PRACTICENOTES

King III Chapter 1

Implementation Guidance on Environmental Sustainability Practices and Performance

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Environmental Sustainability Practices and Performance

Introduction

The natural environment (living and non-living components) sustains, shapes and influences all living systems and their derivatives[i]. Thus it impacts human life, social systems, and business systems, providing the primary source of all manufacturing processes.

Since 2002 the global debate on environmental issues and the roles and responsibilities of business in this respect has burgeoned, with a concomitant intensification and escalation in stakeholder expectations. In fact, the planet is currently facing its biggest environmental challenges, with issues such as fossil fuel use, climate change and fresh water availability, to mention a few, having been identified as reaching crisis levels globally.

South Africa has contributed, not insignificantly, to these developments. This has critical implications for the country considering the resource-intensive nature of many of its industries, as well as the richness of its resource base and biodiversity.

This, balanced with the fact that South Africa is a country emerging from a period of non-sustainable and inequitable development, which has had significant economic and social impacts, means that organisations face a major challenge, and calls are being made for leadership and a new paradigm to face the impending disaster.

At the base of any action to be taken, is the fact that the South African Constitution enshrines the right to an environment that is not harmful to health or wellbeing, and that is protected for use by current and future generations. To this end the Bill of Rights requires companies to secure ecologically sustainable development and use of natural resources while promoting justifiable economic and social development. This entrenched right has formed the basis of a raft of contemporary South African environmental legislation, with many of the emerging standards reflecting very similar standards in effect globally.

Consequently whether an organisation operates locally or globally, there are very clear business and legal reasons for taking measures to reduce both direct and indirect environmental impacts.

Principles

- The board is responsible for ensuring that an organisation develops an overarching environmental policy and strategy that articulates the standards it will strive to achieve in relation to its environmental impacts.

- The environmental policy should be institutionalised by integrating its standards strategically and operationally by means of an effective environmental management programme/system.
- Environmental issues should form part of business performance and risk management strategies.
- The board is responsible for ensuring that the organisation's internal stakeholders are aware of the organisation's environmental impacts and responsibilities, that its operations have acceptable environmental impacts, and that its external environmental stakeholders are acknowledged and treated with respect.
- The organisation’s environmental performance should be assessed, reported and disclosed both internally and externally.

Implementation guide

The following elements are critical for consideration in development of an environmental policy:

- The policy should refer to all key issues – climate change, resource efficiency, waste and pollution management.
- The policy should be appropriate to level(s) of impact the organisation has on the environment in respect of the key issues mentioned above and the risks and opportunities afforded by these.
- Best practice policies employ globally and locally applicable corporate standards, and commit to making strategic moves towards sustainability.
- The policy should be publicly available and commit to[1]:
    - Maintaining a baseline review of all significant environmental impacts of activities;
    - Use of targets and objectives;
    - Monitoring and audit;
    - Public reporting; and
    - Addressing indirect impacts.
- The company should conduct a baseline assessment of its direct and indirect environmental impacts, to aid in the identification of the risks and opportunities inherent in these impacts. The impact assessment should be followed by a risk assessment appropriate to the impact level of the relevant company.
- Environmental risks cannot be considered in isolation, but should be integrated with financial and social risks. The board should consider its environmental risks and opportunities at a macro and micro level in a manner which goes beyond compliance, and from both an ethical and a business opportunity perspective. In so doing, boards are encouraged to acknowledge that environmental degradation is occurring at a rate which exceeds the capacity of the natural environment to restore itself and of governments to react by way of setting environmental standards. As such the sustainability of the company and of society depends in part, on the board actively striving to find ways to play its part in reducing its contribution towards climate change and pollution generally, and to limiting and making more efficient use of finite natural resources. A symbiosis between the carrying capacity of the natural environment and

the sustainability of the organisation should be sought. Boards are therefore encouraged to consider issues such as:
  - Energy reduction and efficiency, and alternative clean energy;
  - Reduction in reliance on fossil fuels;
  - Waste reduction or zero waste;
  - Internalising the costs of emissions;
  - Reduction in non renewable dependency, or using resources in a sustainable manner;
  - Doing business with likeminded companies who actively seek to reduce their negative environmental footprints;
  - Seeking ways to achieve the functional integration of the environment into achieving sustainable development;
  - Developing or contributing towards technologies that reduce adverse environmental impacts;
  - Understanding the cumulative effect of its businesses with others locally and globally; and
  - Encouraging public policy makers to provide financial incentives for improving environmental performance.

- A company should continually seek to improve its environmental performance by[ii]:
  - Working to reduce and control its direct negative environmental impacts;
  - Promoting awareness of its significant direct and indirect impacts;
  - Working to use natural resources in a sustainable manner; and
  - Committing to risk reduction, reporting and auditing.

- An impact assessment –
  - considers all activities and their potential impact on the environment;
  - determines whether the organisation falls into high or low impact sectors;
  - should also consider impacts arising indirectly through upstream (supply chain) or downstream (product life cycle, project finance, etc.) (predominantly in qualitative terms).

- The board is responsible for ensuring that the organisation has an appropriate environmental management system which is implemented effectively, and which as a minimum includes the following four aspects:

  - A proper identification of the company’s adverse and positive environmental impacts, with particular emphasis on the organisation's direct and indirect impacts on waste and pollution; resource efficiency; and climate change. The board must also ensure that the company recognises the business costs and opportunities of its identified environmental risks.
  - An environmental policy which is relevant and achievable in both the short and long term, and which inculcates its environmental values.

- Functional integration of the management of the company's environmental issues into all aspects of its operations, including financial and business strategies and planning. In so doing the board should ensure that its environmental management systems are not only relevant, functional and effective, but that they are integrated into all other aspects of the business and sustainable development criteria of the organisation.
- Appropriate and relevant reporting to the board and to other internal structures, and responsible disclosure to internal and external environmental stakeholders. Even in the absence of regulatory requirements, sound risk management requires that companies integrate GHG and energy use measurement systems and protocols into their management frameworks.

- To ensure that there are management systems for sound environmental stewardship, companies should establish:
    - An environmental management system ("EMS") with direct accountabilities, and which should include specific interventions relating to climate change, resource efficiency and waste and pollution.
    - Standards and audit protocols to maintain compliance and improve performance.
    - Engagement programs with internal and external stakeholders.

- At a basic level, the following specific content should be included in environmental reporting[ii]:
    - Description of main environmental impacts.
    - Publishing the text of the environmental policy.
    - Reporting on performance measured against targets.
    - Providing data on non-compliance, prosecution, fines and accidents / incidents.
    - Stakeholder dialogue.

- Over time, reporting should include the following[ii]:
    - Outlining the EMS.
    - Financial dimensions.
    - Independent assurance / verification.

- Reporting must be geared not just towards external stakeholders, but also towards the company itself and its shareholders. As such whilst making disclosure the company has an obligation to protect confidential information.

- The company may choose to refer to some of the guidelines in existence that could prove useful in relation to developing an effective framework for managing environmental issues throughout the company[ii]. The GRI's G3 Guidelines encapsulate the minimum indicators which the organisation should strive to report on as appropriate to the level of impact.

[i] This sentiment was already captured over a century ago by John Perkins who stated “Man has long forgotten that the earth was given to him for usufruct alone, not for consumption, still less for profligate waste” (*Man and nature, 1863*).

[ii] Also see the JSE SRI Index Criteria.