

## **SUSTAINABILITY ASSESMENT METHODS: AN EXPLORATORY STUDY**

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### **ABSTRACT**

*Nowadays, the concept of sustainability became a new horizon and a very promising perspective of generating a better future for the present and for the next generations. This article focus on making a comparative analysis between different methodologies that eight sustainability organizations use on a global level in order to generate a rating. Within the first part, the paper focus on defining the term of sustainability and explainig its necessity. In the second part it presents the comparative analsysis between the methodologies used by the selected sustainability rating organizations. In the end, the main conclusion of the study is that the methodologies used by sustainability rating agencies are complex and different and all of them have as a basis the same aspects which are fully integrated within the Global Reporting Initative established in United States in 1997 with support of the United Nations Environmental Program.*

**KEYWORDS:** *sustainability ratings, sustainable company, GRI, sustainable development*

**JEL CLASSIFICATION:** *Q01, I21,I25, I29*

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### **1. INTRODUCTION AND METHODOLOGY**

Being sustainable is not an alternative but a must when it comes to companies which objectives and efforts are focusing on a long run. Even more and more companies understand that in the era of highest pollution and luck of resources, being sustainable is an effort of remaining at least at the same position in the range of competitors. In Romania, the concept of sustainability is closely linked to that of corporate governance. According to Duca et al. (2007), the progress in implementing the principles of good corporate governance have been slow before 2007. However, the Green Revolution Association (2016) shows that the interest of the Romanian companies for sustainable development during 2010 – 2017 has increased exponentially.

New regulations, new laws, ecological NGO associations and other organizations each day are putting lot of pressure on the companies all over the world trying to change the mentality of using the resources more efficiently by discovering new methods versus the conventional ones.

Even more and more sustainability agencies are being created in order to rank the level of the sustainability which somehow became a new method of real competition among them. The companies need to cope sometimes with higher price of the raw material in the same time keeping the final price in order to comply with the standards and regulations which contribute the company to be more sustainable.

The main objective of the study is to provide an overview of the methodologies that rating agencies use for the sustainability assessment. This paper is based on public information available on the website of eight organizations that have this object of activity: CSRHub, Vigeo Eiris, Tomorrow's Value<sup>TM</sup> Research, RepuTex, Standard Ethics, Thomson Reuters, FTSE Russell, RobecoSAM. Based on collected materials, content analysis was performed to identify differences and similarities.

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The content analysis, together with the thematic analysis, allowed the grouping of sustainability factors identified by the eight companies in thematic categories. This classification has facilitated the comparative analysis.

The paper is structured as it follows. The first part summarizes the concept of sustainability and its dimensions. In the second part the methods of evaluation of the agencies mentioned in the introduction are described. The last part is dedicated to the conclusions.

## **2. THE DIMENSIONS OF SUSTAINABILITY: LITERATURE REVIEW**

Nowadays, the concept of sustainability has gained a significant place in the new era and defining it in general means being responsible of today's action for a better future. Such a proactive thinking can increase the social and ethical responsibility of one company and also to better understand the importance of the values that will be created on a long run. In the new era of sustainable thinking an important step was made by the World Commission of Environment and Development – WCED (1987) which set up and published a report entitled "Our Common Future". This report is also known as a "Brundtland Report" after the Commission's chairman Gro Harlem Brundtland. According to this report the concept of sustainable development "meets the needs of the present without compromising the ability of future generations to meet their own needs". There is a growing need to understand the concept and face the challenges of the present. The Commission represented one step more for better sustainability development. Still, fortunately this is not a single step which was made during the last years. Here we would like to mention "The 2030 Agenda" for Sustainable Development which is going far beyond for the Millennium Development goals. These documents present a continuing effort of maintaining the importance of development priorities such as: poverty eradication, health, education, social and environment objectives and still promises a more peaceful and inclusive society. The New Agenda announces 17 Sustainable and development goals which are integrated and indivisible.

The table 1 presents chronologically the events that had an important role in the environment protection and sustainable development field based on data published on "National Agency for Environmental Protection" in Romania:

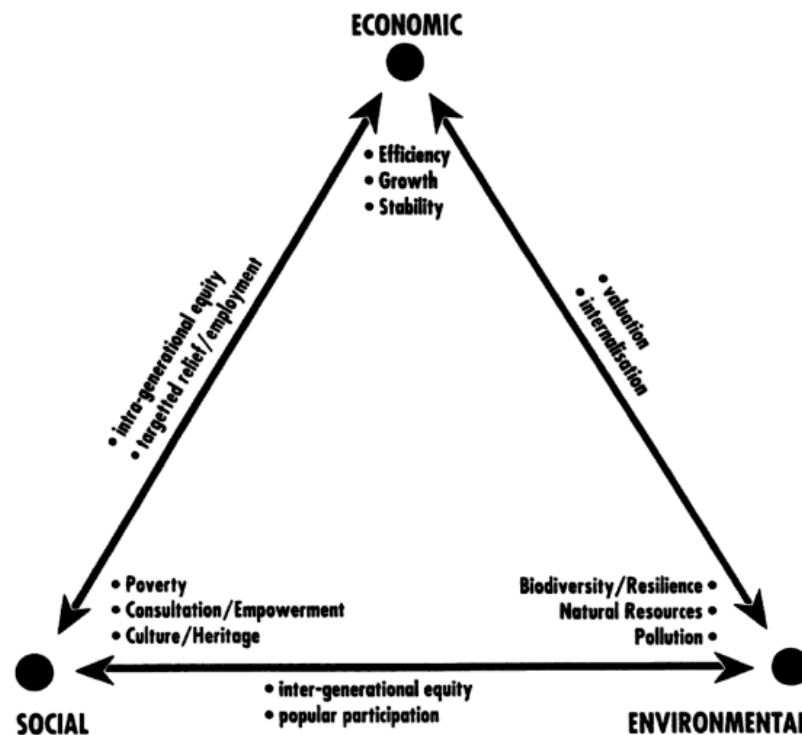
According to Friedman, (1970) "There is one and only one social responsibility of business to use the resources and engage in activities designed to increase its profits so long as it stays within the rules of the game which is to stay engaged in open and free competition without deception or fraud". As per Porter and Class van der Link (1995) states "The pollution is a sign of inefficient resource use. Therefore, "win-win" opportunities for the environment and the economy can be captured through improvement which reduce pollution in production processes". Their argument is that strict environmental regulation is needed. Pollution is the emission or discharge of a harmful substance or energy into the environment. Fundamentally it is a manifestation of economic waste and involves unnecessary, inefficient or incomplete utilization of resource or resources not used to generate their highest value. Within the company, the cost of poor resource utilization is most obvious in incomplete material utilization, but are also manifested in poor process control. The SD concept is underlying on the integration of environmental, social and economic concerns into all aspects of decision making (Dernbach, 2003).

Taking in consideration that the concept of SD is closely related with resources which are used inefficient, bellow we represent the tradeoff among the three main SD objectives according to Munasinghe, M., (1993). These objectives make part of three essential approaches: economic, social and ecological (figure 1).

**Table 1. The events that had an important role in the environment protection and sustainable development field**

Year	Event	Main achievements
1972	Conference of United Nations-Stockholm	113 nations represent the problem of how human activity influence the environment. Issues such as: pollution, environmental degradation, danger of species extinction, lack of resources and the importance of the relation between quality of life and quality for environment have been raised.
1983	Brundtland Commission	In order to study a better protection of the environment and offering a better solution for the human society on a long run, the United Nations established the World Commission on Environment and Development (WCDE). The Commission highlighted the existence of two major problems: development does not mean necessarily higher profits and higher living standard for only a part of the citizens, but means a better living standard for all of them and the second one: development neither mean uncontrolled use of the resources nor a pollution of the environment. Brundtland Commission elaborated and published the document "Our Common Future" which set out the framework based with "Agenda 21" of the principles of the Rio Declaration. According to "The Brundtland Commission": "Sustainable Development requires the promotion of values that encourage consumption standards that are within the bounds of ecologically possible and to which all can reasonable aspire. Consumer education about the effects of particular products and household recycling programs could thus move lifestyle in a more sustainable direction (Dernbach, 1998).
1987	Brundtland Report	Sustainable Development definition: to meet the needs and aspirations of the present without compromising the ability to meet those of the future.
1992	Rio Conference - Conference of United Nations regarding environment protection and development	SD is a new way of development which promotes a human progress all around the world and on a long run. The main objective of the Conference was to establish a new strategy for economic, industrial and social development in the world. The conference from Rio de Janeiro held in June 1992 is considered to be the largest summit in the 20 <sup>th</sup> century. The main objective was to find alternative path for global development. Results of the summit materialized in the adoption of documents such as: -the Rio declaration of environment and development also called the Earth Book - "Agenda 21" suggest that developed countries should take the leading role in achieving sustainable consumption pattern -Convention on Biodiversity -Framework convention on Climate change -Forest Declaration -Declaration on desertification As stated in Rio Declaration, the notion of common but differentiated responsibilities recognizes that each nation must play their own part for a better SD.
2002	South Africa – World Summit on Sustainable Development Johannesburg	Promotes new initiative for the implementation of SD and to build prosperous and secure future for the citizens of the world. The main purpose of the Summit was to continue to amplify the international efforts to implement the documents adopted in Rio.

Source: <http://www.anpm.ro/dezvoltare-durabila>



**Figure 1. The tradeoff among the three main Sustainable Development objectives**  
 Source: adapted from Munasinghe, M., (1993, p.2)

Back in 1950s and 1960s the central point of economic progress was increase in output based on the concept of economic efficiency. After this period of time the development paradigm shifted towards equitable growth, where social objectives were recognized as distinct from and as important as economic efficiency. In the end, the concept of SD became a whole range of three different approaches: economic, social and ecological, as it follows:

-economic approach: based on the Hicks-Lindahl concept of the maximum flow of income that could be generated while at least maintaining the stocks of assets which yield these benefits (Solow 1986, Maler 1990). There is an underlying concept of optimality and economic efficiency applied to the use of scarce resources.

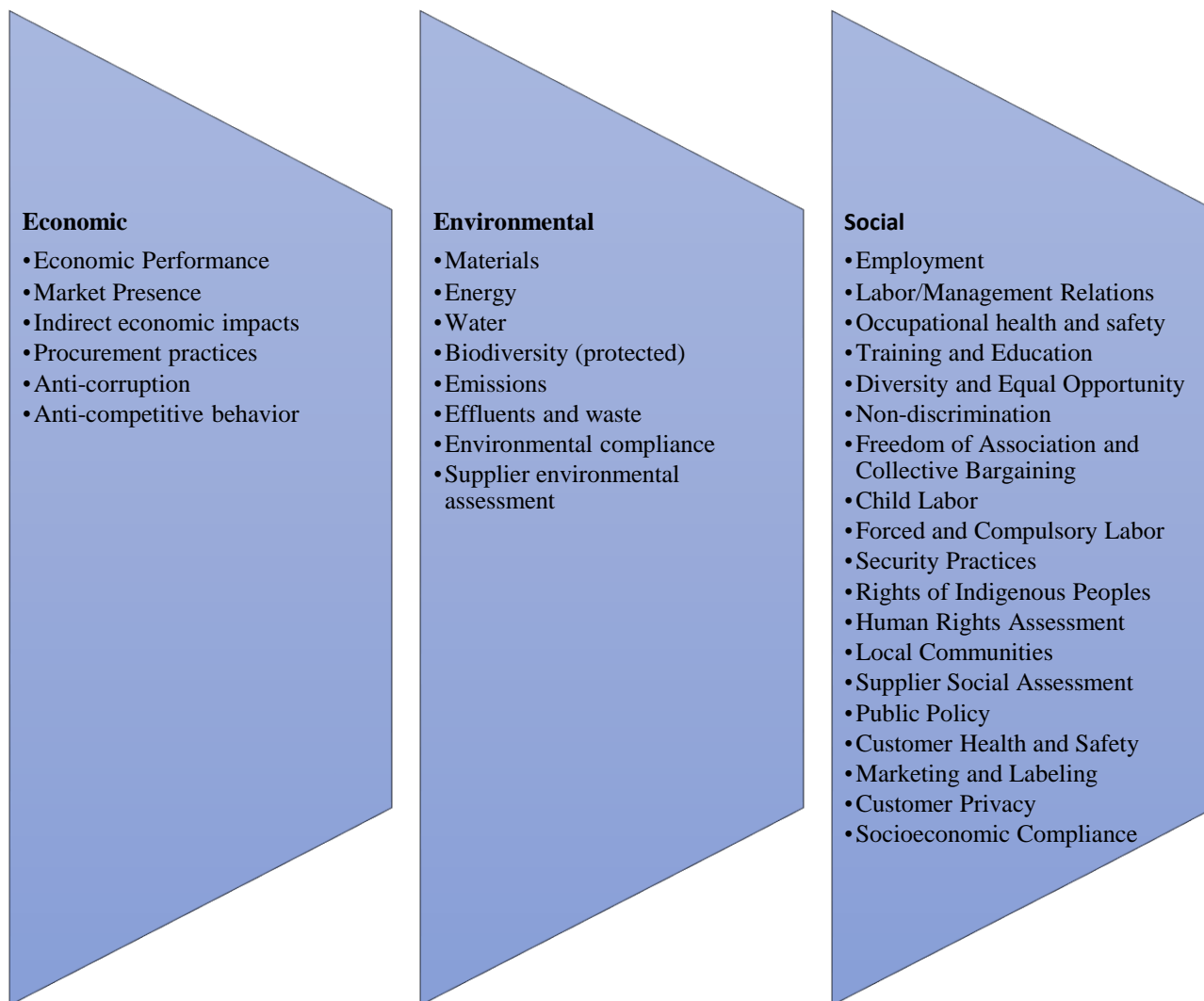
-ecological approach: underline the stability of biological and physical systems. Protection of biological diversity is a key aspect. "Natural" systems may be interpreted to include all aspects of the biosphere, including man-made environments like cities

-socio cultural: seeks to maintain the stability of social and cultural systems, including the reduction of destructive conflicts (UNEP et al.1991). Both intra-generational equity (especial elimination of poverty) and inter-generational equity (involving the rights of future generations) are important aspect of this approach. Reservation of cultural diversity across the globe, and the better use of knowledge concerning sustainable practices embedded in less dominant cultures, should be pursued according to Munasinghe (1993).

### 3. SUSTAINABILITY ASSESSMENT METHODS: AN EMPIRICAL OVERVIEW

Sustainability assessment methods are based on the GRI - Global Reporting Initiative (2015), a nonprofit association established in the United States in 1997 with the support of The United Nations Environment Program (2015). GRI standards include four categories: universal standards, economic standards, environmental standards and social standards. The general standards refer to the general conditions required for an adequate quality of the sustainability report. They also

include general business information. Economic standards relate to the performance and economic impact, the company's position in the community and on the market, the practices related to corruption, acquisitions and competition. Environmental standards refer to the use of resources (raw materials, energy, water) environmental protection (biodiversity, emissions, waste etc.) and supplier environmental assessment. Social standards reflect the position of the company on the labor market, the respect for human rights, relation with local communities, relation with the consumers, the social sustainability and the socio-economic compliance. Synthetically, the GRI approach is as follows (figure 2):



**Figure 2. The GRI approach**

*Source:* GRI 101, available at <https://www.globalreporting.org/information/about-gri/Pages/default.aspx>

All these aspects are found in the methods applied by the eight companies analyzed. Within these companies, the sustainability assessment is done in at least two directions: along the value chain and throughout the life of the product. For example, CSRHub assesses the respect for human rights and the resource efficiency along the company's value chain. The same company analyzes the impact of the product on the quality of the consumer life and on society in general throughout the entire life of the product. Sustainability Assessment Companies evaluate businesses, products, business lines, and green bonds. The following table summarizes the sustainability dimensions analyzed by all the eight companies.

**Table 2. Sustainability factors**

CSRHub	Vigeo Eiris	Tomorrow's Value™ Research	RepuTex	Standard Ethics	Thomson Reuters	FTSE Russell	RobecoSAM
Community	Community Involvement	Stakeholder engagement	Social Impact	Stakeholders	Social: community, product responsibility	Social: Community, health and safety, customer responsibility	Corporate Citizenship & Philanthropy
Employees	Human Resources	Social: tax paid, safety, employees etc	Workplace Practices	Others (including employment)	Social: workforce	Social: labor standards	Human Capital Development, Talent Attraction & Retention
Environment	Environment	Environmental – resource productivity	Environmental Impact	Environment	Environment	Environment	Environmental & Social Reporting, Operational Eco-Efficiency
Governance	Governance	Governance	Corporate Governance	Governance	Governance	Governance	Corporate Governance
	Business Behaviour	Corporate strategy, governance, target setting and memberships		Transparency			Risk & Crisis Management, Codes of Conduct/Compliance/Corruption & Bribery, Supply Chain Management, Tax Strategy
	Human Rights			Market and dominant position	Social: human rights	Social: human rights	Labor Practice Indicators & Human Rights

*Source:* own compilation based on publicly available information

As it can be seen from the table 2, evaluation methods are not standardized. The three dimensions, economic, environmental and social, are not clearly defined. What six of the eight companies have in common refers to governance and the environment. 4 out of 6 companies analyze distinctly, in separate chapter, stakeholders or broader, community. Three of them include this analysis in the social factor and one analyze only the philanthropy. Human resources are analyzed either distinctly or as a component of the social factor. All companies are analyzing business behavior, but some do it distinctly, while others incorporate this analysis into a wider framework of corporate strategies or, on the contrary, detail this behavior on categories such of corruption, tax strategy, etc.

Regarding the evaluation scale and the source of date, there are big differences between companies, as it can be seen from the table 3.

The table shows that most organizations use public information. The depth of documentation is different, higher for organizations using the interview method. The evaluation scales are completely different, making it impossible to compare the sustainability ratings.

**Table 3. Evaluation scale and data sources**

Company name	Evaluation scale	Source of data
CSRHub	0 to 100 scale (100 = positive rating)	Data published on websites
Vigeo EIRIS	Advanced, Robust, Limited, Weak (advanced = positive)	Information from companies, stakeholders and public media, documented and traced.
Tomorrow's Value <sup>TM</sup> Research	0% to 100% (100% =Positive rating)	Data published on websites
RepuTex	AAA, AA, A, BBB, BB, B, C, D (AAA highest score)	Company websites, annual and sustainability reports, market, announcements, market briefings and third parties.
Standard Ethics	EEE, EEE-, EE+, EE, EE-, E+, E, E-, F, (EEE positive)	Published and publishable reports, interviews and discussions with the applicant's management.
Thomson Reuters	D-, D, D+, C-, C, C+, B-, B, B+, A-, A, A+ (A+ highest score)	Data public available
FTSE Russel	No data available	Official documents from the SEC, SEDAR and official annual reports
RobecoSAM	0-100 (100 highest score)	Questionnaires that companies complete online, on a voluntary basis

*Source: own compilation based on publicly available information*

#### 4. CONCLUSIONS

The limited nature of natural resources and the increase of the level of education all over the world have led to an exponential growth of the interest of states, companies and citizens for sustainable development. A sustainable company has the capability to last in time due to its economic, environmental and social behavior (Giovannoni and Fabietti, 2014). The complexity of the concept of sustainability is reflected in the complexity and diversity of sustainability assessment methods. The sustainability factors integrated into these methods are common to all the organizations analyzed. The grouping of these factors and the analysis window differs from one organization to another. Evaluation methods are also different in terms of how information is collected and how companies are ranked. Therefore, the sustainability ratings of the different organizations are not comparable. At international level, there is an effort to standardize the sustainability assessment, such as GRI standards, but standardization is a difficult process due to the complexity of the sustainability concept.

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