currently contain any data on the products' social or environmental impact.

This concludes the general overview of MEC. The information in this section on MEC's unique financial and ownership structure, organizational structure, and products serves as important background for the integration of social and environmental issues with business strategy and operations. Many elements of it will be referred to in later sections.

4.2 What approaches and systems does MEC use for business planning and performance management?

This section describes the approach and systems that MEC uses for business planning and for performance management. A basic understanding of the business planning and performance management activities of MEC is important in order to understand the context within which MEC has pursued the integration of its social and environmental commitments. The data for this section were gathered mostly through semi-structured interviews with MEC senior managers, including the Chief Executive Officer, Finance Manager, and Learning and Development Manager, as well as through MEC internal document review.

4.2.1 Strategic and Annual Business Planning Cycle

MEC's organizational culture has historically been very entrepreneurial and unstructured, where individual creativity and initiative were celebrated and systems were seen as unnecessary.[25] As such, business planning at MEC has evolved from something very informal in its early days to something relatively more structured today.

There are two main pieces of the planning cycle at MEC – a 5-year strategic plan and an annual business plan. Figure 9 illustrates the annual business planning cycle for the 2003 Business Plan.
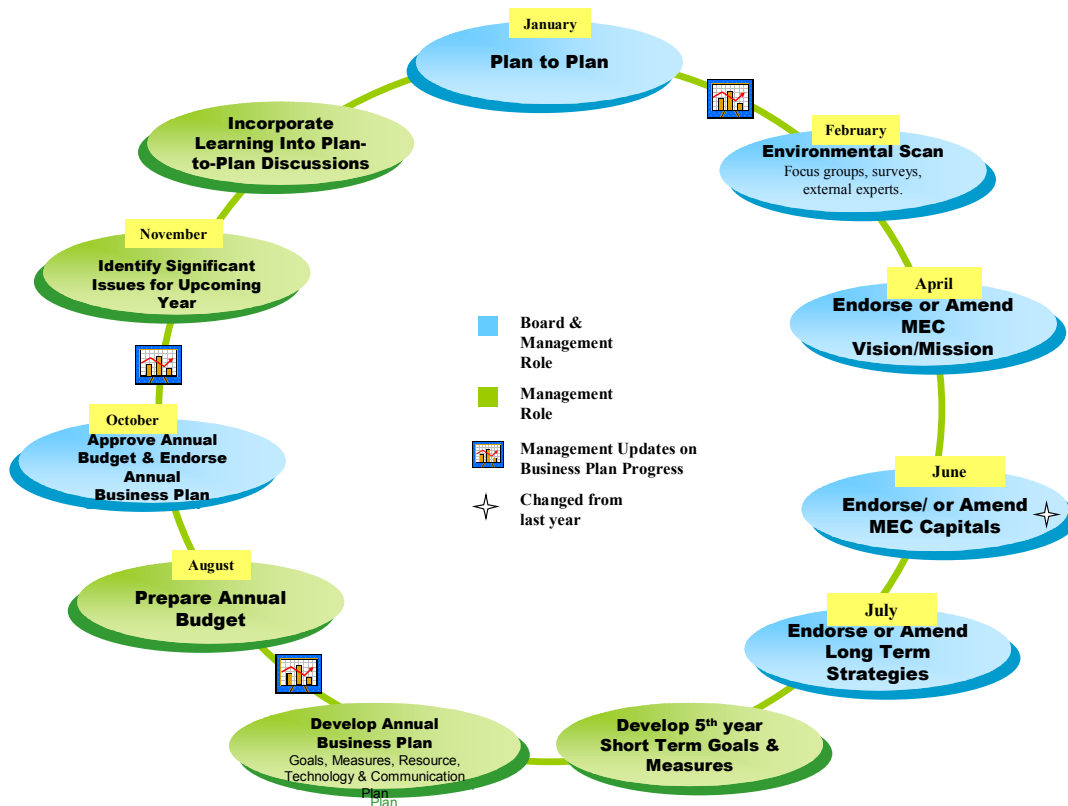
Figure 9: MEC Planning Cycle

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[25] Interview with Grace Pulver, Learning and Development Manager

Strategic Planning

At the highest level, planning is guided by a Strategic Plan that is developed by the Board of Directors and Senior Management team in roughly five-year intervals. Though it may be developed in conjunction with senior managers, the Board owns the Strategic Plan. Through the Strategic Plan, the Board gives the Senior Management team direction for its annual business planning cycle. It charges the organization with high-level objectives and courses of action over a period of time and sets goals for the C.E.O. to enable the Board to monitor the progress toward the accomplishment of the plan. The Board approved a new Strategic Plan for MEC in April 2002 for the period of 2003-2007.

Annual Business Planning

The annual business plan is the culmination of a collaborative effort primarily among senior managers and managers. It defines the key goals of MEC for a 12-month fiscal year. The cycle begins with senior management providing direction around the priorities for the coming year, which filter down from the Strategic Plan. The most urgent priorities for achieving the longer-term strategic objectives in the Strategic Plan are identified by looking at the external environment, MEC strengths and weaknesses, areas it wants to enhance, and gaps that need to be filled, and then by defining objectives and identifying actions to achieve the objectives. The organization works through an iterative process from May through August, and in September a finished plan with an attached financial budget emerges.

The Board reviews the annual Business Plan to ensure it is consistent with the principles of the Strategic Plan. Board approval is also required for major capital expenditures and changes or developments in policy.

Operationalizing the business plan

Once the Board accepts the business plan, it is integrated into the operational structure in a number of ways. First, individual departments make their respective plans for the year based on the business plan objectives. Second, MEC has a program called the Incentive Compensation Plan (ICP), which links business objectives to individual performance plans and bonuses and is used as a way of giving people direction on the priorities for the year. The ICP is described in more detail in section 4.2.3.

Monitoring

A quarterly report serves as the main monitoring mechanism for the annual business plan. The quarterly report takes the format of the business plan and adds a section for an update that covers where the organization is at, whether it is meeting its milestones, whether it expects to achieve its goals, and whether there is a need to reset expectations. It is compiled by the Senior Management team and sent to the Board as a quarterly update. Two formal reforecasting processes take place each year, where financial variables and indicators are reviewed[26] and refinements may be made to the plan. These monitoring and reforecasting processes also serve as the springboard for the next round of planning which has to take into account both what is left over from existing plans that was not accomplished and emerging issues.

4.2.2 Business plan format based on the Capitals Model

The business plan starts with high-level strategic goals that have been agreed upon by the Directors. These are broken down into two categories - core business and annual strategic initiatives. For each high-level strategic goal, there are sub-goals, actions to achieve the goals, indicators to know if they are being accomplished, and communications requirements to integrate the various initiatives into the organization.

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[26] MEC has developed a **Financial Health Framework** to monitor ongoing financial viability. The Financial Health Framework is a basket of 11 financial indicators that describe solvency, financial performance, productive use of assets, etc. They are monitored quarterly.

The high-level strategic goals in the annual business plan were previously organized into four main categories: Product, Service, Values and Infrastructure. For the 2003-2007 Strategic Plan, the Board of Directors organized the plan around the principles of the Capitals Model. [27] The principle of operating a business so that it "lives off the income without depleting the capital" resonated with members of the Board and senior management team. There was a general agreement that the capitals model would be a good way for MEC to organize its Strategic Plan. As such, the 2003-2007 Strategic Plan and the 2003 Business Plan were both structured around the capitals.[28]

The 2003-2007 MEC Strategic Plan introduces the Capitals Model as the MEC Strategic Planning Model with the following statement:

The MEC Strategic Planning Model is focused on accumulating our capital for the collective good of MEC and our members.

Our co-operative needs six types of capital to function properly:

1. **Social capital** is the value added to any activity or economic process by human relationships and co-operation. At MEC, this means **Service and Marketing & Communications**.

2. **Product capital** comprises material goods. At MEC this means **Product**.

3. **Human capital** consists of health, knowledge, skills and motivation, all of which are required for productive work; it also includes actions to promote the quality of life and dignity of people globally. At MEC this means **People**.

4. **Ecological capital** is also referred to as environmental capital. At MEC this means **Sustainability**.

5. **Infrastructure capital** comprises inventory, facilitites and other forms of infrastructure. At MEC, this means **Information Systems and Facilities**.

6. **Financial capital** reflects or measures the productive power of the other types of capital. It has no intrinsic value; its value is purely representative of social, product, human, ecological and infrastructure capital. At MEC we call this **Finance**.

Our Goal
We use the Strategic Planning Model as the framework for key objectives in the new MEC Strategic Plan because our goal at MEC is to ensure our ongoing success by maintaining and where possible increasing our stocks of these different capital assets.

Our primary objective will be to live off the income without depleting the capital.

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[27] The Capitals Model that MEC used as the basis for its business plan format is the model developed by the United Kingdom Forum for the Future, as described in section 3 of this thesis. It was first introduced to the MEC Senior Management team in a presentation by the Director of the United Kingdom's Project Sigma, which is also described in section 3 of this thesis.

[28] In fact, MEC has not adopted the Capitals model directly as articulated by Forum for the Future and Project SIGMA, but has adapted it to fit within the MEC context. In some cases, the categories were simply renamed. For example, the Values section in the old plan was broken down into "***Ecological Capital***" and "***Human Capital***". Rather than introducing a category called Manufacturing Capital, MEC has renamed the Product and Infrastructure categories in its old plan to "***Product Capital***" and "***Infrastructure Capital***." Developing social capital for MEC was seen as essentially about interacting with members through store operations and through communications and marketing, so these areas in the business plan were called "***Social Capital***." Finance was left as "***Financial Capital***." The structure of the business plan is therefore not significantly different than what it was before, aside from new headings and some new groupings of strategic objectives.

4.2.3 Performance Management

The concept of measurement is also relatively new at MEC.[29] The introduction of performance management systems has had to be undertaken carefully at MEC, so that it is not seen to be damaging to the unique organizational culture that staff hold dear. Nevertheless, the senior management team has recognized that with increased growth, the organization must adapt by introducing more formalized planning processes and more structured management systems. Most staff also acknowledge this need. One of the main motivators behind MEC's recent work on performance management is a desire for indicators to help the organization prioritise what it can and cannot do and when.

Key Performance Indicators (KPIs)
In the first year of a more formalized business planning cycle (2000), the MEC business plan did not have quantitative indicators attached to the various objectives. Instead, the measures were mostly expressed as methodologies to obtain the measurement (e.g. "member survey") or as qualitative indicators. In 2001, 50-60% of the measures became specific targets. In that year, senior management also introduced the quarterly reporting mechanism described in section 4.5.1. For the upcoming business plan (2003), the senior management team has introduced Key Performance Indicators (KPIs) intended to monitor ongoing performance in each core business area, and a section for targets for annual strategic initiatives. An example of the template used under the six capitals is included in Table 3. The example is for the core business activity of **buying** (i.e. buying product and materials) under the section "**Product Capital**."

Table 3: Initiatives Planning Template for 2003 Business Plan – Product Capital

Core Business	Key Performance Indicators	Target	2003 Initiative & Priority	Measure	Staff Resources	Budget	Time-frame
Buying	a) Turnover b) Fill rate c) Margin d) Inventory level	a) 3.4% b) 85-90% c) 30.5 d) 45 M year-end	Inventory & Management Process Enhancements				

Incentive Compensation Plan (ICP)
Prior to the introduction of Key Performance Indicators in business planning, the only real measures for MEC existed through its personal performance system, called the Incentive Compensation Plan (ICP). The ICP targets are developed through a performance review that staff and managers go through once per year with their respective managers. The manager gives the staff person stretch targets to encourage performance in priority areas for their work that year. Depending on their performance toward those targets, the staff person can earn up to 18% of his or her salary. The ICP has historically been based on job descriptions, but the Human Resources Department is currently reviewing the program and has considered basing the ICP on competencies.

4.2.4 Learning and Development Initiatives

MEC developed a set of management and leadership competencies to serve as the basis for management development initiatives. The current iteration of the competencies was developed through

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[29] Interview with Grace Pulver, Learning and Development Manager.

a collaborative effort with employees across the country. The competencies were approved in August 1999 and will be reviewed in August 2003. In their performance review, managers identify the top five skills that they want to develop for the coming year and describe them in something called the Management Development Plan. The Learning and Development Manager then compiles all of the Management Development Plans and reviews the requested skills. For some skills that are more generic (e.g. project management), the manager is encouraged to take a course outside of MEC. For the most requested skills that are more specific to MEC, the Human Resources Department develops a training program internally. This training program is called the Leadership Program. It focuses on one main topic each year and is designed for all new and up-and-coming managers and team leaders. In the first year of the program (2001), the focus was on coaching and teambuilding, and the program was delivered through an offsite training retreat. This year, the focus of the Leadership Program was on "The Retail Business of MEC." It was delivered through the development of a CD Rom.

4.3 What are MEC's social and environmental commitments and how were they developed?

This section describes MEC's efforts to be a leader in social and environmental responsibility. It identifies some of the programs and initiatives that have given MEC a reputation as a leader in social and environmental responsibility and then describes the chronology of developments in its approach to sustainability since 1998. The aim of the section is to provide the background to the eventual articulation of MEC's social and environmental commitments in an organizational Sustainability Policy in 2002. The data for this section were gathered through MEC internal document review and through semi-structured interviews with the Finance Manager, the Social and Environmental Responsibility Coordinator, and with a consultant who has worked with MEC on sustainability-related issues since 1998.

4.3.1 Why is MEC considered a leader in social and environmental responsibility?

MEC is widely perceived as a Canadian leader in social and environmental responsibility in business. This perception is rooted in its core purpose, with its wilderness-orientation, and to its co-operative ownership structure. It is further supported by the high visibility of its Vision and Mission Statements in its stores and its active role in the communities where its stores are located. MEC's green buildings program has only served to heighten its image as a leader. The MEC head office that opened in 1999 is located in a recycled former car dealership in a Vancouver industrial area. The Ottawa MEC store, which opened in June 2000, was the first retail building in Canada to comply with Canada's C2000 Green Building Standard, while the Winnipeg store opened in 2002 and the Montreal store opening in 2003 have both set new standards for green building design in Canada. Most recently, MEC continued to demonstrate social and environmental leadership by being the first major retailer in Canada to introduce a line of organic cotton clothing.

Sourcing/STEP Program
Product Sourcing is the part of MEC's business that receives the most public and member attention, in terms of social and environmental responsibility.[30] Since its inception, MEC has strived to ensure that the products that it offers are produced in an ethical manner. At first, this effort was informal, in keeping with the relatively small size of the organization. As MEC grew, however, it recognized the need for a consistent, written policy and standardized monitoring process. It has taken a number of steps to respond to member and staff requests for such a policy and process. Figure 10 illustrates the steps that MEC has taken to develop its Sourcing program.

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[30] Interview with Peter Robinson, Chief Executive Officer.

Figure 10: Stages of Development of MEC Sourcing Program

First, in 1997, MEC introduced its formal **Sourcing Policy**, which sets out the broad principles that govern how it purchases products. It contains statements about requirements that must be met by MEC suppliers, including with respect to their treatment of social and environmental issues.[31] All MEC suppliers must meet its specific requirements for product quality and overall service to maintain their status as a supplier to MEC. The Sourcing Policy is included in Appendix 3 of this report.

Next, it was necessary to help MEC suppliers understand the specific expectations articulated in the Sourcing Policy. Therefore, in 1998, MEC introduced its **Vendor Code of Practice**, which details MEC´s requirements regarding employee treatment and environmental responsibility. Vendors provide written commitments to meet the standards set out in the Vendor Code of Practice.

However, MEC also recognized that signing the Vendor Code of Practice is not the same as actually meeting its commitments. To make sure that vendors abide by the Code, MEC has set up a **Supplier Team Evaluation Process (STEP),** an internal auditing process. STEP allows representatives of MEC to assess current and potential suppliers of MEC-labelled products in a manner consistent with MEC´s Sourcing Policy and Vendor Code of Practice. These MEC representatives (generally Production Coordinators, Buyers and Merchandise Managers) are trained specially in the mechanics of auditing and the values underlying the audit process. These MEC staff auditors complete a 30-page STEP document, which contains over 200 questions, covering employee health and safety, employment practices and environmental records. By the end of 2001, MEC had put over 90% of MEC-label products through the STEP audit process.

The next step will be **third-party verification**, for which MEC will use the auditing services of Verite, a non-profit organization based in Boston. In 2002, Verite will conduct audits of four factories in China that are suppliers of MEC. The external audits will provide both independent information about the factories, but also standards against which MEC can compare the thoroughness and accuracy of its own STEP auditing.

These steps have not, however, lessened the attention that Sourcing receives, particularly from members. The 2001 and 2002 Annual General Meetings were both dominated by discussions about sourcing issues, including the ethics of MEC doing business in China and the need for external reporting on the STEP audit results. In 2001, MEC was even awarded a "Picket Fence Award" by one NGO, its Sourcing Policy, developed in 1997, was considered vague and does not explicitly reference international human rights standards such as the International Labour Organization (ILO) standards. MEC is planning a review of the Sourcing Policy in the fall of 2002.

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[31] In practice, the Sourcing policy is largely focused on social issues. Suppliers are audited only for basic environmental practices in their factories.

4.3.2 The Social and Environmental Responsibility Task Team (1998)

Much of MEC´s approach to social and environmental initiatives has historically been informal and unstructured, the result of a dynamic organizational culture and the personal commitment and creativity of staff. As a relatively small organization, MEC could afford to take this approach. However, as the co-operative grew, the expectations of members and other external stakeholders also grew.

In May 1998, MEC created a cross-functional "social and environmental responsibility task team" (SERTT) to consider how to approach social and environmental leadership in general and how social auditing might assist that process. The SERTT team was given the mandate to:

1. Be a non-partisan advocate and sponsor of MEC´s steps in becoming an environmental and social leader;

2. Represent the social values of MEC´s stakeholders broadly;

3. Recommend to the Board and Senior Management structures, processes, procedures and policies that, when implemented, would sustain MEC as a leader;

4. Educate and energize socially responsible behaviours; and

5. Disband after recommendations were accepted.

SERTT chose to pursue its mandate in three phases: a baseline study of the current situation at MEC, a staff consultation about where MEC wanted to be, and finally recommendations about how should get there. The aim was to have the final SERTT report adopted by the Board of Directors of MEC.

4.3.3 The Baseline Report (March 1999)

The SERTT team, in collaboration with an external consultant Solstice Consulting, developed the baseline assessment through a series of policy reviews, interviews with senior managers and other staff, document review, a group interview with the Operations department management, one factory visit, and research into management systems.

SERTT found that MEC´s major policy statements, Mission Statement, Vision, Core Purpose, and Core Values, together with strategic business statements, including the Strategic Plan, formed a body of MEC commitments to social and environmental responsibility. The Baseline Assessment described the nature and status of each of these commitments in detail in addition to providing a list of potential social audit questions, management systems elements that could help MEC answer the audit question, and potential audit procedures for each commitment. The data gathered under each commitment area were, however, not of a quantitative nature. The SERTT summary of these commitments and some of the main issues associated with each were presented in a table that appears in this report as Table 4.

Table 4: Summary of Commitments from SERTT Baseline Report (1999)

Commitment	Associated issues
1. MEC is a member directed and co-operative in structure and behaviour	1.1 Fairness of nomination and election process 1.2 Accountability of elected Board 1.3 Providing opportunities for members to influence their Co-op
2. MEC provides products and services to support members in wilderness recreation	1.1 Nature and extent of product lines 1.2 Supporting members in alternative ways

3. MEC will provide products and services at the lowest reasonable price	3.1 Balancing low prices with responsibilities to other stakeholders
4. MEC will provide products and services in an environmentally responsible manner	4.1 Environmental funding
	4.2 Contributing to unsustainable consumption at the expense of wilderness
	4.3 Waste reduction
	4.4 Products and production processes
	4.5 Transportation
	4.6 Greening facilities
5. MEC will provide products and services in an informative and helpful way	5.1 Quality of information and assistance
6. MEC will provide products and services in a socially responsible manner	6.1 Sourcing in China
	6.2 Conditions of work in contractor factories
	6.3 Support for Canadian companies
	6.4 Responsibility for supply chains
	6.5 Community relations and outreach
7. MEC will be an exemplary place to work	7.1 Organizational health and employee satisfaction
	7.2 Working conditions
	7.3 Compensation and benefits
	7.4 Staff participation in decision-making
	7.5 Personal growth and learning
	7.6 Dispute resolution
8. MEC will be a model co-operative	8.1 Promotion of co-operative values and tangible support for the co-operative movement
9. MEC will demonstrate integrity and ethical behaviour	9.1 Support of ethical behaviour integrity

4.3.4 Social and Environmental Management System (SEMS)

The SERTT Baseline Report also recommended the development of a social and environmental management system (SEMS) to address the issues raised in the report. Solstice Consulting developed the proposed SEMS using a modified version of an environmental management system. The proposed SEMS had six major elements: policy, planning and decision-making, implementation and operation, communication training, checking and corrective action, and management and stakeholder review. The model for this proposed SEMS is demonstrated in figure 11.

The SEMS was not officially implemented at the point that it was introduced as a concept. Instead, MEC decided to wait until SERTT had finalized its recommendations before implementing the SEMS.
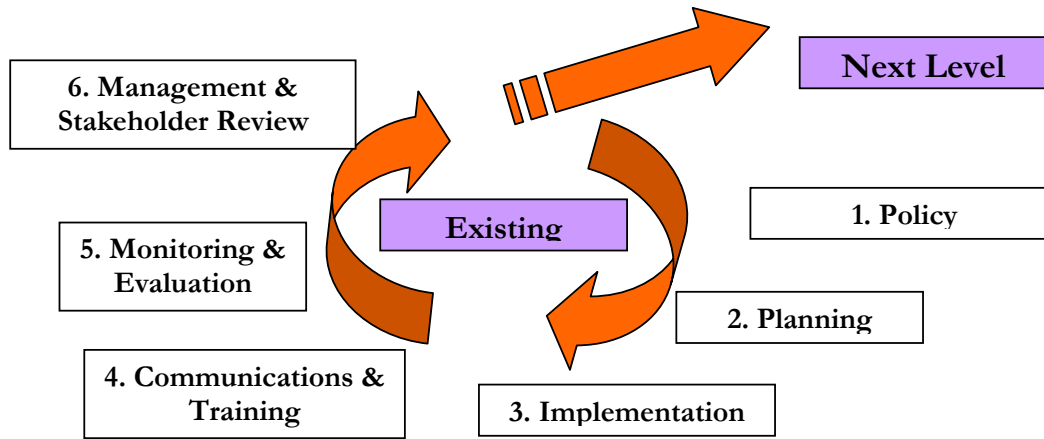
Figure 11: Model Social and Environmental Management System (SEMS)

Table 5 describes each of the SEMS elements in more detail. It was also originally presented in the SERTT Baseline Report.

Table 5: Description of the SEMS elements

Elements of model SEMS	Description of Elements
Policy	Formal, documented policy, including commitment to continual improvement that addresses the social and environmental aspects of the business. May be a single policy or integrated with other policies. Includes commitment to comply with legal requirements and relevant industry or association standards. Provides a framework for setting and reviewing social and environmental objectives and targets.
Planning & decision making	Procedures to understand and document the significant social and environmental effects of operations and major decisions. Setting objectives and targets for social and environmental performance consistent with the policy. Includes consideration of social and environmental effects (above), financial and operational objectives, technological options and stakeholder interests.
Implementation and operation	Programs for achieving objectives. Defining roles and responsibilities for social and environmental objectives. Specific procedures or guidelines. May include social and environmental criteria in performance management programs. Management of documentation. Emergency preparedness.
Communication and training	Means to ensure awareness of objectives and competence in achieving them. Means to receive, act on and respond to relevant communication from stakeholders.
Checking and corrective action	Regular monitoring and measurement of performance. Preventive and corrective action. Periodic audits of key areas and/or the SEMS as a whole. These may be internal or external auditors, provided independence is achieved.
Management and stakeholder review	Periodic review by management (or the Board as appropriate), of the effectiveness, adequacy and suitability of the SEMS. Stakeholder consultation in the review process is desirable.

Elements of model SEMS	Description of Elements
	consultation in the review process is desirable.

4.3.5 A Sustainability Strategy for MEC: Final SERTT Report (1999)

The next step of SERTT´s work was to conduct an extensive staff consultation process about the issues raised in the Baseline Report. This consultation was undertaken in two stages. First, broad based input was gathered through a series of Open Forum workshops in all MEC stores and at Head Office. One third of all MEC employees participated in the workshops. Participants suggested a wide variety of actions MEC could pursue to enhance its S&ER leadership. They also helped identify priorities among the issues – eight major issues from an original list of twenty-six.

SERTT then presented these major issues to a smaller group of staff, gathered from all locations, at a Delegate Workshop in June 1999. The delegates chose not to narrow the list any further, but combined issues into four main strategic opportunity areas:

Opportunity #1 – Business Operations Sustainability

Goal – to reduce the ecological impact of running our business while increasing the positive impact on people and communities

Opportunity #2 – Product Sustainability

Goal – to reduce the ecological footprint of our products through research, design and production, while providing dignity and quality of life for those involved in bringing them to market.

Opportunity #3 – Service & Use of MEC Products

Goal – to provide market-place leadership by promoting sustainable consumption.

Opportunity #4 – MEC as a Citizen

Goal – to follow co-operative principles and organization to promote sustainability, social equity and community enhancement.

The MEC Board of Directors adopted the SERTT Final Report and its recommendations in September 1999. The recommendations are summarized below.

1. Develop a high level Sustainability Policy that formally acknowledges sustainability as a defining goal for MEC and commits it to leadership in sustainability.
2. Develop an organization-wide social and environmental management system (SEMS) to implement and support the Sustainability Policy.
3. Incorporate the four sustainability opportunities and related strategies into MEC´s Strategic Plan.
4. Create an accountability structure for achievement of the sustainability opportunities and continuous improvement of the SEMS that reports ultimately to a senior manager and the Board, through Board policies.
5. Create an internal sustainability coordination committee with membership from all functional areas, to coordinate, communicate and support MEC´s sustainability strategy.
6. Provide appropriate and adequate resources to enable those responsible to meet organizational sustainability objectives. A budget of at least $400,000 was recommended to cover additional staffing needs and project costs, including four new staff positions: SEMS Co-ordinator, Co-operative Development Co-ordinator, Product Sustainability Research and Development Co-ordinator, and Service and Use Program Co-ordinator.

7. Develop a process and timeframe for stakeholder review of progress.

4.3.6 Follow-up to the SERTT Recommendations (2000-2002)

The implementation of the SERTT Final Report recommendations began with the hiring of two individuals, the Social and Environmental Responsibility (SER) Co-ordinator and the Co-operative Development Co-ordinator. The SER Co-ordinator took on most of the responsibilities envisioned by SERTT in its recommended role of SEMS Co-ordinator, including the short-term priorities of conducting waste and energy audits at all MEC locations, both of which were completed in 2001. The Co-operative Development Coordinator's short-term priorities included the development of a comprehensive strategy for all forms of MEC support to the community and a co-operative development strategy.

Meanwhile, the Product Sustainability Research and Development Co-ordinator was not hired. The Merchandise department believed that it was more important to build their internal knowledge base about product sustainability, rather than to hire one person and assign that person responsibility for it.[32] Similarly, the functions envisioned in the role of Service and Use Program Coordinator were spread out within the Operations Support Team.

The short-term priorities for the Product Sustainability opportunity area identified in the SERTT Final report have moved more slowly in the organization than those for which the hires were made. The VP Merchandise pointed out that baseline work on product sustainability was undertaken with existing resources, and designers and buyers were educated about what product sustainability meant for MEC. Now they have identified the need for specific expertise in restricted materials and product life cycle analysis. Some staff painted a slightly different picture, saying that they have lacked the resources and time to pursue the Product Sustainability objectives in a dedicated and explicit manner. In any case and for whatever reasons, Product Sustainability has been made a major priority in the 2003 Business Plan. The SER Coordinator will lead the development of a Product Sustainability Strategy for the organization along with the Merchandise Manager, and MEC will hire or engage someone with skills in product life cycle analysis to assess the ecological impacts of a number of its most important products throughout their lifecycles and to implement a restricted materials list that MEC was involved in developing along with a number of other retailers such as Nike, H &M, and Norm Thompson.

4.3.7 MEC´s Sustainability Policy (2002)

In early 2002, the SER Co-ordinator led a multi-stakeholder process that resulted in the adoption of MEC´s overall Sustainability Policy in May 2002. As recommended in the SERTT Final Report, the Sustainability Policy serves as the overriding statement of MEC´s commitments to social and environmental leadership, including what MEC believes, what it is going to do, and how it is going to do it. The Sustainability Policy appears in Appendix 4.

It is important to note that the development of the Sustainability Policy included a session where staff members were presented with three potential frameworks for the policy. These framework options included The Natural Step Framework (see section 3.2.1.3) and the four sustainability opportunity areas that had been identified in the SERTT Final Report (see section 4.3.5). MEC representatives decided with a high degree of consensus to adopt the four sustainability opportunity areas as the basis for their Sustainability Policy. The reason for this was mostly because they were seen to have a high degree of currency within the organization, since they had been developed internally through an extensive consensus-building process.[33] The decision not to "adopt" The Natural Step as the basis for the

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[32] Interview with Patrick Stratton, MEC Merchandise Manager

[33] Interview with Denise Taschereau, MEC Social and Environmental Responsibility (SER) Coordinator

Sustainability Policy did not preclude use of the framework for training purposes at some point in the future, since it was viewed as well suited for use as an ecological bottom line.

4.4 What does integration mean for MEC?

Having gained an understanding of MEC's approaches and systems for business planning and performance management in section 4.2 and understood the background of its sustainability work to date in section 4.3, the next question to be explored is the meaning of integration for MEC. In order to understand and evaluate the relative strengths and weaknesses of MEC's approach to the integration of social and environmental issues, it is important to gain an understanding of the motivations behind its efforts and of its perception of what effective integration really means for the organization. This section, therefore, explores the issues involved with the integration of social and environmental issues with its business strategy and operations.

The data for this section were gathered through a series of semi-structured interviews with MEC representatives, including both senior managers and staff from all of the head office departments. In total, 13 individuals were interviewed. A summary of the responses were distributed to all interviewees in order to ensure that they were an accurate reflection of the organization's views on the issues and that no major views had been missed. The list of interviewees is included in Appendix 1, while a more detailed overview of interview results from the questions posed to all interviewees can be found in Appendix 2.

In order to explore the issues involved with the integration of social and environmental issues with MEC's business strategy and operations, all of the interviewees were posed at least the following questions:

1. What is the business strategy of MEC? How do social and environmental commitments relate to it?

2. How might the business strategy of MEC differ in 10 years?

3. How would you describe MEC´s value proposition to members? To what extent do social and environmental issues factor into the value proposition?

4. How would you measure member satisfaction?

5. What is the relationship between MEC's financial performance and its social and environmental performance?

6. How would you define success for MEC in terms of sustainability?

7. What do you see as the purpose of a Social and Environmental Management System (SEMS) at MEC? What expectations do you have for a SEMS? How would it relate to your job?

In general, the interviews revealed a high degree of alignment within the organization about its core purpose and wilderness orientation, the things that make MEC unique such as its co-operative business model, the relative importance of social and environmental responsibility to the organization, and priority action areas. For example, most interviewees acknowledged that products were the main source of the organization's environmental impact, even though no formal analysis has been undertaken yet to demonstrate this.

The interviews revealed that MEC is a highly committed organization, full of highly committed individuals. Where there were points of disagreement or misalignment, they mostly tended to be with respect to the issue of "how far and how fast" MEC should move toward its various sustainability commitments, not whether they were appropriate for the organization. For example, although most acknowledged the relative importance of Product Sustainability for the organization, there were some differences of opinion as to the success of its work on Product Sustainability to date. The most

significant area of concern or uncertainty appeared to be with respect to how to achieve the desired integration of social and environmental responsibility within core business planning and operations.

The remainder of this section is organized around each of the seven questions listed above.

4.4.1 What is the business strategy of MEC?

When asked to describe the overall business strategy of MEC, the interviewees responded fairly consistently that MEC is about engaging people in self-propelled wilderness recreation. This direct or indirect reference to the core purpose of MEC was particularly evident among senior managers. Whereas senior managers tended to respond on a more strategic level, other staff were generally more quick to describe how the strategy was achieved, for example through the sale of high quality, reasonably priced outdoor gear in retail stores staffed by highly knowledgeable participants in the various activities (e.g. climbing, cycling, etc). Some respondents strongly emphasized that MEC is about products. Even those who described the business strategy more broadly frequently emphasized the provision of products as the main way that the co-op currently achieves its strategy and suggested that it is likely to be so for some time to come.

Strategic relevance of Social and Environmental Responsibility (SER)

Interviewees also consistently mentioned the manner in which the business is done as fundamental to the business strategy. This was expressed either in terms of its values, its co-operative business model, SER, or as a basic integrity and honesty about its business approach, all of which were rooted in the unique financial structure of the co-operative that gives it a fundamental motivation beyond profit maximization. During discussions about the strategic relevance of social and environmental commitments, one obvious difference of perspective did surface: some referred to SER as something new for MEC, while others said that it has always been an important part of MEC. This can most probably be interpreted as a discrepancy in understanding of the term SER. Most would likely agree with one interpretation that suggested that SER has always been an informal part of how MEC does its business, but that with rapid growth and changing stakeholder expectations in the marketplace came increased responsibility and a need to formalize SER a bit more. SER was, thus, separated out as a separate concept for the sake of more clearly articulating MEC´s interpretation and commitments to it, with the ultimate goal of embedding it again in the business, more consciously into the core of what MEC does. However, as it currently stands, SER seems to have taken on a specific meaning in the minds of some people, as they equate it with the recent efforts and early steps of implementing particular pieces of MEC´s 1999 Sustainability Strategy, rather than with the overarching concept of social and environmental responsibility.

4.4.2 MEC in 10 years

The question about MEC in 10 years was posed in terms of the likelihood that its current strategy would be similar in 10 years and the nature of the differences that could be envisioned or expected, if any. There was a high degree of consensus about the fact that external factors such as increased competition in the market for outdoor gear, a possible saturation of the market, and changing demographics and associated consumer expectations, are dramatically altering MEC´s competitive environment and will impact its long-term strategy. Clearly, the effects of these factors are being felt by MEC today. In fact, there was a strong sense that the look of MEC in 10 years and its place in the market strongly depend on how it responds to its current challenges.

From products to services?

The most common feature of the visions articulated by MEC representatives, particularly senior managers, entailed an increased focus on services to support people in achieving the benefits of wilderness-oriented recreation. The most commonly cited examples of such services were gear rental programs, outdoor programming, and activity-based strategic partnerships (e.g. canoeing, etc). This strategic shift was often cited as a response to market saturation ("people are buying less stuff"). It was,

therefore, frequently expressed as a shift *from* selling products *to* providing more services. Some, however, were careful to express it not as a lessening of the importance of products, rather as an expanded importance of services. They also mentioned a potential increase in strategic partnerships to leverage existing MEC competencies such as product development. In any case, the increased emphasis on services seems to be a matter of how far and how fast and is largely expected to depend on how the market evolves. There was almost no mention whatsoever of the potential impact of changes in government policy, such as the introduction of product take-back regulations or extended producer responsibility.

Or a more hard-nosed retailer?

While most mid-level managers or functional staff mentioned the same product-service shift so strongly emphasized by senior managers, some thought that this represented a sort of "ideal but perhaps not realistic" response to the market forces. These individuals suggested that the reality of the marketplace might dictate a strategy that is, in fact, more sales or retail oriented. Such a strategy would involve MEC rethinking many of its basic assumptions (e.g. single box outlet in a city, reactive sales model) to respond to changing customer needs. One example of this was increased consumer desire for accessibility. MEC´s main competitor is currently in the process of building a large number of stores in various locations across Canada. MEC may meet this challenge through increased sales through alternative channels (e.g. internet, mail), but may also be forced to respond by increasing the number of MEC stores as well. Another example of an assumption that is being reconsidered is MEC´s historic tendency not to emphasize marketing and advertising.

Role of SER in the future

Some interviewees acknowledged that their present-day impressions could be influenced by the "newness" of the financial pressures currently facing MEC, something that nearly every interviewee brought up in some way. Indeed, the view of the role of SER in the future for MEC was mixed. Some mentioned that SER could be a key competitive advantage for MEC and would thus become an even stronger emphasis in the strategy and a strength that MEC could leverage. Even if it were so in the near term, whether or not SER would be a long-term differentiator was unclear. There was some degree of apprehension in some interviewees about whether MEC´s emphasis on SER could somehow be threatened by a strategic direction that was increasingly focused on sales.

Rethinking the meaning of "wilderness-oriented"

A couple of interviewees also suggested that the broadening of MEC´s understanding of its core business could even go so far as to involve a rethinking of the meaning of its wilderness orientation. As the membership base expands beyond its traditional west-coast roots and the demographics of its membership-base change, these interviewees wondered whether MEC´s wilderness orientation might become more about an attitude - a "romantic connection with the outdoors and a sense of adventure" - than about the actual wilderness experiences. At the very least, they suggested that there may someday be a need to define the success of MEC not just in terms of helping more people get to the outdoors (thus further encroaching on natural areas), but in terms of the outcomes of their outdoors experiences (e.g. improved health or education about nature). This view was only mentioned by two interviewees and was referred to in the context of the very distant future, but was distinct enough to merit mentioning.

4.4.3 Value proposition

The question about the value proposition that MEC offers its members yielded widespread agreement that the key components of the value proposition are those associated with good product value – a wide range of very high quality products at low prices. The highly knowledgeable staff and a pleasant shopping experience characterized by little "pressure to buy" were also generally cited as key parts of the value proposition, although there was some suggestion that member expectations in terms of the sales approach could be shifting with the changing demographics of the membership (i.e. some members wanted more direct support from staff in making purchases).

The significance of the "intangibles"

Most interviewees also mentioned the intangible value that MEC members assign to the way that it does business (e.g. co-operative, SER, values, leadership) and the affinity that this creates. There was fairly widespread agreement that this is a secondary part of the value proposition for most members – not a key part of the purchase decision, but rather something that makes them feel good about purchasing product from MEC. Certainly, most interviewees believed that connecting to consumers on a values level, beyond simply meeting mercantile needs, was becoming increasingly important in the market. However, most interviewees admitted to finding it difficult to judge the extent to which this was a part of why members shop at MEC and the extent to which they valued it in the purchase decision. In general, there was agreement that the essence of MEC´s value proposition is the quality of the product and that this could not be sacrificed for any other factors.

2001 Member survey

Many interviewees mentioned the results of a survey of membership that was performed in 2001, although there were different interpretations of the results. The survey essentially broke MEC members into three key market segments –the "hard-core" users of gear who shop at MEC primarily for the quality of gear for certain activities (32%), the "values-oriented" people who shop at MEC because of its values and are not particularly interested in the activities (19%), and the people in the middle who were both involved in activities and aligned with the values of MEC (49%). Some interviewees had interpreted the results of this member survey as evidence that MEC members valued its SER and co-op nature far more than expected (e.g. "we were surprised how much people value SER"), whereas other interviewees had interpreted the survey results as evidence that members are primarily concerned with the gear (e.g. "that small group that was values oriented unfortunately do not spend very much at MEC.") One respondent suggested that the survey results strongly depended on how the questions were asked. Further market segmentation work was seen as valuable by many interviewees.

The implications of trust

In general, though, it is fair to say that there was a consensus that the intangibles do make MEC different, that their importance is growing among consumers, and that members **trust** MEC to do the right thing. In fact, many interviewees raised the theme of trust. The impact of that trust on loyalty was not totally clear, but at a gut level, many respondents felt it was very important. In this sense, because there is a widespread perception among MEC members that they can trust MEC to "do the right thing," SER is very tied up with MEC´s brand and was seen by some interviewees as also being to some extent a question of risk management.

4.4.4 Member satisfaction measures

Since the notion that, as a consumer co-operative, the "ultimate bottom line" of MEC is meeting member needs and expectations was so widespread, the question about how to measure the satisfaction of members seemed particularly relevant. The responses yielded a wide array of responses that focused on both lagging and leading indicators.

Lagging indicators

The most rapid and common response was that sales levels and the purchasing habits of members could ultimately measure their satisfaction. This included a frequent reference to how frequently members came back to shop at MEC, which was seen as a good measure of satisfaction over time.

Leading indicators

Other interviewees emphasized more leading indicators such as whether or not members were satisfied with the interaction with MEC staff and had a pleasant in-store experience (where their most significant point of contact with MEC is). This response emphasized that all member needs and expectations of MEC should be met through their experience with MEC, including hopefully the purchase of gear, but also potentially including advice about activities or direction to other stores who may better be able to meet the members´ needs if that is deemed necessary.

Satisfaction with the product

Given some time to reflect on the question, many interviewees eventually concluded that the most important leading indicator was satisfaction with the product purchased: does the product do what it is supposed to do? Functionality and durability were perceived as being the most important qualities and were even deemed more important than price by some. Some representatives of the merchandising department stated that they were confident that MEC members would support product sustainability efforts, so long as the products are of the same quality. While there was no data to support it, they believed that members may even be willing to pay a bit more for "greener" products, although the elasticity of prices for MEC prices is difficult to ascertain and there is no clear definition of what constitutes a greener product. One respondent suggested that the more expensive a product, the more sensitive consumers are to price.

4.4.5 Relationship between financial performance and SER

The question about the relationship between MEC´s financial performance and its social and environmental commitments deliberately framed the issue as potentially involving tradeoffs. Most interviewees picked up on the notion of trade-offs immediately, which seemed to reflect that this issue has been one of ongoing internal discussions. One interviewee summarized these discussions by suggesting that most MEC staff would agree on the content of the Sustainability Policy, but resistance surfaces as to the question of "how far and how fast" MEC should pursue the commitments featured in it.

The importance of financial health

A few interviewees referred to MEC as a not-for-profit organization at some point during the interview. On the other hand, one senior manager specifically pointed out that the notion that MEC is "not-for-profit" is not technically or philosophically accurate. In his mind, MEC´s unique financial structure is such that it is not about profit *maximization*, however this does not mean that MEC does not try to make a profit. Quite the opposite, MEC does aim to make a financial surplus, largely to provide itself with the financial flexibility to make strategic investments. This view was supported by most interviewees who basically took for granted that strong financial performance is vitally important for MEC to fulfil its commitments to members. MEC´s Strategic Plan refers to financial capital as a scorekeeping capital that "has no *intrinsic* value" but rather reflects the productive power of other types of capital.

Are SER commitments costs or investments?

SER initiatives were frequently framed as either costs or investments. Certainly, the upfront costs of various initiatives are higher than for an organization not committed to social and environmental leadership (e.g. green buildings, development of organic cotton lines, etc). A number of interviewees stated that many SER initiatives deliver clear financial benefits (e.g. efficiency measures and green buildings). For such "low hanging fruit," the business case is a "no brainer," as one interviewee described it. The issue becomes more challenging when decisions are more costly, financial payback less clear, and when starker trade-offs are involved. A number of interviewees referred to specific examples such as the potential purchase of wind energy, priced at a premium, the substitution of PVC-based membership cards with a more costly alternative, made from biodegradable, but potentially GMO-based, fibres. In such cases, the difficult question becomes how to judge the relative importance of potential investments.

Sometimes the payback is difficult to measure in financial terms

Some interviewees pointed out that the payoff in terms of SER initiatives may be in areas that are difficult to measure in financial terms, but that clearly provide value to MEC. This could include, for example, the degree of customer loyalty and attraction to MEC that is associated with its positive image, as well as its ability to attract highly qualified and motivated employees. Both of these were deemed as very significant but difficult to measure financially. It could also include the lost revenue potentially avoided by bad publicity or any damage to MEC´s credibility as a leader in social and

environmental performance that could come by not taking action or making investments. (e.g. sourcing).

SER is an equal part of MEC´s definition of success

Even when SER involves costs for which the payback is difficult to measure, there is a general agreement that they are necessary costs and essential to who and what MEC is. The interviewees suggested that SER is now so wrapped up in the co-op's mission, vision and values that it is difficult to imagine how it could ever be separated. In this sense, one interviewee compared costs associated with SER to advertising expenses for some other businesses - one of MEC´s costs of doing business. One interviewee also suggested that MEC could not afford *not* to do SER, in terms of risk management. There is a general sentiment that SER will pay off for MEC in the long-term, even if in the short term, it is unclear how or how much.

The importance of integration

Even so, one senior manager stated that "SER initiatives need to contribute to the financial bottom line or else they are not sustainable themselves." He suggested that the way to ensure that this was the case was to embed it in the core of the business operations. Another senior manager supported this view by stating, "We create financial health by meeting member needs, not in order to do so. The same is true for SER. It is about fleshing out a business model that through its operation and improvement and its efficiency and evolution over time, continues to be viable in and of itself, but at the same time through its own success is actually creating positive social and environmental outcomes."

4.4.6 Success in terms of sustainability

Those individuals who were most directly involved in the process of developing MEC´s new Sustainability Policy were quick to respond that, for MEC, success in terms of sustainability was achieving the goals elaborated in the Sustainability Policy. This was not the immediate response of all of those interviewed, however. In some cases it was only after some probing that any reference to the Sustainability Policy came out, and in some cases it never did. However they defined success in terms of sustainability for MEC, all of the interviewees acknowledged the importance of measuring progress in order to support continuous improvement. There was not, however, any consensus on any particular end goal for sustainability performance, nor on the need for one.

Measurement and the MEC culture

A number of interviewees spoke about a lack of enthusiasm about measurement, rooted in an organizational culture that strongly valued the "organic" and entrepreneurial approach that has characterized MEC for most of its first 30 years. The concept of performance indicators and measurement is quite new for MEC. It was introduced into the business planning process only as recently as in the 2002 Business Plan. Until then, the only measures in terms of management have been the goals and associated rewards that appeared in Individual Compensation Plans (ICPs). Thus, there was a strong sense that performance measurement of any kind should be carefully introduced in a manner that it does not stifle individual and organizational creativity and motivation.

The benefits of performance measurement

Most interviewees, however, acknowledged that performance measures were needed and important for MEC, given the size of the organization now that it has experienced rapid growth over a number of years. The benefits of measuring performance with respect to its social and environmental commitments that were cited by MEC staff included support for decision-making, priority setting, appropriate allocation of resources, and eventually for reporting on social and environmental performance. Some also mentioned that if properly implemented, measurement could be useful in terms of providing motivation, for example through confirmation that progress is being made, confidence that MEC is moving in the right direction, and help to support the celebration of small successes, all of which were deemed important given the cultural issue described above. On the other hand, a number of interviewees pointed out that a measurement system can also help raise red flags

about work that needs to be done and ensure that MEC staff understand that it cannot "rest on its laurels." One interview succinctly stated that measurement should help MEC know how it is doing in terms of:

- ➢ its goals,
- ➢ past performance,
- ➢ others (although this was deemed rather difficult for MEC, given its lack of peers).

Measuring performance with respect to the Sustainability Policy

When queried about the appropriateness of linking performance measures directly to the Sustainability Policy, most interviewees agreed that the organization should monitor and report on its performance against the commitments in the Sustainability Policy. One individual advised against coming up with separate targets derived from the Sustainability Policy, stating that social and environmental measures and targets should be built through the planning cycle like every other part of the business. Most senior managers stated that while the targets and objectives may change from year to year as a part of the annual business planning cycle, the key social and environmental performance indicators should be framed in reference to the 4 commitment areas of the Sustainability Policy. These were believed to have a strong foundation because they were developed based on staff and stakeholder input. Linking performance indicators to the commitment areas of the Sustainability Policy thus seemed to many to be the clearest and most logical approach.

Other suggestions for the performance indicators were that they should be very relevant, easy to understand, with a lot of substance, and relatively easy to gather so that they can be monitored on a regular basis. Some interviewees suggested that reporting on social and environmental performance would have to involve *both* quantitative and qualitative analysis. It was also repeatedly mentioned that, to the extent that it was possible, existing systems should be used to capture data related to sustainability performance.

Product Sustainability

Many people, including in particular representatives of the merchandising department, mentioned that the biggest opportunity area to improve MEC´s sustainability performance is in product sustainability, since it represents a significant proportion of the impact of MEC´s business. However, it was also evident that this is probably the most challenging area for MEC. When asked to define success in terms of product sustainability, most interviewees had difficulty responding and admitted to not being clear on this point, other than to say that the fact that MEC made such durable products was one important measure. For example, one interviewee suggested that MEC could choose to measure the number of new green product lines or could attempt to make slight improvements over a wide product spectrum (e.g. by substituting or eliminating certain materials). It was unclear which approach would represent greater improvement. This was all strong support for the comment of one representative of the merchandising department that MEC needed to start by gaining a better understanding of the impact of its products, for example by performing a Life Cycle Assessment on a basket of key products. Another potential response to the challenge raised by how to measure success of product sustainability efforts was a suggestion that work on product sustainability should be framed in terms of stakeholder expectations.

Integrating with job descriptions and ICP

There was a strong sense that the key for driving MEC´s social and environmental performance is integrating the commitments with job descriptions and the ICP explicitly. Representatives of the merchandising department held this view particularly strongly, and it was deemed by many to be especially important for buyers and designers. As one interviewee said, "It needs to be made compatible with the other things that we are expected to achieve, like sales and inventory." Another stated that, "You don't want your individual goals working against your initiatives. It's not just a question of money. It's a question of time. You spend your time doing what your company tells you to do." In fact, there was a general sentiment that buyers and designers are carrying a high degree of expectations on many fronts and that they need resources and support to work on SER issues.

4.4.7 Views on SEMS

The role of the SEMS is probably the issue where there was the widest range of responses and the greatest degree of confusion. Often the initial response to the question about SEMS was an admission of confusion or a shrug, and then the hazarding of a guess. The responses reflect what appears to be an existing tension in the organization, which boils down to the degree to which SER should be managed separately versus integrated as a part of the core business operations.

Points of agreement

There appeared to be basic agreement on most of the main objectives of a SEMS. For example, a number of interviewees stated that the priority for SEMS is to help MEC move toward its sustainability goals as articulated in the Sustainability Policy. There is also a general agreement that it involves performance measurement to support decision-making and resource allocation, and to allow MEC to report out on sustainability performance. One particularly concise definition of a SEMS was that it was "a systems approach to comparing current reality to a set of strategic objectives and using that systems approach to map out strategies for closing the gaps." The perception was that the need for such a systems approach stems largely from the growth that MEC has experienced in recent years.

Reporting

SEMS was frequently directly associated with reporting. For example, some representatives of the merchandising department described SEMS as a tool for the priority of reporting on MEC´s Sourcing Policy and STEP program. There did not, however, appear to be a consensus on the format that reporting should take. Some senior managers emphasized that the reporting should not be undertaken primarily as an external marketing and communications project, but rather for the sake of the internal need for continuous improvement. Some interviewees also suggested that a further goal of the reporting system associated with SEMS should be to facilitate information exchange within MEC in order to share information about what is being learned.

Alignment

There was some degree of uncertainty in the interviewees about whether the SEMS would impact their jobs or not. Some were unclear as to how it might do so. Some interviewees suggested that SEMS should show MEC staff how they contribute to the social and environmental commitments and the priority that they should be given. In this sense, the view was that the SEMS should support the integration of social and environmental commitments into job descriptions. In so doing, SEMS should assist in providing clarity, to help MEC staff understand the co-op's sustainability goals and how they relate to their jobs.

SEMS as a tool for integration?

The main confusion about SEMS seems to have been about what it should look like practically. Will the SEMS be a tool/framework for the desired goal of integration or will it be something that separates SER from the core of the company?

One frequently stated view was that SEMS should simply be viewed as just a normal management system. From this perspective, the unique characteristics of the SEMS are those associated with the "S" and the "E" – the content of what is being managed in this case. However, the SEMS should be as tightly integrated with overall management systems, so that SER is managed similarly to other aspects of the business. One senior manager expressed concern that the SEMS result in SER being managed in a more sophisticated manner than other elements of the business. Instead, the view was that the SEMS should be a generic management system that can be emulated for other aspects of the company.

The confusion about integration was perhaps best summarized in the statement of one interviewee that appears below:

"SEMS seems to be a parallel process to strategic planning in MEC. If it were integrated, I would like to see how SEMS and strategic planning wind up basically being the same thing. We talk about SEMS as integral to the overall operation of the organization, but it is somehow distinctly separate from our strategic planning cycle. What that leaves for SEMS is strictly the SER work, and excludes business operations. And I can´t see them as separate. I know the intent is to make them the same thing.

As an integrated organization, the purpose of the SEMS in my mind is the purpose of the strategic planning cycle. It´s just a different name. That is the biggest curiosity to me - why we lay it out as something separate. Maybe Denise and Andrea have identified it as something that they can use to map progress toward their own goals, but sometimes it is floated out there (like in this question) as something beyond their responsibilities and more about core business practices. There is a schizophrenia there between that and our overall business planning strategy.

The implication in the way that it is often presented is that this is something that drives business processes, but I do not see it used that way. I do see it used as something that drives improvement around SER work."

There was, therefore, a general agreement about the importance of ensuring that MEC's social and environmental commitments were integrated into the core of the business, but a lack of clarity about what this would mean functionally and about the degree to which MEC may have already achieved levels of success with integration.

4.5 How can MEC improve the integration of its social and environmental commitments into business planning and operations?

Since the interviews of MEC senior managers and staff had identified a general agreement about the importance of integrating social and environmental commitments into the core of business planning and operations but also a need for further clarity about how this could be done effectively, the next stage of the research explored the steps that MEC could take to ***improve*** the integration of social and environmental commitments into business planning and operations. This section describes the research toward this end.

The data for this section was gathered through a workshop involving MEC senior managers and the staff most directly involved in MEC's sustainability work, followed by an iterative development process between the author of this thesis and the Social and Environmental Responsibility Coordinator of MEC, and then a second meeting of the same MEC representatives who had attended the first workshop.

The first workshop was convened to gather input on the priorities for MEC's work on integration based on the interviews that had just been completed. The workshop covered reflections on the results of the interviews, conceptual models to support integration at MEC, priorities for the development of a SEMS, and points of relevance from a number of benchmark approaches or tools that were presented for discussion. A detailed summary of the workshop appears in Appendix 5. On the basis of the feedback generated in the workshop and the interviews, three distinct tools were identified as necessary to support the integration of the MEC's social and environmental commitments with its business planning and operations.

> ➢ ***Guidelines for Integration*** - A set of guidelines for the integration of the Sustainability Policy with business planning and operations would serve the purpose of providing direction as to the necessary steps that MEC must take for effective integration. These guidelines could serve both as a checklist and as a basis for the criteria against which a review of management systems can be evaluated. Draft guidelines are described in section 4.5.1.

> ➢ **Management System Review Process** – A review of management systems was deemed necessary in order to identify gaps and opportunities in management systems to support MEC´s social and environmental commitments, as articulated in the Sustainability Policy. A tool to support this review process would flow directly from the strategic commitment areas in the Sustainability Policy and would aim to ensure that systems were in place to follow through on each commitment. A draft management system review process is described in section 4.5.2.

> ➢ **Project/Initiative Evaluation Tool** – New ideas, information, and project opportunities constantly arise as MEC undertakes its work on sustainability. The main challenge is in determining and weighing the effectiveness of the project or initiative in achieving a given sustainability objective or commitment, its strategic relevance to the business, and its relative priority. This tool would, therefore, attempt to provide guidance to MEC staff and decision-makers on an operational level in evaluating a given project opportunity or initiative. A draft project/initiative evaluation tool was developed for discussion in a second workshop and is described in Section 4.5.3.

The draft guidelines and tools were tested and evaluated for their usefulness for supporting MEC's work on integration. Section 4.5.4 describes the two major steps of this evaluation – the application of the Management System Review Process to MEC's Sourcing Program and a second meeting of the MEC representatives who had attended the first workshop.

4.5.1 Guidelines for Integration

The guidelines for integration of the MEC Sustainability Policy with business planning and operations that appear in Table 6 were developed based on the input of MEC representatives in the first workshop and then through an iterative development process between the author of this thesis and the Social and Environmental Responsibility Coordinator. The Sustainability Policy was identified as the subject of the integration process, since it clearly articulates MEC's social and environmental commitments and was developed through a consultation process that gives it a high degree of credibility internally.

Table 6: Guidelines for integration of MEC Sustainability Policy with business planning and operations

Guideline #1	**Establish a clear framework for performance management (measurement)** ➢ Utilize the commitments in the Sustainability Policy as the basis for deriving indicators and other qualitative reporting measures (e.g. stories)
Guideline #2	**Link to Business planning cycle and KPI development** ➢ Ensure that the indicators selected to measure success for the different areas in the Sustainability Policy are explicitly integrated into the business planning cycle and KPIs.
Guideline #3	**Align existing systems** ➢ Identify existing MEC systems that can be leveraged to support improved performance in the commitment area.
Guideline #4	**Identify additional systems requirements** ➢ Identify additional systems requirements for effective integration of social and environmental commitments.

4.5.2 Management Systems Review Process

A draft management systems review process was also developed based on the input from the workshop and through an iterative development process between the author of this thesis and the Social and Environmental Responsibility Coordinator of MEC. It was designed to review a given program area in order to identify gaps and opportunities in management systems to support MEC´s commitment in this area as articulated in the Sustainability Policy. In this case, the tool was specifically worded for application to MEC's Sourcing activity, however the aim was for the review process to be replicable for other program areas that affect the integration of MEC´s Sustainability Policy.

The draft management systems review process was based on the Social and Environmental Management System (SEMS) framework first introduced in the SERTT Final Report of 1999. The SEMS framework was used because the feedback from the workshop suggested that there was no need for MEC to re-invent the wheel. Rather, workshop attendees felt that the best approach would be to build upon and further develop existing work, where possible. The management systems review process consists of a series of leading questions under each of the SEMS elements. The questions were developed based on the SEMS model and on the Guidelines for Integration introduced in section 4.5.1 of this thesis and are listed below.
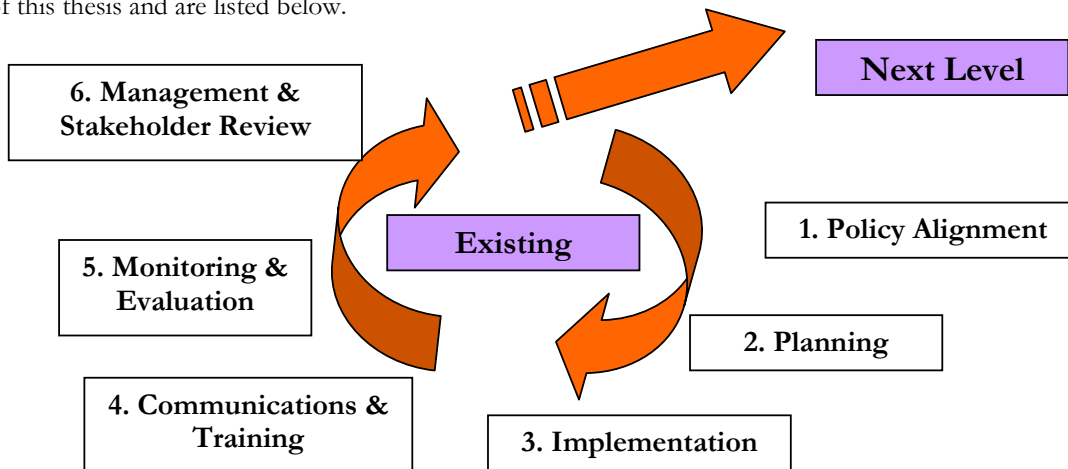
Figure 12: SEMS Framework

1. Policy Alignment

The MEC Sustainability Policy serves as an overall guiding policy for its efforts on Sustainability, clearly outlining its social and environmental commitments. The review process is therefore designed with the governing nature of the Sustainability Policy in mind. In order to fulfill some of the commitments in the Sustainability Policy, there may, in some cases, be a need for additional policies of a more operational nature.

> *1.1 What are our sourcing commitments in the Sustainability Policy?*

> *1.2 What other policies are related to our sourcing commitments? How frequently are they reviewed and by whom? Are additional policies required?*

2. Planning

Strategies and action plans for achieving MEC´s sustainability commitments should be determined through MEC´s business planning cycle, but should ideally be informed by performance data. In addition to the development of strategies and action plans, a major part of planning therefore involves determining how success will be measured.

2.1 How do we know if we are fulfilling our sourcing commitments? What indicators could be used to monitor performance toward the commitments? What other methods of reporting?

2.2 What systems exist to gather data necessary to monitor performance toward the commitments? What additional systems are necessary?

2.3 How do the selected indicators fit into the business plan and strategic plan KPIs?

2.4 Have we measured our current performance (i.e. baseline)?

2.5 What are our objectives for sourcing this year? How do they move us closer to our commitment in the Sustainability Policy? What is their strategic link to business outcomes? Were the annual objectives informed by past performance data and stakeholder input?

3. Implementation

In order for strategies to be implemented and commitments to be fulfilled, it is important for individual responsibilities and accountabilities to be made clear. In addition, existing systems in the organization must be leveraged where possible to support improved performance.

3.1 Who is responsible for the sourcing commitments and for the implementation of the objectives in this year's business plan? Are sourcing commitments and objectives included in the performance plans of these individuals?

3.2 What existing MEC systems can be leveraged to support the achievement of the sourcing commitments? How specifically can these existing systems be leveraged? What actions are necessary to do so?

4. Communications & Training

In order to fulfill its social and environmental commitments and achieve its objectives from year to year, MEC staff may require training or resources to develop certain skills and knowledge. Additionally, both internal and external communication will be required to implement strategies.

4.1 What capacities (knowledge and skills) are required of MEC staff in order to fulfill the sourcing commitments? What systems and/or resources exist to support the development of these capacities? What systems or resources need to be developed or implemented?

4.2 Who needs to know about the implementation of plans to achieve the sourcing commitments? What is the best method of communicating with them?

5. Monitoring and Evaluation

Data about MEC performance toward achieving its commitments must be captured at the appropriate time and by the appropriate individuals in order for it to be made useful both for business planning and for reporting to stakeholders. This data should flow from the performance measures developed in the planning stages.

> *5.1 How is data about sourcing performance captured? How often is the data captured and when? Who gets the information and how?*

<u>6. Management and Stakeholder Review</u>
In order for it to be strategically relevant and externally credible, managers and stakeholders must review data about performance and initiatives as part of the business planning cycle.

> *6.1 How and when is sourcing performance reviewed (by management) and communicated (to relevant stakeholders)? How does the data gathered in the performance review funnel into business planning?*

> *6.2   How can stakeholders provide feedback and input on sourcing commitments, performance, and policies?*

4.5.3 Project/Initiative Evaluation Tool

During the development of the management system review process, an additional need was identified for a tool to evaluate potential projects and initiatives with respect to their impact on MEC's social and environmental commitments. Further development of the strategic planning framework of MEC was seen as a pre-requisite to the finalization of an effective project/initiative evaluation tool. Nevertheless, a draft tool was developed during the action research based on the following considerations. The draft tool appears in Appendix 6.

Decision-making criteria in the Sustainability Policy
First, the Sustainability Policy outlines a set of criteria to guide MEC business decisions and strategies with respect to its sustainability work. It states that, "using the precautionary principle, MEC will focus on issues:
  ➢ Which relate to our business, our core purpose and our member needs.
  ➢ Which have the largest impacts on natural, social and economic systems.
  ➢ Where MEC has influence or control over the impact.
  ➢ Where solutions are technically and economically viable.
  ➢ Where there are opportunities to collaborate with other organizations."

This set of criteria should certainly serve as the basis for a project/initiative evaluation tool. However, they are not sufficient to support project and initiative evaluation on an operational level. Staff and decision-makers will require methods to evaluate the various criteria. For example, the tool will have to help a staff member evaluate how the given project or initiative relates to the business in a way that is strategically relevant. In addition, it would need to help staff members determine the impact of the initiative on natural, social and economic systems. This is, in itself, a very challenging issue for which a large number of tools have been developed. It requires considerable thought on the depth of the analysis that is required and on whether different project/initiative evaluation tools would be required for different areas of MEC´s business (e.g. Product Sustainability versus MEC in the Community).

Capitals Model – Navigating the trade-offs
MEC will also have to consider how the Capitals Model might serve as a basis for the evaluation. Since the capitals model has recently been introduced as the overall framework for the strategic and annual business plans (see section 4.2.2), the evaluation of any given project or initiative would ideally assess its impact on financial, environmental, social, human, product, and infrastructure capitals. The capitals model is a powerful conceptual model, but in and of itself does not help alleviate the inherent trade-offs involved in most decisions. In fact, it could be said to add layers of complexity to decision-making. A project/initiative evaluation tool will need to help MEC staff navigate those apparent trade-offs to enhance and build the various capitals. It must therefore be rooted in a well-conceived performance

measurement system based on the capitals model such as the KPI work that is currently being done by the MEC senior management team for the 2003 business plan.

Principles for strategic investments (Robèrt et al.)

Robèrt et al (2002) outline four strategic investment principles to guide decision-makers in their journey to sustainability that were deemed useful for MEC to consider in the design of its project/initiative evaluation tool. The principles are most appropriate in the context of a clearly defined vision of sustainability such as the systems conditions of The Natural Step Framework. The four principles are the following:

➢ *Backcasting* – (i.e. as described in section 3.2.1.3)
➢ *Flexible platforms* – (i.e. the notion that the steps taken must also avoid dead ends in the future)
➢ *Good return on investment*
➢ *Pre-cautionary principle*

Format of the project/initiative evaluation tool

Finally, MEC will need to reflect on what format is most appropriate for the tool. For example, the tool that was developed for management systems review was essentially a series of leading questions for managers to reflect upon and answer. The project/initiative evaluation tool could take a similar format, or could be designed more as a decision tree where answering one question in a given way leads the staff member to a different branch of questions.

These considerations informed the development of a draft Project/Evaluation tool that appears in Appendix 4 and that was evaluated in the meeting of senior MEC representatives that is described in the next section.

4.5.4 Evaluation of the Guidelines and Tools

The guidelines and tools described in the previous three sections were evaluated for their usefulness in supporting MEC's work on integration using two major steps - the application of the Management System Review Process to MEC's Sourcing Program followed by a feedback meeting of the MEC representatives who had attended the first workshop. The purpose of this meeting was to present and gain feedback on both the management systems review process that had been used to review the Sourcing program and on the project/initiative evaluation tool that had been drafted for the meeting.

This section is divided into four sub-sections. Section 4.5.4.1 describes the review of MEC's Sourcing Program, while sections 4.5.4.2 through 4.5.4.3 describe the feedback on the guidelines and tools generated in the feedback meeting. Since the usefulness of the guidelines and tools in support of the integration of social and environmental commitments into MEC business planning and operations is the main point of relevance for this thesis, the section focuses primarily on the feedback generated in the workshop. The content of the Sourcing review is included as an Appendix to the thesis (Appendix 7) and is summarized briefly below.

4.5.4.1 Sourcing Review

The review of the MEC Sourcing program using the draft Management System Review Process identified a number of strengths and weaknesses in MEC's ability to live up to the Sourcing commitment in its Sustainability Policy. That commitment is stated as the following:

"We will follow sourcing practices that ensure a safe and healthy workplace for the people that make our products, where human and civil rights are respected."

First, the review identified the need for a formal revision of the Sourcing Policy and associated Vendor Code of Conduct. Neither document has been updated since they were developed in 1997 and 1998

respectively, and require updating to meet emerging international standards. The review also identified a need for further elaboration of the KPIs assigned to the sourcing activity in the Strategic Plan and 2003 business plan. In their current iteration, the KPIs for sourcing were stated as measures of annual objectives, such as "remainder of Asian factories audited" or "3rd party audits of four factories," rather than as measures of ongoing performance toward the sourcing commitment. In addition to these points, the review also identified needs in training and education of Merchandise department staff about emerging trends in sourcing practices, data collection, reporting, and the need for regularly scheduled management and stakeholder reviews of sourcing policies and performance.

Appendix 7 provides more detail to the data that was gathered through the management system review process for the Sourcing program of MEC.

4.5.4.2 Feedback on the Sourcing Review

The attendees of the final feedback meeting focused most of their input on the usefulness of the management systems review process and its potential applications beyond Sourcing. In terms of the content of the sourcing review itself, most meeting attendees agreed with the answers that had been provided by the Hard Goods Manager during the review. Only two major additional comments were made.

Product information systems can be leveraged

First, the Information Services Manager pointed out that, in fact, the Product Master database has a fair bit of flexibility in it, and could likely be used to capture certain pieces of data for sourcing (e.g. country of origin, factory audits, etc) and for other MEC social and environmental commitments (e.g. Product Sustainability). The advantage of integrating this information with the existing system is that it becomes more dynamic and can then be tied to other pieces of information currently captured by the system, such as sales data. She stressed that, as always, once the system has been properly designed, the issue is always one of data maintenance.

Capitalize on the review of ICP and Job Descriptions currently being undertaken

Secondly, the Learning & Development Manager pointed out that both the Incentive Compensation Plan and Job Descriptions systems are currently under review by the Human Resource Department. Thus, there is a good opportunity to ensure that the various recommendations that may come out of any management systems review such as the one undertaken for the Sourcing activity of MEC can be incorporated into this organization-wide review of individual performance systems. The H.R. department is considering a shift away from job descriptions in their traditional form (i.e. based on tasks and responsibilities associated with each job) toward a system based on competencies. They have already discussed including Social and Environmental Responsibility as one of the competencies featured in each job description. Meeting attendees agreed that it would be important for the work on integrating the Sustainability Policy into business planning and operations to be carefully and deliberately incorporated into the review of human resources systems currently being undertaken by the Human Resources department. This was deemed relevant for sourcing-related commitments, but also for all social and environmental commitments in the Sustainability Policy.

4.5.4.3 Feedback on the Management System Review tool

The feedback on the usefulness of the management system review process (see section 4.5.2 for the tool) was gathered in the workshop by going through each stage of the SEMS model (i.e. policy alignment, planning, etc) and discussing the rationale for the questions under each stage and the answers that were provided in the Sourcing review. In general, meeting attendees responded positively with respect to the usefulness of the tool and frequently focused their comments on specific questions. A number of individuals indicated that they were pleased to see the tool based on the SEMS model, because the tool had built up some currency in the organization despite not having been formally

implemented to date. They also pointed out that the process of following through on any particular commitment is not as linear as it is inevitably communicated through the SEMS model, which, though circular, still presents the stages as steps in a process. In reality, the work is generally undertaken in a less "step by step" manner. In particular, the policy alignment and planning stages involve work that touches on almost all of the stages in the model. However, that being said, they agreed that the model is useful to ensure that all the relevant pieces are being covered, and to demonstrate the important concept of continuous improvement.

Specific feedback included the following points:

➢ Question 2.5, which deals with the degree to which plans are being informed by performance data, was deemed very important. It is essential for MEC to ensure that any data that it is collecting on performance toward its social and environmental commitments are being deliberately integrated into business planning.

➢ Some attendees felt that the "implementation" section was missing questions on operational procedures and on the allocation of resources. It was suggested and agreed that two questions should be added to this section:

   o ***Where necessary, do operational procedures exist at a sufficient level of detail to provide direction or guidance?***

   o ***Are there adequate resources allocated to follow through on the plans?***

➢ **Communication** is something that must be considered throughout the entire cycle, rather than as a separate stage. This is evident when the communication needs of various stakeholders and the appropriate timing of communication with each of them are considered. This ongoing nature of communication should be reflected in the visual, perhaps as a circle that surrounds the entire process. The same was discussed for **stakeholder dialogue**, which would also go on throughout the cycle, particularly in the policy alignment and planning stages. In essence, stakeholder dialogue is a part of communication. Meeting attendees agreed that MEC often conceives of communication as one-way, when in fact it should be a two-way exchange that includes stakeholder dialogue.

➢ Another discussion focused on where to include the monitoring of **external issues and trends** relevant to MEC social and environmental commitments. Meeting attendees agreed that it would ideally be included in the Environmental Scan that takes place in the early stages of the business planning cycle. This could be facilitated by adding a question in the planning section of the management system review that prompts managers to make that link in the same way as other questions prompt them to link indicators to the KPIs in the business plan.

➢ The ongoing internal discussion about how best to do **reporting** on social and environmental performance was raised again in the meeting. There was a strong feeling among some attendees that MEC has an opportunity to take a unique approach to reporting that is better suited to its co-operative and retail nature than would be a glossy Sustainability Report. The web, for example, is one potentially powerful means of reporting on an ongoing basis. It was pointed out, however, that regardless of how MEC eventually reports out on its performance, it is important for it to have the systems in place so that data are available. The method of reporting is a communication issue. It is important to make the distinction between data capture and communications, so as not to slow the development of reporting systems while innovative communications methods are sought.

4.5.4.4 Feedback on the Project/Initiative Evaluation Tool

The focus of the meeting then shifted to the draft project/initiative evaluation tool (see Appendix 6 for the tool). There was a general consensus that the draft tool was a good start and strong basis for the development of a tool. Meeting attendees spent some time discussing the different levels of support in decision-making needed in the organization. Eventually, it was agreed that although the goal should ideally be to integrate as many pieces as possible into existing processes and to limit the development of new tools and frameworks, there was an evident need in the organization for a tool to support decision-making on an operational level. The two key issues involved are helping staff comfortably say "no" to certain initiatives and supporting staff with decisions that involve trade-offs. In this sense, a general tool such as the draft tool presented would be useful, since it includes both "screening" and "prioritisation" elements and since it could conceivably be applied to projects and initiatives on different levels (e.g. from large scale investment decisions to smaller operational decisions). Numerous examples were presented and discussed.

Meeting attendees pointed out that there was a great deal of congruency between this initiative and two other pieces of work that were going on in the organization. The first was the work that senior management was in the process of doing to define the basis for MEC competitive advantages and differentiation. The second was the new position that had recently been created to support business development for MEC. The new Business Development Manager would likely be developing a tool for evaluating the business case of new business opportunities for MEC. The project/initiative evaluation tool could therefore be integrated with this work. In fact, there was widespread consensus that there was a strong fit between the two pieces of work and that a meeting should be arranged as soon as possible with the new Business Development Manager to discuss the linkages.

As for the content of the tool itself, meeting attendees liked the four sections of the tool and thought that the questions in each section were a very good beginning. Specific feedback included the following points:

➢ The trade-offs section is the most challenging one and also the most important. While most workshop attendees approved of the 7 criteria listed in this part of the tool, there was some concern about the whether a hierarchical listing of importance would have the intended effect on decision-making. For example, ranking those projects with an obvious ROI highest might result in projects that build social capital and community partnerships being seen as less important since they often do not yield an obvious financial ROI. Meeting attendees suggested that a further iteration of the tool could have a simple **point scoring system** with different weights being assigned to different criteria and with the total score of given initiatives being the basis for the evaluation of trade-offs.

➢ There is a need to better understand what issues and initiatives members feel most strongly about. For example, for a given investment amount, would members rather the investment be made in non-plastic shopping bags or in wilderness protection? It was agreed that the project/initiative evaluation tool should have a basis in member preferences. This underscored the importance of more regular member surveys to make such determinations.

➢ It was pointed out that the questions do not seem to provide any evident guidance as to the gradual **increase in emphasis on services vis a vis products**, which is an important part of the "sustainable consumption" section of the Sustainability Policy. This could be made more explicit in the "Ecological Capital" section by including a prompt referring to dematerialization or in the "Product Capital" section by including something about creating more member value per product output. For that matter, the "Product Capital" section could also include something about whether the project or initiative has the potential to create more products for a given input.

➢ Some meeting attendees felt that the organization would benefit from having a more organized method of **compiling and assessing potential projects and initiatives**. Projects and initiatives are especially difficult to assess on an ongoing basis. When they can be compared to one another, the trade-offs and relative "bang for the buck" become somewhat easier to assess. Thus, the tool could facilitate a periodic (e.g. annual or bi-annual) bringing together and ranking of project and initiative ideas. This is another suggestion where co-operation with the new Business Development Co-ordinator was deemed appropriate.

➢ One suggestion was made to include the word "**affordable**" in one of the questions in the "Financial Capital" section. This was debated, because the word apparently has different meanings for different people in the organization. It was agreed that the Financial Capital section or the tool as a whole should aim to help an individual determine whether or not a given project or initiative is affordable. In this sense, some link with other financial health indicators should likely be considered, perhaps in the business case tool that is developed with the Business Development Manager.

➢ One meeting attendee pointed out that the tool could also be useful in assessing potential **partnership opportunities** for MEC. The term "partnerships" could be added to the name "Project/Initiative/Partnership Evaluation Tool," provided that the tool was developed with this additional possibility in mind.

4.6 Conclusion

Section four of this thesis has outlined the research into MEC's efforts to integrate social and environmental issues with business strategy and operations. This case study is the primary subject of analysis for the research question posed at the beginning of the thesis. The next section (5) will analyze the findings of the case study research in order to begin to draw conclusions about the implications of the research on theory and for other organizations.

5. Analysis

The aim of this thesis was to answer the question "how can organizations integrate social and environmental issues into business strategy and operations?" As an action research project, the intent was to answer the general question by describing and analysing the efforts of Mountain Equipment Co-op to integrate social and environmental issues into business strategy and operations and then linking that analysis to theory and the conceptual context. Section four has described and to a certain extent analysed the story of MEC. In order to answer the research question on a general level, however, an analysis that links MEC's story to the concepts and theories described in section three is required.

This section analyzes MEC's efforts to integrate social and environmental issues into its business planning and operations. It does so by summarizing the key barriers to integration that MEC faces and by identifying strengths and weaknesses of the approach described in the case study research of section four. The section concludes with some general reflections about MEC's efforts. All of these serve to inform the conclusions in section six, including the lessons from MEC's experience for other organizations and the implications for theory.

5.1 Barriers faced by MEC

The analysis of the barriers that MEC faces in integrating social and environmental commitments into business strategy and operations is framed around the common barriers to integration outlined in section 3.4 of this thesis.

➢ ***Market barriers*** – According to most of the MEC representatives interviewed and supported by the market survey that MEC undertook in 2001, the essence of the value proposition that MEC offers members is high quality gear at reasonable prices. Most would also agree that MEC's image as a leader in social and environmental responsibility also factors into the value proposition, but to a lesser extent among most members. This suggests that the market is likely to accept new product designs and materials, for example, only to the extent that they do not negatively affect quality, and to some extent price. This is one reason why MEC has articulated a desire to dominate the market on product quality, and to make social and environmental responsibility one primary source of differentiation. That being said, MEC is clearly perceived in the market as trusted and innovative, both of which are factors that suggest that it has a certain amount of space in which to pioneer innovative product design. Finally, social and environmental issues may indicate that a shift from resource intensive *product* sales and consumption to less resource intensive provision of *services* is appropriate. However, the pace at which MEC can pursue such a strategy clearly depends on the market response and demands. There is early evidence that the market for outdoor gear in Canada is becoming mature, but the implications of that on the pace of a product-service shift at MEC are unclear at this point.

➢ ***Cost barriers?*** – There are always cost barriers to certain levels of investment in improved social and environmental performance. MEC would love, for example, to power its stores from 100% renewable energy such as wind power, particularly in those stores located in regions where the electricity mix is largely from the combustion of fossil fuels. At current market rates, however, this is unaffordable. The main question is not whether there are cost barriers, but which investments get the "biggest bang for the buck" in terms of social, environmental and financial performance. MEC has tended to go beyond traditional notions of cost barriers for its business operations, for example by investing in technologies and design that make its stores among the greenest buildings in North America. In so doing, they have demonstrated both the financial and intangible benefits of such investments. For products, on the other hand, cost barriers seem to have factored in more prominently. For example,

although some stakeholders have called for MEC to commit to reducing and eventually eliminating the use of PVC in its products, MEC has thus far not made such a commitment, mainly because doing so in current market conditions would mean doubling the price of some of their core products. However, as more of MEC's larger peers, such as Nike and H & M, commit to eliminating PVC in their products and set out down that path, the costs of doing so for MEC could begin to come down and the benefits of doing so arguably go up. This reveals the close tie between cost barriers and market barriers. Investments that improve the social or environmental performance of products are closely linked to market acceptance of higher prices.

➢ *Misaligned vision and mission?* – MEC's mission, vision and values statements contain explicit statements about being a leader in social and environmental responsibility. This is, therefore, not a main barrier to integration for MEC. On the contrary, the inclusion of social and environmental responsibility in the mission and vision and the degree to which staff are aligned around them are one of MEC's key strengths.

➢ *Social and environmental issues managed outside the core of the business?* – MEC has consciously tried to avoid separating SER from the rest of the business, for example by giving overall responsibility for sustainability to the Finance Manager (whose new title is actually Finance and Sustainability Manager) and by avoiding the creation of a separate department to deal with social and environmental issues. The two individuals (SER Coordinator and Co-op Development Co-ordinator) who were hired following the SERTT Final report in 1999 were also positioned in existing departments (Finance and Communications respectively). Nevertheless, the perception still exists among some staff members that SER *could* be managed as something separate. To a certain extent, this perception represents a more significant barrier than reality itself. On the other hand, there appears to be a strong ethic in the organization to guard against any potential drifting toward the tendency to view and manage SER as something separate from the core of the business. The desire not to create "silos of excellence" in SER was a main reason that the SERTT Final Report's recommended third and fourth hires (dealing with Product Sustainability and Sustainable Consumption) have not been made. The Merchandise department wanted to develop the capacity to manage Product Sustainability within its existing staff, rather than hiring a specialist. There is some discussion in the organization as to whether this was an appropriate approach, and some specialist knowledge in Life Cycle Assessment and restricted materials management has been identified as necessary in the 2003 Business plan. Regardless of the view on that issue, it is clear that managing social and environmental issues from within the Merchandise department is crucial to effective integration, since it represents the core of the business.

➢ *Individual goals misaligned?* – The misalignment of individual goals with MEC's social and environmental commitments was identified by many as a key barrier for the organization's efforts at integration. This was particularly true for buyers, designers and production coordinators in the Merchandise department. These staff members are extremely busy and, because they are at the core of the business, are frequently the targets for organizational change initiatives. On the other hand, the Human Resources Department is currently reviewing the Incentive Compensation Plan (ICP) program, so there are opportunities to reduce or eliminate this barrier soon.

➢ *Leadership and cultural barriers* – The organizational culture of MEC is strongly and proudly supportive of its position as a leader in social and environmental responsibility. So, too, is its senior management team, which drives much of the organization's formal commitment. The main cultural barriers are, therefore, more subtle. For example, the organization's apprehension about systems and measurement present one barrier to the integration of social and environmental issues, since measuring social and environmental performance is key to effective integration. In addition, there appears to be a slight sensitivity

or defensiveness in the Merchandise department about social and environmental issues. The roots of such sensitivity are predictably and understandably tied to its focus as the core of the business and its frequent targeting for change initiatives, but the implications are that some social and environmental initiatives may be slowed by slightly longer required periods for idea generation, trust and relationship-building.

➢ ***Skills and knowledge barriers?*** – The social and environmental commitments that MEC has made in its Sustainability Policy clearly require some specific skills and knowledge to achieve. Again, this is particularly true of Product Sustainability. No specialized education or training programs have been developed to support the new Sustainability Policy, but the Human Resources department is conscious of the need to integrate SER into existing training programs where appropriate. As described above, some initial efforts have been made to build the capacity of the Merchandise department staff to push ahead with Product Sustainability efforts, but a need for some specialized skills has been identified. Skills and knowledge barriers do exist for MEC. Dealing with them is a matter of resource allocation.

➢ ***Managing trade-offs?*** – One of the main barriers that MEC faces in integrating its social and environmental commitments into business operations is uncertainty about how to manage the trade-offs involved. Staff and managers raised a number of examples of decisions, from the materials content of membership cards to the geographic location of new stores, where the trade-offs among the organization's different business objectives were very difficult to judge. This is rendered particularly challenging when the capitals model that guides business planning introduces six different and apparently equivalent capitals that MEC is trying to build.

➢ ***Data collection?*** – MEC senior managers also identified data collection and especially data maintenance as key challenges that must be overcome for integration to be effective. While most in the organization agree about the need to select indicators to track performance and report on progress, the selection of the most appropriate indicators is hindered somewhat by the amount of resources that MEC is prepared to invest in building systems to collect data. This is why many have recommended building on existing information systems as much as possible to capture the data required to monitor and report on social and environmental performance. Weaknesses in data maintenance are another barrier. Even with the right fields, databases and information systems, procedures must be put into place to ensure that the right people enter the right data into the systems at the appropriate time. Weaknesses in data maintenance have been a barrier for other MEC initiatives that depend on information systems.

This analysis of the barriers that MEC faces in integrating social and environmental issues with business strategy and operations provides the context from which the relative strengths and weaknesses of MEC's approach can be analysed.

5.2 Strengths of MEC's approach

Section four of this thesis describes MEC's efforts to integrate social and environmental issues with its business strategy and operations. For the lessons of this effort to be useful to a general audience, including other organizations and researchers, its relative strengths and weaknesses must be assessed. This section summarizes the strengths of the approach that MEC has taken to overcome some of the barriers that it faces. Section 5.3 summarizes the weaknesses of its approach. The basis for the identification of strengths and weaknesses are the key considerations for integration outlined in section 3.5 of this thesis.

In general, the strengths of MEC's approach to integrating social and environmental issues with business strategy and operations are rooted in a strong organizational commitment to social and

environmental responsibility that is evident at every level and with almost every employee of the organization. The strengths include the following:

➢ ***Firm alignment of mission*** – A key strength in MEC's approach to sustainability lies not simply in the language of its mission, vision and values statements, which so clearly emphasize the importance of social and environmental responsibility for the organization, but also in the evident alignment of MEC staff around the mission and core purpose. The mission, vision and core purpose statements are prominently displayed throughout MEC's facilities and are evidently supported and understood by most MEC staff.

➢ ***Clear objectives and policy*** – MEC has clearly articulated its social and environmental commitments in its Sustainability Policy. The policy speaks not only to vague commitments about social and environmental responsibility, but to specific commitments that are carefully tied to MEC's business. It also includes a clear definition of the role that MEC believes it can play, including the scope of influence that it sees itself as having on social and environmental issues. The fact that the organization's policy acknowledges the issues of product sustainability and sustainable consumption clearly demonstrate that there is a degree of awareness and honesty about its most significant social and environmental impacts that is remarkable for a retailer.

➢ ***Strategic Plan and Annual Business Plan*** – First of all, MEC has included explicit objectives for social and environmental responsibility in its Strategic Plan and Annual Business Plan. Even more significantly, recognizing that the social and environmental objectives were somewhat compartmentalized in previous plans, its most recent iteration of the Strategic Plan and Annual Business Plan utilizes a conceptual model rooted in sustainability, the capitals model, as its basic structure. As a result, the social and environmental objectives in the plans are less compartmentalized and more integrated with core business functions. Although there remains some work to do to more effectively integrate the new Sustainability Policy with the business planning cycle, the degree to which the Strategic Plan and Annual Business plan acknowledge and incorporate social and environmental issues is another key strength.

➢ ***Leadership and organizational culture*** – There is an obvious pride within MEC staff in the organization's leadership in social and environmental responsibility. Beginning with the Chief Executive Officer and senior management team, the large majority of MEC staff speaks the language of sustainability. Staff is also encouraged to take responsibility for social and environmental responsibility in their jobs. In addition, the organizational culture is highly focused on action and implementation, which partly explains why MEC has had more success in *implementing* ideas for social and environmental improvements than in measuring or reporting on them.

➢ ***Consultation*** - Part of the explanation for the cultural characteristics described above could be the manner in which MEC staff was consulted in developing both its sustainability strategy in 1999 and its Sustainability Policy in 2002. Both processes involved significant amounts of dialogue and consultation with staff, the results of which were generally used and adopted by the organization. For example, the four strategic opportunity areas that are central to both the SERTT report and the Sustainability Policy emerged out of the staff consultation processes. This tendency both to consult and to make use of the input gathered during the consultation can at least partly explain the empowerment of most MEC staff and the high level of acceptance of those key pieces of work.

➢ ***Allocation of resources –*** Following the SERTT final report in 1999, MEC allocated resources in its 2000 and subsequent budgets to support the implementation of its recommendations. Although some believe that additional resources should be allocated to fulfil the commitments, the willingness to "put their money where their mouth is" is another

key strength of MEC's approach. It is another contributing factor to the supportive organizational culture. When staff members see resources being allocated to social and environmental issues, it sends the signal that they are important.

> *Unique ownership and financial structure* - MEC´s unique co-operative business model affords it the financial flexibility to make the integration of social and environmental issues a priority. The co-operative structure and the fundamental motivation beyond the maximization of profit also contribute to a certain level of idealism within the organization that arguably makes the integration of social and environmental issues more feasible than for an organization that is strictly motivated by profit.

5.3 Weaknesses of MEC's approach

In general, many of the weaknesses of MEC's approach to integrating social and environmental issues with business strategy and operations are related to timing, as determined by relative priorities. Many of the stated weaknesses are already MEC priorities for upcoming years, and can be pursued building on the strengths identified in section 5.2. Nevertheless, the following weaknesses merit attention:

> *Measurement* – A culture that has tended not to like performance measurement and a desire not to emphasize the marketing and public relations aspects of sustainability reporting without first having the systems in place to deliver on its commitments leave MEC with few measures in place to track and monitor social and environmental performance. As a result, though it has a wide array of stories to tell and initiatives to report on related to social and environmental issues, it has not yet managed to monitor its performance in a way that supports planning and decision-making. The lack of measurement also contributes to a certain level of tension or confusion in the organization about the appropriate pace with which to approach its commitments. The unfortunate side effect of this is a tendency not to celebrate its successes enough.

> *Alignment of existing systems* – A number of important internal systems in MEC have not yet been aligned to support its social and environmental commitments. Individual performance incentive systems and product information systems are two of the most significant systems that could be leveraged to support the integration of social and environmental commitments with business planning and operations. Until such systems are aligned, they can, in fact, hinder integration, rather than support it. This seems to be the case particularly with the individual performance incentives for staff in the Merchandise department.

> *Product sustainability* – Although they have been identified as the main source of MEC's environmental impact, product sustainability has, thus far, not been a major emphasis of MEC's sustainability efforts. Since product development is the core of the business, the lack of emphasis on product sustainability limits the effectiveness of efforts to integrate social and environmental issues with business operations. It also means that MEC has underemphasized its most significant environmental impacts.

> *Two-way communication* – MEC does not have a formal mechanism to facilitate the pro-active gathering of information and views from outside the organization. Its tendency has been to consult with stakeholders either when the organization itself sees it as necessary or in response to a stakeholder having raised an issue with MEC. The past two Annual General Meetings have been examples of this, as sourcing issues have dominated the discussions.

> *Decision-making tools* – MEC staff is well aware of the organization's social and environmental commitments. They are encouraged to take responsibility for social and environmental commitments in their jobs. And yet, staff members still struggle to make

judgment calls when trade-offs involving social and environmental responsibilities surface. MEC has a set of criteria in its Sustainability Policy to help it make decisions on a strategic level. It has not yet, however, further elaborated these criteria into operational decision-making tools. The first efforts at developing such a tool during the action research for this thesis were welcomed but require follow-up.

➢ **Capacity building** – MEC has yet to formally identify the specific needs it has in terms of skills and knowledge to fulfil its social and environmental commitments. It does, however, have existing human resources programs that can be leveraged and built upon and a human resources department that is committed to doing so. In particular, capacity-building techniques other than training programs, such as awareness-building sessions or formal social and environmental responsibility idea-generating sessions, are attractive to MEC staff, most of whom have a relatively high degree of general awareness about social and environmental issues.

5.4 General Reflections

Building on the barriers, strengths and weaknesses identified in the preceding sections, this section includes some general reflections about MEC's efforts to integrate social and environmental issues with business strategy and operations. It begins to tie some of the MEC-specific information of preceding sections to the conceptual context of section three of this thesis in order to set the basis for the conclusions in section six.

What is the point of integration for MEC?
The primary research question of this thesis refers to the integration of social and environmental issues into an organization's strategy and operations. Practically, the action research rapidly identified the MEC Sustainability Policy as the basic object of integration since it so clearly articulates MEC's social and environmental commitments as it sees them. In addition, the Sustainability Policy was developed through a staff and stakeholder consultation process and has been approved by the MEC Board of Directors. As such, it carries a high degree of credibility within the organization and among members and certain stakeholders.

The focus on the Sustainability Policy is important for two reasons. First, it is important because the research was intended to explore the issues involved with the *integration* of social and environmental issues into business planning and operations, as opposed to the *articulation* of social and environmental objectives for the organization or the *rationalization* of any particular conceptual model for sustainability. From a practical point of view, it is also important because organizational change is rendered more plausible and effective when, where possible, practitioners can work with existing concepts and tools that have built up a certain currency in the organization, rather than introducing new concepts and models (Kotter, 1996). Therefore, the goal of the action research essentially became to identify ways to integrate the MEC Sustainability Policy with business planning and operations.

Evidence for the motivations for MEC to undertake this integration process can be discerned from the language of the Sustainability Policy, specifically the use of the word "commitment." Clearly, MEC sees its social and environmental commitments as fundamental to its core purpose, vision and mission. The use of the word "commitment" implies accountability. The Sustainability Policy simply articulates more explicitly the responsibilities that already exist in the MEC Core Purpose, Vision and Mission. For MEC, the driver for integration seems to be not so much the achievement of some theoretical definition of sustainability as it is a desire to live up to its word - to "walk the talk." MEC therefore approaches sustainability largely from the "Social Reporting" perspective described in section 3.2.2.2 of this thesis, where transparency is the overriding principle or objective.

The attitude toward reporting

Oddly, despite this Social Reporting orientation to its sustainability work, MEC has not produced an actual Social Report or any report of its social and environmental performance. The explanation for this lies in the sense among some senior managers that MEC should not produce a glossy public report as many other companies have done, but should rather focus its attention and resources on building the internal systems to improve performance and on doing the work internally. The ongoing internal discussion about reporting reveals that MEC feels that there are better ways of communicating to its stakeholders about its social and environmental performance than the standard sustainability report. Although it has not yet made such communication a priority, the organization seems to desire a unique MEC approach to reporting, one that is more appropriate for the stakeholders who seek the information and one that can perhaps take advantage of the unique nature of MEC's retail business to educate consumers about social and environmental issues. Nevertheless, the issue of an appropriate and innovative communication strategy for social and environmental performance should not hinder the development of a system to manage and monitor performance.

Linking the Sustainability Policy with the Capitals Model

While the Sustainability Policy articulates MEC's social and environmental commitments, the Capitals model serves as the framework for its Strategic Plan and Annual Business Plan and therefore of its organizational Key Performance Indicators. Just as the development and adoption of the MEC Sustainability Policy is very recent, the adoption of the Capitals model is also very recent, and the work on Key Performance Indicators is in its infancy. These pieces of work have been undertaken separately to date. As a result, the Capitals model and the Sustainability Policy require further integration conceptually. For example, although it is a concept rooted in sustainability, the Capitals model is not mentioned at all in the Sustainability Policy. In addition, the current iteration of the Capitals model in the 2003-2007 Strategic Plan positions the Sustainability Policy under the Ecological Capital heading, even though the Sustainability Policy itself clearly speaks to more than just ecological capital. The need for further conceptual integration between the Sustainability Policy and the Capitals model is also evidenced by the different manners in which they each treat natural capital. The Sustainability Policy clearly states and visually demonstrates that MEC believes in three nested spheres of sustainability, where "a just economy is dependent on an equitable society and a healthy planet." This, plus the statement that, "the planet has a limited carrying capacity and we are all dependent on a healthy, functioning biosphere" suggest that natural capital is the most fundamental for sustainability. On the other hand, the Capitals model positions Ecological Capital as an equal among the six capitals.

Since the Capitals model is the framework that will be used for business planning and the Sustainability Policy is the articulation of MEC's social and environmental commitments, the gaps in conceptual integration between them ultimately hinders the attainment of a completely integrated approach on the level of business planning and operations. True integration would be, for example, when the Sustainability Policy does not need to be "integrated with" business planning and operations, but rather serves as the foundation for them. This is a long-term goal that many MEC representatives mentioned.

Nevertheless, even with existing conceptual models and with the Sustainability Policy as it is, efforts to integrate social and environmental commitments into business planning and operations are necessary and beneficial, especially to ensure that MEC is transparent and accountable for performance towards the commitments it has made. For this reason and because of its scope, the action research project in this thesis focused on integrating the existing Sustainability Policy with existing business planning frameworks and operations. It was focused more on the mechanics of integration on a practical level than on how they relate to one another on a conceptual level. The conceptual integration of the two should and will, however, develop over time as MEC works with them both.

The Evolution of the Capitals Model - is MEC moving closer to sustainability?

Two major steps can be identified at this point that would support the integration of the MEC Sustainability Policy with the Capitals model at a conceptual level. These two steps are above and beyond the practical and actionable steps identified through the action research, but they merit discussion in this analysis. First, when the Sustainability Policy is next reviewed, the Capitals model should be explicitly referred to in the policy itself. A relatively simple way to do this would be to include it in the "What We Believe" section of the policy. A more challenging approach might be to re-organize the commitments in the "What We´re Going To Do" section based on the Capitals model.

The second major step to conceptual integration of the Sustainability Policy and Capitals model is to further develop the way that the Capitals model is used. MEC senior managers have indicated in the action research that what makes the Capitals model appealing to MEC are the concept of "living off the income without depleting the capital" and the fact that financial capital is positioned as a means to an end rather than an ends in itself. Both of these ideas resonate with MEC's business philosophy. The same senior managers will also admit that for the current iteration of the Strategic Plan and Business Plan, the only real changes are the introduction of the names of the capitals and the re-grouping of some of the strategic objectives in the plans.

Introducing the language of the Capitals model is a very important first step for the organization and it certainly represents a sophistication in understanding of sustainability that is beyond many other organizations. However, it is important to note that that which makes the capitals model conceptually appealing to MEC and other sustainability advocates is not the reality of its current iteration in the organization. Other than financial capital and perhaps product and infrastructure capital, MEC does not know whether or not it is building or depleting the other capitals (i.e. human, social and ecological capital), let alone what is involved in "living off the income" of those capitals. An accounting system for the non-financial capitals is therefore necessary if MEC hopes to achieve the goal stated in its 2003-2007 Strategic Plan as "to ensure our ongoing success by maintaining and where possible increasing our stocks of these different capital assets." In addition, the way that the capitals are currently articulated sets up the unavoidable issue of trade-offs among the six different capitals when taking decisions about initiatives or investments. Further elaboration of the Capitals model will need to consider how to deal with the trade-offs.

Obviously, MEC is not alone in being unable to measure its impact on non-financial capitals. National governments and the accounting profession are only just beginning to acknowledge the need to do so (McGuinty, 2002). Existing economic models and accounting systems are not built with this need in mind. In developing an accounting and reporting system for non-financial capitals, MEC would therefore be on the forefront of work in this field. The reporting framework that is likely to emerge from the action research undertaken in this thesis will be a series of indicators that flow out of the commitments of the Sustainability Policy. In this sense, it is not unlike the triple-bottom line reporting frameworks that are being touted by the likes of the Global Reporting Initiative, except that the indicators will flow from MEC's specific sustainability commitments rather than from the three pillars of social, environmental and economic performance. This approach to reporting will be effective in achieving the MEC goal of being accountable for the commitments that it has made in its Sustainability Policy and transparent in its efforts. It will not, however, give the organization any real indication of whether or not it is moving closer to social or ecological sustainability. Nor will it resolve the fundamental issue of trade-offs involved in attempting to balance progress in the accumulation of six different capitals.

The importance of Product Sustainability

The action research revealed that there is a fairly consistent view within the organization that the most significant social and environmental impacts of MEC are generated through its products. The organization has identified the need to understand the product impacts from a life-cycle perspective. In fact, the 2003 Business Plan clearly makes this a priority for 2003. At a strategic level, there even appears to be fairly widespread acceptance of the idea that MEC should gradually move from an

emphasis on products to an emphasis on the services or experiences facilitated by the products. All of that being said, Product Sustainability has to date not been allocated the resources or given the management emphasis that its relative importance in impact would suggest it should. Most MEC representatives would explain that this has mostly been due to organizational readiness, and that the senior management have rightly identified it as a key priority for the coming years. In a sense, the groundwork has been laid for the Product Sustainability work, which is arguably the most important and exciting piece of the MEC sustainability journey.

Although the Sustainability Policy identifies Product Sustainability as one of the four main commitment areas, the structure of the policy would suggest that it is of equal importance to the other three commitment areas. While this may correctly communicate MEC's view, an approach that is rooted in the relative impacts on ecological capital, for example, would likely suggest that Product Sustainability is of a greater significance than all other parts of the business. Building its SEMS from the Sustainability Policy therefore implies a danger of underemphasizing the significance of Product Sustainability. The relative lack of focus on Product Sustainability may be at least partly attributed to this. So, too, might the underlying sense in the organization that MEC must be more effective at integrating social and environmental issues be rooted in the fact that products have not yet been adequately addressed.

Differentiation on what basis?

MEC senior managers have stated an intent to pursue a competitive strategy that makes product quality the trait that MEC dominates the market in, and for social and environmental responsibility to be a main source of differentiation. Based on the theories introduced in section 3.1 of this thesis, Orssatto would advise that MEC should be even more explicit about the source of differentiation for the strategy to be effective. For example, the conditions under which a differentiation strategy should be focused on improved processes or business operations are different than those under which it should be focused on products. Given MEC's intent to emphasize product quality and given the fact that members interact with MEC mostly through its products and the relative importance of products for its business, it seems appropriate that a differentiation strategy that aims to emphasize its social and environmental responsibility should emphasize differentiation based on product sustainability to be most effective. This, however, is only following the logic that MEC has already used to determine its competitive strategy. The logic would be strengthened by member survey data that confirmed this assumption.

All of these reflections, and the barriers, strengths and weaknesses also described in this section serve as background to the conclusions and recommendations in section six of this thesis.

6. Conclusions and Implications

In order to make a contribution to the field of sustainability management, this thesis aimed to answer the following primary research question:

How can organizations integrate social and environmental issues into business strategy and operations?

This section draws conclusions about the research question. It includes both conclusions about the case study itself, lessons and implications for other organizations, implications for theory and further research and specific recommendations for MEC.

6.1 Answering the primary research question for MEC

The first point that must be made in answering the primary research question for MEC is that it has **already** integrated social and environmental issues with business strategy and operations. The question immediately deepens, therefore, to how MEC can **more effectively** integrate social and environmental issues with business strategy and operations. The answer to this deeper question depends on how one approaches the issue of effectiveness. Two fundamental options exist. First, effectiveness can be viewed from the perspective of the success of MEC as a business. From this perspective, social and environmental issues would be more effectively integrated with business strategy and operations if they make MEC a more successful organization – by creating value for MEC. Alternatively, effectiveness can be viewed from the perspective of the net contribution of MEC to sustainability as a whole. From this perspective, social and environmental issues would be more effectively integrated with business strategy and operations if MEC were demonstrably moving closer to sustainability as a result. These two perspectives are similar, although not directly congruous, to the difference between eco-efficiency and eco-effectiveness described in section 3.2.1.

By structuring its strategic thinking around the capitals model, MEC has indicated a desire to define the creation of value for MEC as inherently consistent with social and environmental sustainability on a macro level. In essence, if its aim as an organization is to build capital in each of the capitals, then business success for MEC should make a positive net contribution to sustainability as a whole. Conceptually, then, the discrepancy between the two perspectives of effectiveness described above becomes irrelevant.

How can MEC align business success with overall sustainability?

However, as described in section 5.4, that which is appealing to MEC about the capitals approach on a conceptual level is challenging to implement practically, mostly due to limits in accounting systems. MEC currently has no way of knowing whether or not it is building most of the non-financial capitals. The KPIs that it is currently developing are intended to address this issue, but even with those KPIs, its ability to judge whether or not it is moving closer to sustainability will be questionable. Why? The main reason is the difficulty in measuring its net impact on ecological capital. Financial capital, infrastructure capital, and product capital are all relatively simple to measure adequately. Even selecting indicators to measure progress in the accumulation of social and human capital is conceivable, though they are clearly more subjective and challenging than the first three. For example, any efforts that MEC makes to improve the working conditions in the factories that supply it or to support local community co-operatives are a "plus" on the social and human capital calculators. Ecological capital, though, is the most challenging to account for because of its non-substitutability, non-linearity and irreversibility and because of the rebound effect. For example, if MEC produces products that are relatively less harmful to the environment but, as a result, sells more of them, what is the net impact on ecological capital? Similarly, if MEC builds energy efficient buildings to host its stores but builds more stores, what is the net impact on energy use and ecological capital?   In addition to being the most challenging capital to

measure, ecological capital is also the most fundamental to sustainability, as MEC has already acknowledged in its Sustainability Policy.

The key to aligning MEC business success with overall sustainability is, therefore, developing a way of determining its net impact on ecological capital. One possible method of doing so is to use the backcasting approach as described in section 3.2.1.3 and as articulated by Holmberg and Robèrt (2000). Backcasting from principles of a sustainable outcome (i.e. the systems conditions of sustainability of the TNS Framework) essentially establishes these principles as the ecological bottom line. The systems conditions can, for example, be the main design criteria for product design and development efforts – a landing place for product sustainability efforts. The backcasting approach could also help the organization overcome the trade-offs that seem inevitable in the current iteration of the Capitals model. Deciding between relative impacts (e.g. is it better to invest in removing PVC from certain products or in wind energy to offset carbon dioxide emissions?) is basically impossible and always comes down to judgment. Instead, the backcasting approach would aim to design out the trade-offs, by starting from a point where they do not exist and projecting backward to decide which of the options involved will move the organization more quickly to complying with the systems conditions, while maintaining or building other capitals. In this way, they can also serve to channel and prioritise investments.

Practical implication: a focus on product sustainability

Products are the core of MEC's business and its main interface with members and the market now and for the foreseeable future. Product quality is also the main source of MEC's competitive advantage. In a sense, product quality represents another important bottom line for the organization. Although product sustainability has been identified as a priority area for MEC for the coming years, any product sustainability efforts clearly must, at least, have zero negative impact on product quality. The relative importance of products both for its business success and for its total impact on ecological capital, therefore, suggest that product sustainability is key to more effectively integrating social and environmental issues with business strategy and operations, where effectiveness is characterized by a consistency between business success and net contribution to overall sustainability.

The first Product Sustainability commitment in the MEC Sustainability Policy reads:

> **We will pursue design and product innovations to minimize or eliminate negative impacts and enhance positive impacts of our products and packaging.**

This commitment implies a methodology for evaluating the positive and negative impacts of products. As such, it begins to speak to the issue of accounting for the non-financial capitals. Since it is positioned alongside another Product Sustainability commitment that refers specifically to human and social capital, this commitment also implies a particular concern with ecological capital. All of this suggests that product design and development would be an appropriate place to apply the backcasting approach described above. Making the Product Sustainability initiative a journey to align MEC product design and development with the systems conditions of the TNS Framework would significantly improve MEC's ability to assess whether or not it was moving closer to sustainability, particularly because product sustainability represents such a significant proportion of the ecological impact of MEC's business. It would also ensure that social and environmental issues are perceived within the context of that which will create value for the organization, since the product quality requirements imposed by the market create a useful boundary with which to determine the appropriate pace of innovation activities. Similarly, it would allow MEC to test the market acceptance of initiatives such as the gradual shift in emphasis from products to services. It would do so without requiring significant changes to the existing structure of the Sustainability Policy and the associated reporting framework that will flow from it, or to the conceptual models guiding the work at this point.

Thus, beyond the strengths and weaknesses identified in section five of this thesis and beyond the operational steps recommended in section 6.3, MEC can more effectively integrate social and environmental issues with business strategy and operations by focusing on product sustainability and

by utilizing the backcasting technique for its work on product sustainability to align business success with overall sustainability.

6.2 Implications and lessons for other organizations

Section 6.1, plus the analysis in section 5, answered the primary research question for MEC. In order to answer it more generally, the implications and lessons for other organizations from MEC's efforts to integrate social and environmental issues with business strategy and operations must be summarized.

The first, and perhaps most significant, lesson for other organizations from the MEC case study is that the integration of social and environmental issues with business strategy and operations *is* possible. MEC has implemented a broad range of initiatives to address social and environmental issues, all the while establishing a position as the market leader in both product quality and price. The result has been a resounding business success. Even if this example is made possible by conditions specific to this particular market or industry (unlikely) or by a unique financial and ownership structure (possibly to some extent), there is no disputing the fact that MEC has demonstrated that it is possible and that there are lessons to be learned from its example.

Beyond this simple observation, the implications and lessons for the integration of social and environmental issues with business strategy and operations in other organizations can be divided into those of a more operational nature and those of a more strategic nature. The lessons on an operational level are applicable across a broad range of organizations, while the strategic lessons are somewhat more dependent on particular markets and industries.

Operationally, organizations can look to the strengths and weaknesses of MEC's approach identified in sections 5.2 and 5.3 for important lessons. For example, the process that MEC has initiated since 1998 to deepen its understanding of and commitment to social and environmental responsibility is noteworthy. Extensive staff and stakeholder consultations and a commitment at the highest levels of the organization for MEC to be a leader have generated a high degree of awareness and empowerment about social and environmental issues within the organization and resulted in a clear, progressive, but achievable sustainability strategy, not to mention a high degree of customer loyalty. The lesson of MEC's Sustainability Policy, for example, is not merely in its existence, although that is in itself noteworthy, but in its content. The policy summarizes MEC's understanding of social and environmental issues and their implication for its business and makes clear statements about its role in addressing those issues. It also contains specific commitments that guide the organizations efforts and acknowledges the importance of the organization's core business function, product development, to the integration of social and environmental issues. Furthermore, the social and environmental commitments are prominent and explicit in the organization's Strategic Plan and Annual Business planning framework. All of these are lessons that other organizations, in almost any industry or business, can learn from in assessing how to integrate social and environmental issues with business strategy and operations.

Operational lessons can also be drawn from some of the weaknesses of MEC's approach. Most importantly, its lack of focus on measurement and reporting to date has resulted in some internal tension about the appropriate pace of integration efforts and a small amount of criticism from external stakeholders. Identifying indicators of success and negotiating appropriate targets for those indicators can go a long way toward making the integration of social and environmental issues smoother. It can also speed up the process of aligning existing systems, such as individual performance systems, training programs and information systems, to support the integration efforts, since it makes clear the data and the performance levels that are required of the organization.

On a more strategic level, the MEC case study suggests that the integration of social and environmental issues must be undertaken within the constraints and opportunities presented by the market. The key

to doing so is to focus integration efforts on those activities where the organization touches the market most directly. This ensures both that social and environmental management is not treated as something separate from the core of the business, and that the market provides the necessary boundaries with which to determine the appropriate pace of innovation activities.

For MEC and other retail businesses, this implies a focus on products. Reducing the negative social and environmental impacts of products and enhancing their positive impacts are the primary means of improving a retailer's social and environmental performance. Such a focus on products is also more likely to ensure that social and environmental issues are integrated with its business strategy since products are generally central to the strategy. On the other hand, socially or environmentally motivated improvements in business operations (i.e. eco-efficiency), may yield some tangible financial return, but will not likely deal with the most significant impacts of the organization and may not create any noticeable impact on or relationships with the market. This is not to say that they are not worthwhile, since they are often a source of cost reductions, only to say that a limited focus on such initiatives is not as likely to result in effective integration of social and environmental issues with an organization's strategy as would a focus on products. This is also one of the major reasons why governments and researchers are increasingly focusing on product policy as a way of driving change (Ryan, 2002).

This same thinking may apply to businesses and industries beyond retail. All organizations can learn from the general principle of focusing efforts to integrate social and environmental issues on the areas of the business where the most value is created. That being said, some industries face far different market conditions and derive a more disproportionate amount of their impact – particularly their social impact – from their operations. In general, the more removed the business or industry is from retail or manufacturing, the more difficult it is to generalize the conclusion suggesting a strategic focus on products as a focus for efforts to integrate social and environmental issues with business planning and operations.

6.3 Implications for theory and further research

Most of the theory that provided the conceptual context for the MEC case study was not explicitly focused on the question of how to integrate social and environmental issues with business strategy and operations. Nevertheless, the research did provide some insights into some of the theories and conceptual frameworks that informed it and some of the areas that require further research. The reflections below are organized based on the three questions that framed the section on conceptual context in this thesis.

The first question asked why a company would want to integrate social and environmental issues into business strategy and operations. The literature review suggested a growing acknowledgement that the rationale for corporate sustainability strategy must become more sophisticated than the well-elaborated arguments for eco-efficiency. From a corporate perspective, Reinhardt (1999) and Orssatto (2001) have argued that various rationale for and types of environmental strategy are available for different organizations, for example, and that the organization's approach must be specific to the conditions it faces. Dyllick and Hockerts (2002) have also pointed out that the rationale for corporate sustainability must include the natural case and the societal case for sustainability, in addition to the business case.

The MEC case study supports both of these views and suggests that the key to effective integration of social and environmental issues with business strategy is aligning business success with overall sustainability. The implication of this is that corporate strategy must go beyond the merits of eco-efficiency to factor in the natural and societal cases for sustainability. It therefore supports Dyllick and Hockerts (2002) contention that further academic research is required into eco-effectiveness and socio-effectiveness strategies for corporations. Orssatto's (2001a) Environmental Strategy Framework could be a good basis from which to derive such strategies. Further research into the implications of eco-

effectiveness and socio-effectiveness for this framework would be interesting and valuable. MEC could be an intriguing case study for such research, given some of its unique characteristics.

In terms of the conceptual frameworks and management systems that an organization can use to manage social and environmental performance, the MEC case study provided rare insight into an organization that is attempting to use the "capitals" approach. This study revealed some conceptual and practical challenges with the capitals approach. For example, it is not significantly different from the triple bottom line unless it is accompanied by an accounting system that measures the various capital stocks. In addition, the capitals model can complicate organizational decision-making by introducing equivalent and possibly competing capitals that an organization must try to build – in the case of MEC, *more* fundamental objectives than the three that would be included in a triple bottom line approach. This increases the number of trade-offs that must be negotiated. Finally, the capitals model does not conceptually acknowledge the relationship among the various capitals, specifically overlooking the fundamental nature of ecological capital. All of these limitations do not mean that the capitals model is inappropriate as a conceptual model for corporate sustainability, because it does seem to overcome many of the conceptual weaknesses of the triple bottom line. It does, however, imply that considerable research must be undertaken in developing an accounting system that could support an organization in working with the capitals model.

The planning hierarchy introduced by Robèrt et al. (2002) addresses many of the challenges raised by the capitals approach by providing much needed clarity on both conceptual and practical levels. Conceptually, it defines the principles of overall sustainability and demonstrates how other levels of principles, objectives and tools can be used to work toward sustainability. This planning hierarchy could therefore serve as a basis for the research into corporate eco-effectiveness and socio-effectiveness strategies called for by Dyllick and Hockerts (2002). On a practical level, backcasting from the principles of sustainability can help an organization design out trade-offs from their business model and prioritise investments and initiatives, both challenges raised in the MEC case study. As MacDonald (2002) has demonstrated, this approach can and must be used in conjunction with other tools such as social and environmental management systems.

The MEC case study also generated some insights relevant to the study of the Balanced Scorecard as a potential tool for integrating social and environmental performance indicators with an organization's other performance indicators. The Balanced Scorecard was introduced to MEC senior managers during one workshop in the action research. Although the linking of performance indicators in cause and effect relationships was interesting for MEC, the introduction of a completely new tool was not appealing to them. In particular, MEC senior managers had difficulty seeing how the BSC could be integrated with its capitals approach. The BSC was designed with financial performance as the ultimate measure of performance, with all other indicators driving toward it. For MEC, which has explicitly stated in its Strategic Plan that financial capital was simply a scorekeeping capital with no inherent value in and of itself, this represented a significant barrier to the introduction of the BSC. Alternative BSC models, such as the one proposed by Project SIGMA may have addressed this problem to some extent, but the MEC senior managers did not perceive enough added value for the added complexity involved in introducing a new tool.

Nonetheless, the experience raises a number of potential areas for further research related to the BSC. For example, a study of the potential design and effectiveness of a BSC that incorporates the thinking behind the capitals approach to sustainability would be worthwhile. Even more intriguing would be a study of the potential of using the The Natural Step Framework in combination with the BSC. As a strategy *implementation* tool, the BSC might be well suited for integration with The Natural Step Framework, which is essentially a strategy *formulation* tool.

One final point of consideration that could have implications for theory and further research is the extent to which MEC's ability to integrate social and environmental issues with business strategy and operations is enabled by its unique financial and ownership structure. An interesting area of research would be the relative strengths and weaknesses of the co-operative business model in promoting sustainability. Such a study could include a scan of other successful co-operative businesses and would look into the extent to which a co-operative model enhances the integration of social and environmental issues. It would be particularly interesting to consider in relation to the socio-effectiveness strategy research called for by Dyllick and Hockerts (2002).

6.4 Recommendations for MEC

The analysis and conclusions sections of this thesis have already begun to articulate some recommendations for MEC. This section summarizes the author's recommendations for MEC, both on a short-term operational level and on a more long-term strategic level.

A number of actions can be identified as necessary in order to follow up in the short-term (i.e. the 2003 and 2004 workplans) on the work that was undertaken during the action research of this thesis. First, **MEC should prioritise the development of performance indicators for the various commitments in its Sustainability Policy** and explicitly include those indicators among the KPIs that it is developing for the business plan. This should be seen as a priority mainly due to the timing of developments with the KPIs. Since the KPI work is being done right now, it is important not to miss the opportunity to explicitly link Sustainability Policy performance indicators with the KPIs in the business plan. In addition, identifying performance indicators for the Sustainability Policy will also lay the groundwork for reporting.

This leads to the next recommendation, which relates to reporting. The case study research revealed that MEC has a great deal to tell its members and stakeholders about its efforts to integrate social and environmental issues into its business. Nevertheless, there remains a hesitancy within the organization to make reporting a priority. MEC is very conscious of not wanting to waste resources on telling about what they are doing, rather than simply doing it. They acknowledge reporting as an eventual requirement, but still speak of it in the future. The recommendation is that **MEC should make reporting on its social and environmental commitments a higher priority**. The initial report need not be a glossy report and can include both quantitative indicators *and* stories. This recommendation stems from two main observations. First, MEC has a great deal to tell about its social and environmental performance and reporting is an important next step to follow up the development of the Sustainability Policy with transparency. Secondly, and most importantly, working toward a sustainability reporting framework will provide focus for the organization. Focus should help overcome some of the barriers to data collection and help to alleviate some of the tension within the organization about the pace of implementation by giving social and environmental objectives a clear timeline and by acknowledging what has been done already.

Next, **MEC should take advantage of the review of ICP and Job Descriptions that is being performed this year by the Human Resources department to align them with the social and environmental commitments in its Sustainability Policy**. Making explicit statements, unique to the various positions and roles in question, about the expectations of staff and their specific responsibilities in fulfilling MEC's social and environmental commitments will help align personal goals with the organization's social and environmental goals. This is especially relevant in the Merchandise department, where Product Sustainability commitments would receive a tremendous boost if buyers, designers and production coordinators were directed to make them a priority. Innovative systems for doing so exist within some of MEC's peers and partners, including H & M and Norm Thompson. These systems could be used as benchmarks for MEC efforts.

Similarly, **MEC should take advantage of the opportunity to integrate socially and environmentally related data into product information systems**. The Information Services Manager has already identified a number of ways that existing systems could be leveraged to support the collection of data about social and environmental performance. For example, information about factory audits, restricted materials, and product impact could be built into the main product database. The main challenge in doing so would be ensuring procedures are in place to ensure proper data maintenance. This is something that should be made a priority *after* the review of the Sourcing Policy that will take place in the fall of 2002 and after the development of a Product Sustainability strategy and work on life cycle analysis of products that are due to take place in 2003.

The final short-term operational recommendation is specifically with respect to the tools that were developed during the action research of this thesis. The **Management Systems Review Process** was updated with the suggestions that were made by senior managers following the review of the Sourcing program. It would, therefore, be useful to apply it to the other areas of MEC's Sustainability Policy commitments, in order to identify strengths and weaknesses in the management systems required to follow through on those commitments. In particular, a review of the management systems supporting the Product Sustainability commitments would be useful in advance of the development of a Product Sustainability strategy. The **Project/Initiative Evaluation Tool** is not at the same stage of development as the Management Systems Review Process. It should, therefore, be further developed over the coming years in conjunction with the work of the new Business Development Manager for MEC. It could be appropriate to aim to have a draft tool available for testing with the implementation of the Product Sustainability strategy in 2003.

On a strategic level, the main recommendations have already been described to a certain extent in section 6.1. They include the recommendations that **MEC should make Product Sustainability a focus of its efforts to integrate social and environmental issues with business strategy and operations** and that **MEC should apply the backcasting technique to its product sustainability efforts**. The rationale for these recommendations has already been outlined, but is essentially grounded in the fact that products are both the source of MEC's most significant ecological impacts and its main point of contact with the market. Pursuing this strategic direction would, therefore, help to truly align MEC business success with sustainability on a macro level.

In addition to these recommendations, it is also recommended that MEC consider developing some methods of accounting for the non-financial capitals. For example, a system of indexed indicators could begin to introduce the concept of bottom lines and thresholds for the various capitals. MEC's efforts to integrate social and environmental issues with business strategy could also benefit from the introduction of a formal mechanism in the business planning cycle to gather information about relevant trends and stakeholder views and from a survey of its members to gather data on their perspectives about the relative importance of social and environmental attributes in products and for MEC generally, as well as to their sensitivity to price changes caused by changes in social and environmental performance.

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Mountain Equipment Co-op Internal Documents Reviewed

2003-2007 Strategic Plan
2003 Business Plan (Draft)
Draft Key Performance Indicators (for 2003 Business Plan)
Internal memo to Senior Managers re: 2003 business planning
Montreal Store Competitive Analysis (2002)
2002 Business Plan
Results of Member Telephone Interview Survey (Presentation – August 2001)
Sustainability Policy
Sustainability Policy Board Report (December 2001)
MEC Community Outreach Toolkit (2002)
SERTT Final Report (1999)
SERTT Baseline Report (1998)
Meeting notes from SERTT workshops and consultations (1998-1999)
Sourcing Policy
MEC Sourcing Policy Fact Sheet
Vérité Sourcing Feedback Memo
MEC IS Project Assessment Tool (Draft – 1997)
MEC Product Master Database
Management Development Plan (Template – 2001)
Leadership and Management Competencies for MEC (August 1999)
Leadership 2002 - Co-op Filter & SER Filter
Fall & Winter Catalogue 2002

Abbreviations

BSC   Balanced Scorecard

KPI   Key Performance Indicator

ICP   Incentive Compensation Plan

ILO   International Labour Organization

MEC   Mountain Equipment Co-op

SEMS   Social and Environmental Management System

SER   Social and Environmental Responsibility

SERTT   Social and Environmental Responsibility Task Team

TNS   The Natural Step

WBCSD   World Business Council for Sustainable Development

Appendix 1 – List of Interviewees

Non-structured Interviews for Conceptual Context

Interviewee	Affiliation	Date of Interview
Karl-Henrik Robèrt	Founder, **The Natural Step**	May 27, 2002
Mary Altomare	Partner, **Sustainability Partners**	July 7, 2002
Dave Waldron	Environmental Manager, **Resort Municipality of Whistler**	July 17, 2002
Shannon Gordon	Environmental Sustainability Management System Coordinator, **Resort Municipality of Whistler**	July 17, 2002
Priscilla Boucher	Manager, Corporate Social Responsibility, **VanCity Credit Union**	July 23, 2002
Ingrid Schullström	Sustainability Manager, **Hennes & Mauritz (H&M)**	August 14, 2002

Non-structured Interviews for Familiarization with MEC

Interviewee	Position with MEC	Date of Interview
Denise Taschereau	Social and Environmental Responsibility Coordinator	July 4, 2002
Rick Kohn	Finance Manager	July 11, 2002
Grace Pulver	Learning & Development Manager	July 16, 2002
Georgette Parsons	Information Services Manager	July 16, 2002
Susan Todd	Principal, Solstice Consulting	July 11, 2002

Semi-structured Interviews for "Meaning of Integration for MEC"

Interviewee	Position with MEC	Date of Interview
Peter Robinson	Chief Executive Officer	July 16, 2002
Mariann Westerlund	Creative Services Department	July 30, 2002
Andrea Harris	Co-operative Development Coordinator	July 25, 2002
Carol Petroski	Hard Goods Manager, Merchandise Department	July 24, 2002
Anne Gillespie	Buyer, Merchandise Department *responsible for organic cotton line	July 15, 2002
Denise Taschereau	Social and Environmental Responsibility Coordinator	July 4, 2002
Rick Kohn	Finance Manager	July 11, 2002
Grace Pulver	Learning & Development Manager	July 16, 2002
Georgette Parsons	Information Services Manager	July 16, 2002
Susan Todd	Principal, Solstice Consulting	July 11, 2002
Greg Foweraker	Buyer, Merchandise Department	July 15, 2002
Alan Etkin	Web/Communications Strategist	July 15, 2002
David Dunne	Marketing and Communications Manager	July 25, 2002
Jeff Fielding	Trainer, Operations Department	July 25, 2002
Zoe Adams	Designer, Merchandise Department	July 17, 2002

Other individuals consulted for MEC-related information

Interviewee	Position with MEC	Contact
Carol Petroski	Hard Goods Manager, Merchandise Department	Meeting for Sourcing program review, August 16, 2002
Nicola Claxton	Business Development Manager	Meeting to discuss output of action research, August 27, 2002
Patrick Stratton	Merchandise Manager	e-mail interview, September 5, 2002

Appendix 2 – Interview Questions

(Common) Questions for semi-structured interviews:

(Goal: to understand the meaning of the integration of social and environmental issues with business strategy and operations for MEC)

1. What is the business strategy of MEC? How do social and environmental commitments relate to it?

2. How might the business strategy of MEC differ in 10 years?

3. How would you describe MEC´s value proposition to members? To what extent do social and environmental issues factor into the value proposition?

4. How would you measure member satisfaction?

5. What is the relationship between MEC's financial performance and its social and environmental performance?

6. How would you define success for MEC in terms of sustainability?

7. What do you see as the purpose of a Social and Environmental Management System (SEMS) at MEC? What expectations do you have for a SEMS? How would it relate to your job?

Other questions for semi-structured interviews:

(These are examples of some of the questions that were posed to specific individuals but not to every interviewee.)

1. What is the main strategic role of your department for MEC?

2. How is the performance of the your department evaluated?

3. What are the main financial goals of the organization?

4. How is the financial performance of MEC evaluated? How does financial planning take place at MEC?

5. How was the Financial Health Framework developed? Why were those specific financial indicators selected? How do the financial indicators relate to each other? How frequently are they reported on and to whom?

6. How do MEC´s social and/or environmental commitments affect your department? (e.g. Are there any social and environmental objectives that are particularly relevant for your department?)

Appendix 3 – MEC Sourcing Policy

This document provides the broad framework of principles and guidelines we use to select suppliers for MEC. The overriding principle is that all suppliers MEC uses must meet our specific requirements for product quality and overall service to maintain their status as a supplier to MEC.

Sourcing refers to the purchase of merchandise and services to be supplied to Members or used in the operation of MEC.

All decisions on sourcing will be congruent with the policy framework (Core Purpose, Values, Mission Statement, Board Policies) of MEC. This includes respect for and adherence to International Relations policy decisions made by the Government of Canada.

A concept fundamental to this policy is that MEC undertakes its business dealings with individual firms and factories, not with countries.

Priority will be given to Manufacturers and Service Providers who are based in and operate from within Canada. This status does not apply to Agents, Wholesalers, Importers or other types of resellers.

Priority will also be given to organizations:

1. Whose values and ethics are consistent with those of MEC.

2. Who are proactive in improving the living standards of their employees.

3. Who are socially responsible.

4. Who are Co-operatives.

We will accept moderately higher cost prices from suppliers who fit into the priority categories, provided they are able to meet all our other specifications, standards, and guidelines.

Where it is in the long-term interests of MEC, we will provide additional support (financial, technical, training, etc.) to suppliers in priority categories to help them develop their business and assist them in meeting our specifications.

Standards and Guidelines

In deciding whether to do business with a particular firm or factory, MEC employees will include the following Standards and Guidelines among their criteria.

- There are no unusual risks posed to the safety and well being of MEC employees and none are anticipated.

- Political instability does not threaten to disrupt the ongoing business relationship.

- The supplier adheres to and supports the following:

1. Does not discriminate on the basis of race, gender, or religion in its employment practices.

2. Provides its employees with a safe and healthy work environment.

3. Does not exploit its workers, irrespective of their age.

4. Does not use physical or mental disciplinary tactics or forced labour.

5. Does not attempt to circumvent local laws or regulations for wages, benefits or working conditions, or those that would otherwise apply if it were physically located outside a "protected zone"

6. Complies with all other local legal requirements.

7. Maintains a high standard of business ethics.

8. Demonstrates a commitment to enlightened environmental and packaging standards.

Inspection and Compliance

Systems and procedures detailed by MEC management are used in applying these standards and guidelines to the selection of firms and factories with whom we propose to start or to continue a business relationship.

An organization that qualifies will be asked to sign a statement agreeing:

1. To continue to meet these standards.

2. To allow inspection visits at any time, including external monitoring.

3. That MEC may take appropriate action, including the cancellation of existing contracts, if the firm fails to adhere to these standards.

Appendix 4 – MEC Sustainability Policy

## Sustainability Policy

MOUNTAIN EQUIPMENT CO-OP

Everything MEC does has an impact - on the planet, on communities, on individuals, and on the local and global economy. As a member directed outdoor retail co-operative, we can provide a vibrant and healthy future for our members, our business and generations to come. Our sustainability policy will provide MEC with the direction and the framework to help create a just world and a healthy planet.

WHAT WE BELIEVE

We believe a sustainable world reflects these three interdependent principles:

- The planet has a limited carrying capacity and we are all dependent on a healthy, functioning biosphere.
- Individuals can best meet their needs in caring and vibrant communities.
- A just economy is dependant on an equitable society and a healthy planet.

The 3 nested spheres of sustainability - interdependent and interconnected.

economy society environment
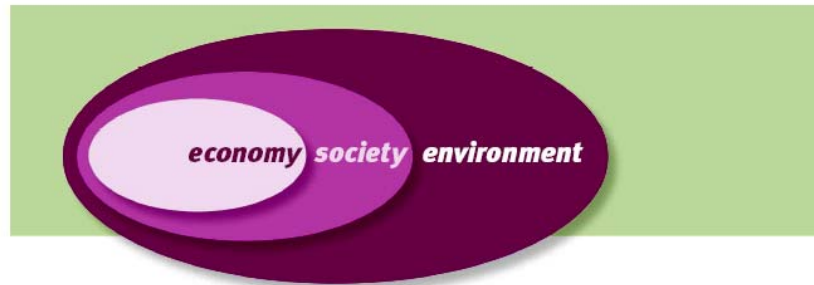
We believe that MEC has a responsibility to make the world a more sustainable place. We've defined our role as:

- Encouraging and supporting our members to enjoy self-propelled wilderness recreation, lead healthy, active lives and be stewards of the natural environment.
- Promoting wilderness conservation and responsible use of the outdoors.
- Improving the social and environmental impacts of our products, services and business operations.
- Providing leadership in the community and working with others to pursue collective social and environmental goals.
- Empowering our members to be active participants in our co-op and other co-operative endeavors.

WHAT WE'RE GOING TO DO

As an outdoor retail co-operative, our commercial success is dependant on achieving positive social and environmental outcomes. With this in mind, we have developed a sustainability strategy to guide and continually improve our efforts in the areas of business operations, product sustainability, sustainable consumption and our role in the community. We've made the following commitments in each of these areas:

1. Business Operations Sustainability:
- We will demonstrate sustainable business practices and lead by example, in particular with respect to energy, water and material use.
- We will provide a safe and respectful workplace where our employees are highly valued, treated fairly and encouraged to make a difference.

2. Product Sustainability:
- We will pursue design and product innovations to minimize or eliminate negative impacts and enhance positive impacts of our products and packaging.
- We will design our products to be durable, long lasting and repairable.
- We will follow sourcing practices that ensure a safe and healthy workplace for the people that make our products, where human and civil rights are respected.

3. Sustainable Consumption:
- We will promote conscious consumption by educating our members to make well informed decisions and we will provide them with products and services that contribute to a higher quality of life, and a healthier society and environment.
- We will provide our members with alternatives to the consumption of new outdoor gear.

4. MEC in the Community:
- We will promote co-operatives as a means to meet collective needs and empower consumers to participate in their local economy.
- We will be an advocate in the community for issues that align with our beliefs and strategic priorities.
- We will nurture meaningful partnerships with non profit and community based organizations to protect and enhance the places where we work and where we play.

HOW WE'RE GOING TO DO IT

PROCESS & IMPLEMENTATION
- MEC's *Sustainability Strategy Report* provides the framework for implementing this policy.
- MEC's *Social and Environmental Management System* will provide operational policies, procedures, targets and measures for each of our commitments.
- The following criteria will guide our business decisions and strategies. Using the precautionary principle, we will focus on issues:
  - Which relate to our business, our core purpose and our member needs.
  - Which have the largest impacts on natural, social and economic systems.
  - Where MEC has influence or control over the impact.
  - Where solutions are technically and economically viable.
  - Where there are opportunities to collaborate with other organizations.

ACCOUNTABILITY AND REPORTING
- We will be held accountable for our actions by adhering to the following governing principles:
  - We will provide staff and partners with the support and resources to follow through on our commitments.
  - We will measure and monitor our progress toward meeting our commitments.
  - We will report on our social and environmental performance in publicly available reports.
  - We will engage our staff, members, vendors and community stakeholders in meaningful dialogue to continually improve our efforts and our relationships.
  - The Board of Directors will review our Sustainability Policy every 3 years.

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Appendix 5 – Notes from Workshop #1 (August 1, 2002)

Meeting Participants:

Rick Kohn, MEC, Finance Manager
Grace Pulver, MEC, Learning and Development Manager
Denise Taschereau, MEC, Social and Environmental Responsibility Coordinator
Andrea Harris, MEC, Co-operative Development Coordinator
Susan Todd, Solstice Consulting
Deanna Wing, MEC, Finance Department
Chad Park, Researcher, International Institute for Industrial Environmental Economics

Meeting Objectives:

➢ To share information gathered through the MEC staff interviews performed over the previous two weeks
➢ To build capacity on the role of a SEMS
➢ To discuss a series of scenarios or frameworks that could be used to integrate MEC´s social and environmental commitments with business planning and operations.

Meeting Notes:

Review of interview results

The results from the interviews were distributed to workshop attendees prior to the workshop. In the workshop, they were presented and discussed in terms of consistent messages, areas of uncertainty, and key considerations. The primary focus of the discussion was centred on the apparent confusion about terms and language within the organization. Workshop attendees pointed out that given the fact that most of the interviewees were relatively close to MEC´s SER work, the results showed how dispersed the thoughts must be throughout the organization and how diluted the SER information might be. It was suggested that it could be useful to provide definitions and connections of MEC´s evolving language and work on sustainability – from SERTT to SER to Sustainability to the Capitals Model.

Workshop attendees also pointed out that part of the solution is to refer to the MEC vision statement, which speaks of a socially and environmentally responsible organisation and describes an organisation with a number of different aspirations focused around social, environment and personal betterment. Some attendees pointed out that there had been a certain level of anxiety around the wording in the vision during the rewording process that took place in 2000. Some store managers, for example, were concerned that an effort was being made to change MEC to a social service organisation, a misinterpretation that the board had been surprised to hear about. Thus, workshop attendees agreed that the more that this system can convey the message that SER efforts are about "normal MEC business," not a series of competing elements, and be specific about what this means, the faster it will move to integration.

Key Needs from a SEMS

The workshop then shifted to the issue of a Social and Environmental Management System (SEMS), and the key functions of such a system. Since the interviews had revealed the proposed SEMS to be one of the main areas of confusion, there was a desire to clearly articulate the key needs that MEC had from a SEMS and to communicate its function in the organization visually. The key needs from a SEMS that were identified in the interview were summarized as 1) support decision-making; 2) allow for reporting – monitor progress; 3) be integrated with business planning and operations; 4) provide

clarity on the strategic relevance of SER; and 5) build capacity. These needs were used as the basis for discussion.

Workshop attendees focused the SEMS discussion on three main areas: the importance of measurement, the issue of integration, and training and capacity building.

Measurement – the sooner the better

Initially, the discussion focused on the issue of measurement. Workshop attendees agreed with the interview outcome that suggested that the main uncertainties within the organization about the social and environmental commitments articulated in its new Sustainability Policy are not about the commitments themselves, but with respect to the question of "how far and fast." In this context, they pointed out that the sooner that people could see the measures and indicators attached to those commitments, the more at ease people were likely to be. The reasoning for this is partly because reporting would help MEC become fully aware of how much it was already doing to achieve its commitments. It is also because it could help clearly communicate objectives, particularly what was expected of them as MEC staff. Attendees pointed out that in order to do so in a way that is authentic and resonates, it was important to communicate results in terms of impacts, benefits and stories in addition to numbers. The representative of the Human Resources Department suggested that the Leadership 2003 program is likely to be focused on measurement.

SEMS as a tool for integration

One of the main messages communicated during the interviews was that SEMS should not appear as a "stand-alone" system. This term became a point of discussion in the workshop. Workshop attendees interpreted the fear as essentially meaning that SEMS could be implemented in such a way as to make it compete with strategic/business planning, thus accomplishing the opposite of the desired goal of integration. Attendees discussed a suggestion that SEMS should support the integration of the Sustainability Policy with core business planning and operations. In this sense, it is not the SEMS that should be integrated, but the Sustainability Policy. The SEMS should exist to support that integration, largely by capturing and reporting data that feeds into business planning. In this sense, whether or not SEMS is a stand-alone system becomes less important, since there are always degrees of integration among various systems used in the organization. The following visual was used to communicate this by comparing the SEMS to the accounting systems that MEC used to manage its performance against the goals articulated in the Financial Health Framework.
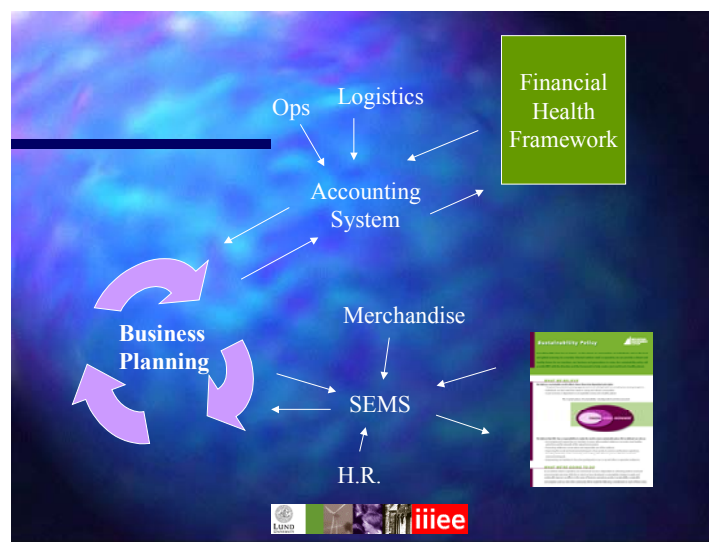

Figure 13: Comparison of SEMS and Accounting Systems

Workshop attendees generally agreed that ultimately the goal for MEC should be to integrate the Financial Health Framework with the Sustainability Policy, thus also integrating the financial accounting system and the SEMS into a broader "Accountability System" that reported on performance both on financial and on social and environmental performance. They also pointed out that business planning is not an end in itself, rather that it is the process through which MEC works to accomplish its mission and vision. However, they agreed that for the sake of illustrating the function of the SEMS, the comparison was useful. References were also made to the capitals model being used as the framework for strategic planning, and it was generally agreed that some further thought would need to be put into how the capitals model and the Sustainability Policy relate to one another.

Training and Capacity-building

One final major point of discussion was the fact that the SEMS should also facilitate training and communication to support the integration of social and environmental commitments into operations. SER is not currently a specific focus of training and other people systems at MEC, but it is integrated into various elements such as the Leadership 2002 program on The Business of MEC. The HR capacity of the organization was seen to have improved in the past two or three years, such that there are more opportunities to integrate SER in training and systems. The organization would need to understand what training or knowledge was required to achieve its SER commitments and identify how best to get it. Most specialized skills required for various elements of SER would likely be initiated from within the respective department budgets, however. A strategic change management plan is also being developed, and it would be important to make SER a piece of that.

Benchmarks

Next, three approaches to integrating social or environmental commitments into an organization were introduced for the purpose of identifying elements of the approaches that seemed relevant for MEC.

VanCity Credit Union

VanCity Credit Union is a highly respected leader in corporate social responsibility in Canada. As two of the largest co-operative organizations in Vancouver, MEC and VanCity frequently cooperate on many issues. VanCity´s management system features an overarching Statement of Values and Commitments that encompasses the whole business. Its key performance indicators are tied directly to the Statement of Values and Commitments, and it undertakes a Social Audit every two years to report out on its performance against the Statement. Action plans and priorities stem directly from the data gathered from the reporting and feed directly into the business planning cycle. Finally, they are also working on an education and training component to the system, to build capacity around the Statement and the performance issues identified in the Social Audit.

The workshop attendees were impressed with the extent of integration that VanCity has achieved with their system. They acknowledged that the work has been going on since at least 1997 and that it is very well resourced. Workshop attendees were particularly fond of VanCity´s Social Audit, as a means of being accountable for its commitments. They pointed out that the VanCity system does not create a dichotomy between values and business priorities. Thus, there would appear to be little confusion about what is a priority – all of its commitments, including its commitment to sound financial management and performance, are integrated in the Statement of Values and Commitments. Workshop attendees pointed out that, although there are some notable differences between VanCity and MEC, such as the nature of their respective businesses, the approach that VanCity has taken is very relevant for MEC.

Resort Municipality of Whistler

The Resort Municipality of Whistler in British Columbia has won national awards for its commitment to sustainability. The municipality has recently developed and implemented an Environmental Sustainability Management System (ESMS) to manage performance against its environmental objectives, which are one of the five key pillars of the organization's strategic plan. The Whistler ESMS is an elaborate series of processes and procedures, compiled into a training manual for staff. The ESMS features annual sustainability training for all departments, a system for assessing and implementing new ideas, integration within the overall strategic planning process of the municipality, an award program to encourage participation, and measurement, evaluation and reporting of progress and performance. It is all rooted in the principles of The Natural Step, which the municipality has adopted as its guiding principles for sustainability and which also serves as the basis for decision-making and brainstorming.

Workshop attendees were initially struck by the detail and apparent complexity of Whistler's ESMS, wondering out loud whether such detail could be applied to an organizational culture such as that of MEC. The applicability of the system to MEC was also questioned on the basis of its large internal focus, a stark contrast to VanCity's external stakeholder focus. However, there was general agreement that this was largely due to the nature of the organizations in question and that the system was very impressive for its level of detail in procedures, the explicit links to strategic planning, and the clarity that this provided to staff. Some workshop attendees were very interested in the idea of annual sustainability training for each department and thought this might be interesting to consider in the context of MEC. Finally, the decision-making tool featured in the Whistler ESMS was seen to be very relevant to MEC. Such a tool could be useful for understanding trade-offs, and for providing a system to incorporate and evaluate new information and new ideas. In the context of MEC, such a decision-making tool would have to incorporate other business outcomes in addition to the environmental outcomes.

The Balanced Scorecard

Finally, the Balanced Scorecard (BSC) was introduced as a tool for integrating social and environmental commitments with core business operations. Workshop representatives were quick to compare the four perspectives of the Balanced Scorecard to the capitals model that serves as the framework for its Strategic Plan. It was suggested that the groupings could essentially equate to MEC´s various capitals (e.g. Financial Perspective = Financial Capital, Customer Perspective = Social Capital, Internal Process Perspective = Infrastructure Capital, Learning and Growth = Human Capital). One key difference was pointed out, however. The BSC aligns the perspectives to improve the work in the company so that it enhances financial capital. At MEC, planning is focused on finding the right balance between capitals and prioritising initiatives based on that balance. There was a strong sense that at MEC, the appropriate framework must look at sustainability in terms of increasing all the capitals and the impact of various strategies on multiple capitals. In this sense, there is a need to understand more deeply the trade offs involved in decision-making and in the timing of investments. This suggests a second main difference between MEC´s capitals model and the BSC. The BSC attempts to align the various perspectives in cause and effect relationships that drive the implementation of the strategy, whereas MEC´s capitals are framed as 6 equivalent outcome areas, the links between which are not explicitly described.

Workshop participants agreed that a tool like the BSC is likely to be applied in very different ways in every organization.

Appendix 6 – Project/Initiative Evaluation Tool (Draft)

New ideas, information, and project opportunities constantly arise as MEC undertakes its work on sustainability. The main challenge is in determining and weighing the effectiveness of the project or initiative in achieving a given sustainability objective or commitment, its strategic relevance to the business, and its relative priority. This tool, therefore, attempts to provide guidance to MEC staff and decision-makers on an operational level in evaluating a given project opportunity or initiative and in articulating the rationale for the project.

It is divided into four sections. The first two sections are meant to serve as high-level screen or filters. Project and initiatives must be deemed strategically relevant and must be relevant to the role that MEC has articulated for itself in order to even be considered for implementation.

1. Strategic Relevance

The aim of this section is to determine the degree to which the project or initiative aligns with the strategic direction of the organization and to its sustainability commitments.

> ➢ Is the project/initiative strategically relevant for the organization? How does it fit with current strategic and business goals?
> ➢ How does the project/initiative relate to our core purpose?
> ➢ How does it support the commitments in our Sustainability Policy?

No?

Yes?

2. MEC's Role

The aim of this section is to ensure that the project or initiative is within the mandate that MEC has determined for itself and whether MEC's contribution will make a difference.

> ➢ Does it encourage and support MEC members to enjoy self-propelled wilderness recreation, lead healthy, active lives and/or be stewards of the natural environment?
> ➢ Does it promote wilderness conservation and responsible use of the outdoors?
> ➢ Does it improve the social and environmental impacts of MEC products, services or business operations?
> ➢ Does it provide leadership in the community or work with others to pursue collective social and environmental goals?
> ➢ Does it empower members to be active participants in our co-op and other co-operative endeavours?
> ➢ Does MEC have control over the impact? (i.e. will MEC make a difference?)*

* This question is perhaps best answered AFTER having assessed the impact of the project or initiative in section 3 of this document.

No?

Yes?

3. Assessing the Impact

If the project or initiative is strategically relevant and fits with MEC's role, the next step is to determine the impact of the project or initiative on the various capitals that MEC is trying to enhance. In many cases, the project or initiative will have impacts on multiple capitals, and the challenge will be to assess the trade-offs involved. Often, these trade-offs are between financial capital and other capitals, although in some cases they may be trade-offs among other capitals. In order to assess the trade-offs involved, however, we must first gain an understanding of the various impacts.

Financial Capital
- What will the project/initiative cost?
- Does it have an evident financial Return on Investment? (i.e. low-hanging fruit?)
- Does it create a business opportunity or new market niche?
- Does it impact the competitiveness of MEC?

Human Capital
- Does the project/initiative promote the development of skills/knowledge/motivation or health of individuals?
- Does the project/initiative enhance the quality of life and dignity of people? (i.e. "meet human needs" from TNS)

Ecological Capital
- Do we understand the ecological impact of the project/initiative or of the activity it is aimed to improve?
- Are there opportunities to:
  - Reduce MEC dependence on substances from the Earth's crust?
  - Reduce MEC dependence on toxic materials?
  - Reduce MEC contribution to physical degradation of nature?

Social Capital
- Does the project/initiative meet a MEC member need or strengthen MEC relationship with its members? How so?
- Does the project/initiative have the potential to build positive relationships with other stakeholders?
- Are there opportunities to collaborate with other organizations on the project or initiative?
- Does the project promote co-operatives?

Product Capital
- Does the project/initiative impact product durability?
- Does the project/initiative impact product functionality?
- Does the project/initiative introduce product design innovations?
- Does it provide technically feasible stepping-stones or "Flexible platforms" to link to future investments in the same direction? (i.e. does it avoid taking MEC down a technical dead end?)

Infrastructure Capital

> ➢ Does the project/initiative improve infrastructure in such a way that other programs can leverage improved capacity?

> ➢ Does it provide technically feasible stepping-stones or "Flexible platforms" to link to future investments in the same direction? (i.e. does it avoid taking MEC down a technical dead end?)

4. Managing the Trade-Offs

Having gained an understanding of the impacts involved with the project or initiative, the final step is to make the decision whether or not to proceed with it. This frequently involves managing tradeoffs among various capitals. In particular, it is usually necessary to determine whether the financial investment involved seems worthwhile in order to achieve the impact that the project/initiative will have on other capitals.

Managing the trade-offs is difficult and inevitably requires a judgment call that frequently must take place on the gut level. Nonetheless, a hierarchy of priorities could be useful in making that judgment call. The following hierarchy is an example of one that MEC could adopt for this purpose.

MEC will prioritise those projects or initiatives:

1. With the most immediate and significant returns on investment (i.e. the lowest hanging fruit)

2. That create a new business opportunity or market niche

3. That promise to enhance member loyalty, retention and attraction to MEC

4. Where improvements in one capital (e.g. ecological) can be achieved with minimal negative impact on other capitals (e.g. product)

5. Where impacts and associated trade-offs are clear

6. Where opportunities for MEC to provide leadership exist

7. Where marketplace developments, public opinion and/or stakeholder expectations compel action

Appendix 7 – Summary of MEC Sourcing program review

The review of the Sourcing program of MEC was undertaken during the week of August 12-16, 2002 using the Management Systems Review Process described in section 4.5.2 of this thesis. The review involved a 2-hour brainstorm between the author and the Social and Environmental Responsibility Coordinator of MEC, from which resulted an initial draft of the answers to the review questions. This draft was then sent to the Hard Goods Manager from the Merchandise Department of MEC for editing and further development. A meeting between these three individuals finalized the answers to the questions for the Sourcing program area. The output of the review is given below.

Policy Alignment

The review identified that the main Sourcing commitment in the Sustainability Policy is the following:

> ***"We will follow sourcing practices that ensure a safe and healthy workplace for the people that make our products, where human and civil rights are respected."***

In addition, at least two other Sustainability Policy commitments could be indirectly related to Sourcing – the MEC commitments to product sustainability and to the promotion of co-operatives. These two commitments were not the focus of this management system review, but the potential link to Sourcing made them worth mentioning.

Two other sourcing-related policies in the organization were identified – the Sourcing Policy itself, and the Vendor Code of Practice. Neither of these policies has been formally reviewed since they were developed in 1997 and 1998 respectively.

The following policy-related points were also noted in the review:

➢ External stakeholders have requested revisions of the Sourcing Policy to align it with International Labour Organization (ILO) or other international standards.

➢ Sourcing has been a main point of discussion at the past two MEC Annual General Meetings. The three main issues of discussion were doing business with China, the textile-labelling act, and sourcing reporting.

➢ In the spring of 2002, the Board policy chair drafted a revision of the Sourcing Policy. In the summer of 2002, the Merchandise Manager drafted revisions to the Sourcing Policy/Vendor Guidelines. This work will provide the foundation for the formal policy review in fall 2002.

➢ The Board has shown interest in having one policy to govern factory compliance, one policy to govern the selection of countries that MEC does business with, and an "Advocacy Policy" that identifies when and for what reasons MEC will speak out publicly on sourcing-related issues.

Planning

The review of sourcing-related planning issues began by describing the "baseline" performance work that had been undertaken to date. The STEP program itself was essentially introduced to serve as the baseline for MEC auditing work. The initial scope of STEP was a series of audits with MEC-branded vendors, and then expansion beyond that in later years to include audits of private-label factories and eventually someday of materials suppliers further up the supply chain. The initial intention was for each factory to be re-audited every two years. The review suggested that it would be useful for MEC to draft a baseline report that collates the outcomes of factory audits to date. STEP was deemed to

have actually evolved into more of a tool to *select* MEC-branded factories, in addition to serving as an evaluation tool. For example, the re-audits every two years have not been undertaken and are considered to be of a relatively low priority for the organization at this point.

Indicators of Success

The next issue to consider in the review was the identification of indicators that could be used to measure whether or not MEC was fulfilling the sourcing commitment articulated in its Sustainability Policy. The main measure of success in terms of the MEC sourcing commitment is the outcome of the factory audits undertaken through the STEP program. This could include such indicators as:

> **Number of factories that have been audited, (broken down by MEC-branded, private label, vendors, etc.)**

> **Number of "violations" or non-compliance factories; types of violations**

> **Identification of measures to be taken to alleviate non-compliance**

> **Follow up of measures to alleviate non-compliance**

Other less direct indicators of success for MEC sourcing were also identified in the review. These could include the degree to which findings from MEC's internal audit process are consistent with findings from external party audits. They could also include indicators of success in related to other Sourcing Policy or Sustainability Policy commitments but delivered through the STEP activity, such as the country of origin of MEC products, the proportion of Canadian suppliers and the number of MEC suppliers who are also co-operatives.

Link to Business Planning and KPIs

The review revealed that the sourcing-related Key Performance Indicators in the latest version of the Capitals Model used for the Strategic Plan and 2003 MEC Business Plan, were not expressed in a manner that was consistent with the indicators described in this section above. Instead, they were stated simply as "**3rd Party audits**" and "**reporting**." It was agreed that the sourcing-related KPIs would require far more specific wording and should be expressed as measures of ongoing performance toward the sourcing commitment in the Sustainability Policy. As currently expressed, they seemed to suggest that they were measurements for 2003 efforts (i.e. having more factories third party audited and a reporting framework in place for sourcing) rather than of ongoing performance that could be monitored from year to year.

Third party audits are still considered to be in the "test" phase for MEC. Thus, they were not considered appropriate indicators for ongoing performance, but are better stated as annual goals. The annual goals should reflect the progression of efforts (e.g. the next step is to have private label factories audited, and following that eventually to have the raw materials factories audited). The sourcing goal in the 2003 Business Plan, which was still under development at the time, was expressed as "**products sourced in a manner that balances costs and values**". The measure for this goal is stated as "**remainder of Asian factories subject to 3rd party audits as well as 3 Canadian factories**". The annual objectives are currently determined by the Merchandise department's assessment of progress with STEP. The reporting goal in the 2003 Business Plan is a direct result of an ordinary resolution put forward by members at the 2002 AGM.

Thus, in conclusion, the review revealed that further work was likely necessary on the sourcing-related KPIs and pieces of the 2003 Business Plan to more clearly express the measures of ongoing performance versus the measures that are specific to the 2003 Business Plan. They may also require further refinement once the Sourcing Policy is updated.

Implementation

The focus of the review of implementation was on existing MEC systems that could be leveraged to support the implementation of its sourcing commitments. The discussion centred on product information systems and on human resources systems and issues such as accountability, the alignment of job descriptions and Incentive Compensation Plans.

Product Information Systems

The Hard Goods manager suggested that she did not believe there would be a lot of flexibility in the product information systems to incorporate fields relating to sourcing. Instead, she recommended working with an Excel spreadsheet that is already being used to collate data on the STEP audits.

Accountability

In terms of accountability, the review pointed out that the Merchandise Manager should have overall accountability for sourcing commitments, but that there was some confusion in the organization due to the fact that so many individuals (e.g. CEO, Finance Manager, Merchandise Manager, Board, Social and Environmental Responsibility Co-ordinator, Hard Goods Manager, etc) seemed to have accountabilities associated with Sourcing and STEP. A need was identified to more clearly define and articulate these higher-level responsibilities and accountabilities for sourcing.

Job Descriptions and Incentive Compensation Plans

The Merchandise team, including buyers and production coordinators, are responsible for implementing STEP. Their STEP functions are not explicitly reflected in their job descriptions, but Sourcing in general is mentioned. Since STEP is considered a fundamental part of Sourcing, it is considered to be included in the job descriptions in this manner. The links to Incentive Compensation Plans, however, varies from circumstance to circumstance. In the first year that the STEP program was introduced, it was explicitly included in the ICPs of buyers and production coordinators because it was considered something new to their duties at that point. However, it has since been removed from ICPs, because auditing factories is considered just a process that they must do as a fundamental part of their job. Production co-ordinators basically cannot do MEC-label business with a factory unless it is audited through STEP. For audits of private label factories that will take place in the future, the links to ICP will probably be restated, because it will again be something new to their jobs.

Communications and Training

The review then shifted to the education and training needs of both MEC staff and of MEC suppliers. Currently, there is no formal training program for new buyers in the Merchandise Department about the STEP program, other than a document covering STEP audit guidelines for staff. Since experienced buyers generally conduct STEP audits with support from other MEC staff, the main STEP training that takes place happens through mentorship of younger buyers by more experienced buyers. The Hard Goods Manager felt that this works well. A distinction between training and education was, however, pointed out. She stated that an annual "sourcing workshop" for buyers and production co-ordinators could be useful. Such sessions could create opportunities for education and awareness raising about trends and developments in sourcing, brainstorming about improvements for MEC Sourcing program, and review of sourcing-related performance data.

It was not considered realistic for MEC to develop supplier training about social and environmental issues internally due to the costs involved. Instead, it would be preferable for MEC to be able to recommend or potentially require suppliers to attend training sessions delivered by third parties. To date, however, MEC has not identified an appropriate external party to provide such training. Both MEC and MEC suppliers have attended some training sessions in Asia by third parties, but these were not deemed satisfactory.

Finally, the review identified various internal and external stakeholders who require different types of information about MEC sourcing. The review suggested that any follow-up on these communication needs would need to be undertaken by the communications department as a part of a general communication strategy.

Monitoring and Evaluation

The main tool for monitoring and evaluation is the STEP audit document, which is a 30-page (200 questions) overview that covers employee health and safety, employment practices, and environment records. These reports are kept in paper copy for each factory audit, since three individuals perform it separately, and then results are compared in order to make any necessary requests of the factory. Currently, the Merchandise department Administrative Assistant manages the STEP audit reports for factories with a summary Excel spreadsheet that collates all the data in the reports. This collation is not currently performed on an ongoing basis, but at irregular intervals. When necessary, action sheets are sent to the suppliers who are not in compliance with the audit, and the individual buyers involved follow them up. Currently, none of the sourcing information is reported to external stakeholders, but it would be relatively simple to collate the data on a more regular basis and report out on it. January was deemed the ideal time for this data to be collated both so that it could be used for input into business planning and so that it is ready for the Annual General Meeting in April each year.

Management and Stakeholder Review

Finally, the review revealed that, to date, there has been no formal evaluation framework for STEP or the policy that supports it. It was agreed that the revised policy should contain an explicit statement that the Policy will be reviewed every 3 years, for example. Currently, the sourcing-related pieces of the MEC business plan stem from the priorities as determined by the Merchandise department, but not necessarily from any more formal performance data review.

The review also revealed that there are no formal mechanisms for stakeholders to provide input on MEC Sourcing policies or performance, but it does occur on an informal basis, for example through meetings of key NGOs and MEC senior managers. In addition, stakeholders often use the standard member feedback and participation channels to provide input. As previously mentioned, Sourcing-related issues have dominated discussions at the two previous Annual General Meetings. MEC also had an embarrassing situation arise in 2001 when it was awarded a "Picket Fence Award" by one NGO because its Sourcing Policy did not explicitly align with international standards such as the ILO. MEC may wish to formalize some of these stakeholder feedback processes in order to better manage them. There may also be opportunities through member surveys planned in the future to learn about member expectations with respect to sourcing.