



Promoting Professional
Management of Surplus Assets

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SUSTAINABILITY “SPEAK” AND THE INVESTMENT RECOVERY PROFESSIONAL



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If you're not practiced in the nomenclature of sustainability, now's the time to learn, and to become more involved in actively ensuring that your departments' investment recovery efforts are captured in your organizations' sustainability reporting. After all, much of investment recovery deals with the highest and best use of assets—one of the key tenets of sustainability. This article covers the basic concept of sustainability and how it relates to investment recovery, then introduces the Global Reporting Initiative, a framework used by many companies when reporting their progress toward sustainability. ► Page 5

CONTRACTS: INVESTMENT RECOVERY'S ROLE

One area of investment recovery responsibility that is frequently used but sometimes poorly understood is the contract side of our business. What is a contract? A contract is a voluntary, deliberate, legally enforceable and binding agreement between two or more competent parties. A contractual relationship is evidenced by (1) an offer, (2) acceptance of the offer, and (3) valid (legal and valuable) consideration. ► Page 12



SUSTAINABILITY “SPEAK”

AND THE INVESTMENT RECOVERY PROFESSIONAL



“We have an active and successful sustainability program in place. Our Chief Sustainability Officer works across the organization to ensure we incorporate environmental, economic and social accountability into all of our business decisions.”

Sounds good, doesn't it? This may be the reality for some businesses, but for many it's not. Programs struggle to balance the costs of making buildings more energy efficient against potential long-term savings; or yearning for top management support and appropriate resources.

As business become more adept at accounting for the value inherent in sustainability however, many efforts on this front are becoming more robust. Incorporating sustainability into business decisions is proving to be a savvy move. As your organization moves to incorporate these concepts, the investment recovery function should be included.

Sustainability Defined

In the early 1980's, the United Nations General Assembly established the World Commission on Environment and Development. The U.N. named as chair Gro Harlem Brundtland, a former minister of environment for Norway and later the country's prime minister. The commission, frequently referred to as the Brundtland Commission, was asked to look at the world's environmental problems and propose a global agenda for addressing them. After three years' work, they published a report titled *Our Common Future*, looking at the year 2000 and beyond.

The result of the study was that there wasn't a single environmental issue that was ranked first by all participants; instead, peo-

ple talked about living conditions, resources, population pressures, international trade, education, and health. Environmental issues were related to all of these, but there was no clear division separating environmental issues from social and economic issues. All of the problems were interrelated.

There were links among the environment, the economy and society that caused problems in one of these areas to affect the other areas. As a result, the Brundtland Commission report offered a now-famous definition of what it referred to as sustainable development:

An opportunity for increased visibility of the IR function lies in quantifying your efforts in terms of sustainability.

“A form of development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”

Sustainability, then, can be thought of as an accounting system that goes beyond the standard “bottom line” of financial considerations to include social responsibility and

environmental stewardship (see graphic). Thus, the phrase “triple bottom line” (to represent the three pillars of economy, environment, and social responsibility) is often employed in conjunction with the concept of sustainability. The three pillars can be thought of as a three-legged stool. Without consideration of all three of these interdependent concepts, the organization cannot flourish.

The Business Value of Sustainability

Why implement a sustainability program? Why not just rely on the standard “bottom line” approach? In a comprehensive study published in 2010 by Accenture and the UN Global Compact, a whopping 93% of the 766 CEOs surveyed around the globe indicated that they see sustainability as important to their business. In the face of rising global competition, technological change and the most serious economic downturn in nearly a century, corporate commitment to the principles of sustainability remains strong throughout the world.¹

The business value in sustainability lies in implementing (and quantifying the value of) all three pillars: **people, planet, and profit**. Businesses who integrate sustainability into their daily decision-making processes stand to reap rewards including: ▶ *Next Page*

- Reducing costs through reducing waste, changing processes, and increasing efficiency
- Developing new markets
- Managing business risk
- Responding to competitive pressures
- Providing an additional way to measure, track, and improve performance
- Openly answering customer inquiries regarding their corporate social responsibility and environmental impacts
- Demonstrating good corporate citizenship
- Enhancing brand recognition and strength

Simply put, environmental stewardship (planet) and social responsibility (people) cannot be separated from economic development (profit) if an organization is to thrive.

MEASURING SUSTAINABILITY: AN OPPORTUNITY FOR IR

CEOs see sustainability as a hot topic. So an opportunity for increased visibility of the investment recovery function in an organization lies in quantifying the results of your IR efforts in terms of sustainability. Some of the key areas of the investment recovery process that should be taken into account when quantifying sustainability are in Figure 1.

Useful Life

In considering useful life from the standpoint of sustainability, if the asset can be reconditioned and/or internally redeployed, aside from the obvious economic value, there may be a reduced use of natural resources. Benefits may include reduced use of natural resources including water, minerals and fossil fuels associated with the manufacture and purchase of a new item to the potential for reduction in greenhouse gas emissions from transport that would have otherwise taken place as part of the

purchase of a new asset. Sale of the asset to an external party rather than disposal could result in an economic benefit to both parties; a social benefit could also be realized if the asset is sold to, for example, a local non-profit that uses the asset to help at-risk young adults succeed.

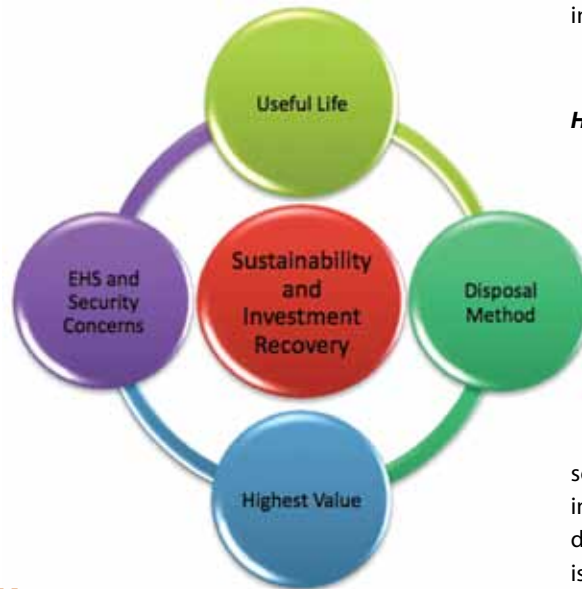


Figure 1: Factors to Consider in Measuring Sustainability in IR

Disposal Method

Disposal methods can take many forms, such as allowing the asset to be returned to the manufacturer at the end of its useful life, a private sale to another party, an auction, a donation, or sending the asset to landfill. When making disposal decisions, consider which method results in the lowest impact or provides the highest benefit from a financial, social, and environmental standpoint.

For example, if a supplier takes back ink and toner cartridges which are subsequently repaired, refurbished and refilled so they are equivalent to new ink and toner cartridges, the benefits of doing so may include reduced greenhouse gas emissions when compared with the manufacture of new cartridges (an environmental benefit), and reduced manufacturing costs (an economic benefit). If the organization gave a portion of the profit realized on the sale of each

cartridge to a homeless shelter, for example, they could report on the social benefit associated with this endeavor.

To properly account for sustainability benefits, it is important to subtract impacts from benefits—e.g., the impact of transportation, the cost to remanufacture the cartridges, etc., should be accounted for in the calculation.

Highest Value

When calculating the sustainability benefit of a given choice for asset disposition, the highest value should be taken into account. Traditionally, the highest value meant the highest price paid for the asset, or the lowest disposal cost.

Taking sustainability factors into account entails looking beyond economic benefits to find the best mix of environmental, social and economic benefits. For example, in a community experiencing a loss of jobs, donation (instead of sale) of an asset that is used by a local job placement program results in a lower economic benefit (tax write-off only) but a higher social benefit to the donating party. The long term goodwill generated by such an action may far outweigh the loss of the short-term financial benefit.

EHS and Security Concerns

The disposition of certain assets can present the potential for environmental health and safety (EHS) hazards, particularly if they are not handled in a proper manner by the receiving party. Under the Resource Conservation and Recovery Act (RCRA), a generator of hazardous waste maintains the liability for proper disposal of that waste “from cradle to grave.” This means that the generator of hazardous waste is responsible for that waste forever—even after its disposal. Many seemingly innocuous items are classified as hazardous waste due to the metals they contain (that could leach into groundwater), their pH (either very high or very low), their nature (corrosive or reactive, for example), etc. Add to this the risks in disposing of

assets containing information—e.g., electronic waste, and oftentimes the best choice is seeking certified vendors for disposal (for example, an e-Stewards certified electronics recycler). The environmental benefit of recycling an item, coupled with the reduction in long-term liability from proper disposal, can be quantified in a sustainability report.

THE GLOBAL REPORTING INITIATIVE

A not-for-profit organization based in the Netherlands, the Global Reporting Initiative (GRI), pioneered the world's most widely used and internationally accepted sustainability reporting framework.² The GRI contains principles and performance indicators that are used to measure and report economic, environmental, and social performance. The cornerstone of the framework is the Sustainability Reporting Guidelines, which have become the de facto standard in providing information on sustainability initiatives.³

Using the Performance Indicators

Issuing a sustainability report using the GRI Reporting framework requires reporting on various economic, environmental, and social performance indicators. Some of the GRI indicators overlap with the activities inherent in investment recovery, including these economic, environmental and social indicators.

ECONOMIC: Economic Performance Aspect *EC1: Direct economic value generated and distributed, including donations. (core indicator)*

The economic value generated and distributed (EVG&D) data is generally obtained from the organization's audited financial statements. Alternatively, EVG&D can be presented on a cash basis where this can be justified. In this case, community investments including voluntary donations and investment of funds in the broader community (where the target beneficiaries are external to the company) would be included as a part of Economic Value Distributed.

• *EC2: Financial implications and other risks and opportunities for the organization's activities due to climate change. (core indicator)*

Have operations changed such as building or operating equipment for "green" energy (e.g., wind turbines or solar panels), demand for eco-friendly products or lower emission vehicles? Has the investment recovery function been involved in emissions trading, such as buying or selling emissions credits under the European Union emissions trading scheme or the Kyoto Protocol?

SUSTAINABLE
DEVELOPMENT: A
form of development
that meets the needs
of the present without
compromising the
ability of future
generations to meet
their own needs."

—U.N. Brundtland Commission

ECONOMIC : Market Presence Aspect *EC6: Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation. (core indicator)*

Some companies have expanded the investment recovery function to include sourcing pre-owned equipment in lieu of new equipment, in order to decrease capital expenditures. Have there been instances in which the IR function has been involved in sourcing from locally-based suppliers? If so, quantify these purchases, noting related policies and practices.



ECONOMIC: Materials Aspect

EN2: Percentage of materials used that are recycled input materials. (core indicator)

This indicator is a measure of how the organization is using recycled materials as inputs in their processes. The investment recovery professional should carefully consider the term "recycled." The generally accepted use of this term involves breaking down recyclable materials to make new materials. Reuse is any activity that lengthens the life of an item.

ENVIRONMENTAL: Emissions, Effluent and Waste Aspect

EN18: Initiatives to reduce greenhouse gas emissions and reductions achieved. (additional indicator)

The top three largest sources of human-generated carbon dioxide are the burning of fossil fuels, non-energy use of fuels (e.g., in industrial processes such as production and consumption of mineral products), and iron and steel production.⁴ With this in mind, the number and types of initiatives that result in a reduction of greenhouse gas emissions may involve the IR function. Some examples include extending the useful life of an object by re-deploying or re-purposing it, thereby potentially reducing the emissions from manufacturing a new object; making a point to sell materials locally to avoid their transport to distant points; and avoiding the disposition of assets to landfills, where they could generate greenhouse gasses. Being certain that the organization takes credit for investment recovery activities within the confines of this indicator may require a proactive stance on the part of the IR professional during discussions regarding sustainability reporting. ▶ *Next Page*

SOCIAL:
Labor Practices and Decent Work—Employment Aspect

LA3: Benefits provided to full-time employees that are not provided to temporary or part-time employees.

In some organizations, full-time employees are allowed to purchase assets that are being sold, with a heavily discounted price for used assets. If these benefits are not provided to temporary or part-time employees, they could be quantified and used as part of the sustainability report.

CONCLUSION:
Nothing in this article on sustainability is meant to provide a means for overstating the benefits of proper asset management. Inherent in proper surplus asset disposition is the ability to reduce the need for new assets by any combination of reuse, redeployment,

recycling, etc. Rather than provide a means for calling attention to the “new” benefits of an already existing practice (“New! Apples with No Sugar”!), the information presented herein is provided as a means to decipher sustainability reporting in terms of investment recovery.

In order to properly account for investment recovery activities, the IR professional must understand the nomenclature associated with and methodology of sustainability accounting: people, planet and profit. If not already a key part of the sustainability reporting team within an organization, the IR professional should have a place at the table in providing key data based on quantifying IR activities for the purposes of sustainability planning and reporting. ■



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Footnotes:

1. “A New Era of Sustainability—U.N. Global Compact-Accenture CEO Study 2010,” Accenture, United Nations Global Compact, June 2010.
2. What is GRI?, <http://www.globalreporting.org/AboutGRI/WhatIsGRI>, Global Reporting Initiative, 2007.
3. Sustainability Reporting Guidelines, Version 3.1, Global Reporting Initiative.
4. Climate Change—Greenhouse Gas Emissions, Human-Related Sources and Sinks of Carbon Dioxide, http://www.epa.gov/climatechange/emissions/co2_human.html, Environmental Protection Agency, 2011.