

# Environmental Sustainability Assessment –

A TEC approach for companies seeking good performance outcomes



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May 2001

## **1. Disclaimer**

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### Introduction

Increasingly, companies and public sector trading organisations are responding to community expectations by introducing reporting mechanisms which include consideration of the environmental and social perspectives of their operations, as well as traditional economic aspects. As the public demand for sustainability grows, this has come to be known as **Triple Bottom Line reporting**. While leading edge companies are genuinely moving in this direction, others are simply seeking a relatively short-term market advantage or improved public perception of their operations, which may, in the longer term disadvantage those who are really committed to making a difference environmentally and socially.

Both in North America and in Europe, a growing number of organisations are focusing on mechanisms to enable corporate sector organisations to do business in ways that will ensure the long-term future of the planet, its resources and its people. The Natural Step, Rocky Mountains Institute, World Resources Institute, SustainAbility, CERES, the World Council for Sustainable Development and a host of others are working in this area. Yet, despite the efforts of these organisations and a diversity of community sector, non-government organizations, there remain few mechanisms which provide transparent monitoring and evaluation of corporate environmental (or social) performance. The Global Reporting Initiative (GRI) perhaps comes closer to fulfilling this need than do other available tools. However, many in the community sector express real concerns about how the GRI might be resourced and implemented. There is also concern that reporting for its own sake does not mean that sustainability is being achieved.

Recently a number of major financial institutions, including Westpac, AMP and Rothschild, have launched 'ethical' or 'socially responsible' investment and superannuation funds that take account of the environmental performance of listed Australian companies. These are now competing with established 'ethical' funds offered by fund managers such as Challenger, Australian Ethical, Hunter Hall, Tower Life and ING. Each of these managers have their own separate 'ethical' criteria and analysis system for assessing the environmental performance of the companies that they invest in. For instance, AMP and Rothschild use a positive and negative screening approach, 'positively' screening in companies that they believe are environmentally and socially sustainable, and 'negatively' screening out companies that they believe are not sustainable. Westpac uses a 'best of sector' approach that aims to invest in the 'most' environmentally sustainable companies in each sector of the market. Taken together, these recent initiatives reflect an increasing demand for environmentally and socially responsible investment opportunities, and suggest a need for more widely understood and accepted methods for assessing corporate performance in these areas.

The Total Environment Centre (TEC) is seeking to influence this trend towards Triple Bottom Line reporting. TEC is working to develop a methodology which is practical to implement and will have environmental credibility for both shareholders and the broader community, irrespective of the level of commitment of the individual corporation. In doing this work, TEC has engaged with and sought input from a range of environmental groups including the Australian Conservation Foundation, Greenpeace Australia The Wilderness Society, the World Wide Fund for Nature and the Nature Conservation Council of NSW. A small number of other groups, including the Minerals Policy Institute and Sutherland Environment Group were also involved at the early stages of the scoping project. While considerable progress has been made in developing this process, it is widely acknowledged that assessing environmental performance and progress towards a sustainable operation is a complex process and that much of this work is in an experimental phase.

It is however, essential that non-government environment groups, which are being increasingly called upon to make 'judgements' about corporations and their products, have a systematic tool available. This Project will enhance a comparative and informed approach to corporations and industries. The involvement of NGOs should lead to a 'green tick' that recognises the value of NGO involvement, rather than replicate existing methodologies.

TEC's aim is to develop a credible, systematic and transparent evaluation process which not only informs stakeholders, but encourages continuous improvement, bringing benefit both to those in the corporate sector and more broadly across the community.

Based on research to date, it has been decided that a check-list approach alone will not achieve the transparent and continuous improvement sought by TEC and its project partners. Rather, the preferred approach under consideration is one involving several 'layers' of sustainability performance assessment. Each layer would be reflected in corporate reporting, which would also be sufficiently transparent to be readily verifiable by outside parties, whether finance sector organisations advising on ethical investment, community sector environment groups, or individuals seeking to exercise their consumer preferences in environmentally responsible ways.

This position paper has been prepared taking account of a literature review, an initial telephone conference and subsequent roundtable forum with community sector organisational representatives active in this area, and a roundtable forum with a small group of people selected by TEC as being interested and actively involved in the issues from a corporate sector perspective, and feedback from all interested parties. The paper is intended to provide a basis for further discussion among community-based environmental and consumer organisations, companies moving towards sustainable operations and Triple Bottom Line reporting, and the wider community.

## **Sustainability – the environmental case**

For more than a decade community environment groups and environmental scientists have been drawing attention to the need for changed lifestyles at both individual and corporate levels, to reduce impacts on our environment.

Growth in impacts on our global environment has reached a near-crisis point. Loss of species and ecological communities, global warming resulting from human-induced enhancement of greenhouse effects, decline in air, soil and water quality, escalating waste, and depletion of resources which are either non-renewable or renewable only over timescales beyond human lifecycles all pose significant threats to survival.

While aspects of these pressures relate to increasing population around the planet, others are more directly linked with consuming lifestyles and the production cycles designed to meet that demand.

In the decade since the Rio Earth Summit in Rio de Janeiro, environmentalists have argued that changed business practices, changed government policy and changes in the ways each of us lives our own lives can reverse the current trends. The imperative for such change has never been greater.

While the economy, the environment and human wellbeing are inextricably linked, the mismatch between the short timescales which drive money markets and the longer timescales which make transparent environmental change usually results in both business and governments placing emphasis on the economy.

In the past, and especially in Australia with its resource-based economy, labour was scarce and natural resources were seen as abundant. However, that has now changed. With increases in productivity, labour is relatively more abundant, and at the same time, natural resources are becoming scarce or degraded from over-exploitation.

From an environmental perspective the changes necessary to attain a sustainable future focus around a shift from the profit motive and financial considerations as the primary driver of business and the economy, to a future in which ecological sustainability is the primary driver for our decisions and actions, whether at corporate, government, or individual level.

Sustainability is no longer (if it ever was) a luxury to be considered when economic times are good. It is an imperative to be actively pursued with a sense of urgency.

Since the 1987 World Commission on Environment and Development report (the Brundtland Report, 'Our Common Future') definitions of 'sustainable development' have proliferated. Some of these definitions place far greater emphasis on development and the need for profitability as a driver of change. However, as the Australian Conservation Foundation identifies in its recent publication 'Natural Advantage' people and the Earth are of equal or greater significance in achieving real sustainability.

## **Environmental sustainability - the business case**

Just as community-based environmentalists have sought throughout the decade to improve ecological sustainability of development, so some players in the corporate sector have increased their emphasis on integrating ecological and social perspectives of development. For instance, the World Business Council on Sustainable Development, formed in 1995, has indicated a shared commitment to “environmental protection, social equity and economic growth”. And the Business Council of Australia, in its more recent Statement of Principles for Sustainable Development focuses on “environmental and social performance and reporting” as well as on financial reporting.

Furthermore, amendments to the Corporations law (Section 299(1)(f)), which came into effect from the 1998/99 tax year require that Directors’ Reports detail performance in relation to any ‘particular and significant environmental regulation’ applicable to the company. While this amendment remains open to variable interpretation, there is little doubt that it has increased the necessity to report on environmental performance.

The Commonwealth Government’s Framework for Public Environmental Reporting, summarises benefits to the corporate sector arising from public environment reporting (and, by implication, the benefits of operating in ways that are environmentally sustainable) as

“

- Creation of market opportunities;
- Indirect improvements in internal environmental performance;
- Increased confidence of investors, insurers and financial institutions;
- Improvements in relationships with local communities, regulators, and non-government organisations;
- Greater control of environmental disclosures; and
- Increased staff commitment.”

With consumer demand for products and services produced in environmentally and socially responsible ways growing, and Corporations Law now requiring environmental reporting, the incentives for a shift to sustainable production are increasing.

Added to this, there is growing evidence from companies that have already begun to progress to new ways of operating, that there are frequently competitive gains to be made through more efficient operations and reduced materials and resources consumption. And, in some instances there are also direct market premiums to be had from ecologically sustainable business, which is increasingly being acknowledged as a way of ‘doing more and better with less’.

As we move forward in the 21<sup>st</sup> Century, the benefits of sustainable production to both the environment and business are increasingly seen as convergent, rather than competing interests. This project is seeking ways to facilitate that convergence.

## **Overview of the process for assessing environmental sustainability performance**

The process for assessing performance in achieving environmental sustainability is based on a number of components, moving from easy to relatively hard, that can track a corporation's progress. Answers to a series of questions build up a picture of the overall environmental performance of any particular company and its impact on the environment. The questions cover the following six areas.

### ***1. Regulatory compliance***

#### **Extent to which regulatory standards are met**

- emissions to air
- releases to water
- contamination of land
- waste management
- threatened species and land clearing

### ***2. Awareness of environmental sustainability***

#### **Information collection on**

- relevant indicators
- standards & benchmarks
- monitoring processes
- stakeholder perceptions

### ***3. Reporting on environmental sustainability***

#### **Universal indicators**

- emissions to air
- Greenhouse gas production
- releases to water
- contamination of land
- waste management
- use of non-renewable resources
- use of renewable natural resources

#### **Indicators of local significance**

#### **Acknowledgment of non-compliance with accepted standards**

#### **Mechanisms to address problems**

#### **Transparency of reporting and openness to external audit**

#### **Identification of trends and relationship to targets**

### ***4. Community engagement relevant to environmental sustainability***

#### **Involvement and consultation with the community**

#### **Involvement with community in specific impact and target identification**

#### **Extent of partnership formation with communities**

#### **Openness to external community-based auditing**

**5. *Corporate commitment to continuous improvement in environmental sustainability***

**Level of sustainability seeking**

**Organisational commitment at senior management and Board levels**

**Training of staff**

**Integration of environment and sustainability into all levels of decision making**

**Interaction with suppliers and others in the supply chain**

**6. *The extent to which the organisation has moved beyond compliance with respect to environmental sustainability***

**Adoption of current best practice**

- clean production
- lifecycle analysis
- restorative activities

**Closed loop, no-waste operations**

**Service and value focus**

**A 'natural systems' approach**

## More detail on the six areas of assessment

### *1. Assessing regulatory compliance*

Increasingly over the past decade or more, **environmental legislation has set obligations which any company must meet.** Environmental protection laws, laws giving force to international agreements on the environment, and laws relating to the conservation of biodiversity are but some of those with which companies must comply in their day-to-day operations.

Commonwealth legislation requiring environmental compliance has largely been simplified and consolidated with the introduction of the Environment Protection and Biodiversity Conservation Act. However, there remain a diversity of State and local legal instruments with which companies must comply. Some of the areas in which compliance is required include

- Emissions to air
- Releases to water
- Contamination of land
- Management of waste
- Protection of threatened species
- Clearance of native vegetation

The extent to which any of these matters is relevant to a particular company or operation will vary widely. Few will intentionally fail to comply with legislative requirements, but it may well be that some companies comply more by chance than by conscious design of their operations.

A first step in moving towards environmental sustainability is to be able to demonstrate compliance with existing legislative and other regulatory requirements.

### *2. Assessing environmental sustainability awareness*

**Commitment to the collection of relevant information** which will guide an organisation's monitoring and reporting of its environmental performance provides an important demonstration that an organisation is moving along the pathway to sustainability, and should be common to all assessments of performance on environmental sustainability.

Any organisation seeking to satisfy public expectations of sound environmental performance requires up-to-date information which

- provides guidance as to the most relevant areas of environmental performance for a particular sector, and a particular organisation operating in its local environment
- identifies the most relevant indicators against which an organisation might both report and develop its own benchmarks
- identifies appropriate monitoring methods and standards to be met
- indicates both statutory compliance requirements and the extent to which the experience of other companies, who are moving beyond compliance towards continuous improvement and current best practice (and further), is being sought.

### ***3. Assessing environmental performance reporting***

Much can be done to improve environmental performance through a commitment to improved environmental policies and procedures. However, if an organisation is to have real environmental credibility with the local communities in which it operates, and with the broader community, it must also be able to **demonstrate the extent to which it is meeting recognised standards of environmental performance** which may well go beyond regulatory requirements.

Any organisation seeking endorsement of its environmental performance should be willing to measure and report on the extent to which it is meeting standards established by the Australian & New Zealand Environment and Conservation Council, and/or credible international standard-setting bodies. Annual reports should include **reporting on any instances of non-compliance with accepted standards** and should also indicate what mechanisms are being used to address the problems. Furthermore, if this reporting is to have public credibility, then the organisation must be **open to external auditing of environmental performance** on such universal issues as

- Emissions to air
- Greenhouse gas production
- Releases to water
- Contamination of land
- Waste management
- Use of non-renewable resources
- Use of renewable natural resources

If this process is to be transparent, credible, and at the same time practical for company and community alike, the measures used must be appropriate to self-assessment and reporting, but also open to external verification by an appropriately qualified body.

Whilst environmental performance ultimately relies on each organisation taking actions to reduce consumption and outputs of waste and polluting substances, **the willingness of an organisation to report on indicators of such performance in ways that are transparent and publicly accessible** is an important step along the pathway to sustainability.

While reporting of current performance in these areas is one key element of assessing environmental performance, this will be enhanced by **reporting of trends over time** as they relate to generally accepted targets.

### ***4. Assessing community engagement relevant to environmental sustainability***

Traditionally the Board of Management has set company direction and policy. However, with growing community awareness of environmental problems, the wider community is increasingly demanding a stake in determining environmental performance. This is reflected in recent 'ethical shareholder' bids to call extraordinary meetings of some companies based on environmental performance concerns.

While some environmental impacts are of general, or universal concern, others will be more specific, depending on the sector within which the organisation operates, the people involved and the environment affected. Although these indicators will usually be determined by the Board and/or senior management within a company, it is important that

the inputs used in determining these specific indicators are both transparent and wide-ranging.

All stakeholders, including shareholders, customers, suppliers and the wider community (especially those communities within which a company operates) all have a legitimate role to play in determining these specific indicators.

While guidelines might be developed to inform the performance assessment measures to be used for specific environmental indicators, the actual measures used for the assessment should be developed by the company on a case-by-case basis, through interaction and dialogue with the community, and people with appropriate technical expertise.

**Specific indicators** that might be determined include

- identification of “no-gos” (eg uranium mining, clearfelling)
- specific regional environmental issues, and/or
- the relationship between various parts of an organisation, and the impacts of the organisation’s various operations within different business units on environmental performance of the organisation as a whole.

Based on broad-ranging input, a company might, for example, weight the presence of any of the “no-gos” more heavily than some or all of the general indicators. It might also value the significance of the different general indicators and make available to interested parties or on the public record, the reasons for determining the weightings established.

In this climate, it is important to an organisation’s environmental credibility that it has in place mechanisms to enhance two-way information flow between the organisation and its various stakeholders, both direct and indirect. Companies seeking to build respect for their environmental performance will benefit from being able to demonstrate the ways in which they have established dialogue with those various stakeholders.

This need is well reflected in Standards of Corporate Social Responsibility developed by the Social Ventures Network<sup>1</sup>, which adopt the principle that companies should **foster an open relationship with the communities in which they operate** that is sensitive to the community’s culture and needs. The company should play a proactive, and where appropriate collaborative role in making the community a better place to live and conduct business. (SVN, p.50)

Several of the measures of community involvement outlined by the Social Ventures Network appear applicable to environmental performance, and if implemented will assist in enhancing both corporate environmental performance and community perceptions of that performance.

Ways of involving the community might include

- Through direct involvement in community issues and activities
- Through surveying
- Through focus groups

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<sup>1</sup> Social Ventures Network (1999). Standards of Corporate Social Responsibility. Edward Goodell (ed). Social Ventures Network, San Francisco, www.svn.org.

- Through perusal of local publications and other written material on environmental issues in the local area and the region.

However, in becoming truly sustainable a company will benefit greatly not simply from interacting with the local communities within which they operate, but also from **engaging with environmental and other stakeholders** who can bring to decision making a level of environmental awareness and expertise often not found in corporate organisations. An important indicator of genuine community engagement for the benefit of all involved is the extent to which this engagement is by way of real partnerships (for example, in setting targets) in which a dialogue based on equity, trust and mutual respect leading to shared decision making.

##### ***5. Assessing corporate commitment to continuous improvement in environmental sustainability***

Much of the literature in this area points to the fact that it is the senior management within an organisation that is crucial to that organisation moving towards sustainability. Senior decision makers set the framework within which an organisation operates. Well-intentioned less senior people will be unable to implement sustainability measures without support and leadership by senior people. **The extent to which senior management are actively seeking ways of making an organisation more sustainable is therefore an important indicator of corporate change.**

Once this happens however, it is essential to ensure all staff receive appropriate training and to achieve integration of environmental and sustainability concerns at all decision making levels. A company will be judged on implementation not just its public statements.

In addition to the influence of senior management within the organisation, it is also important to recognise that the **perception** of the environmental performance of a corporation will vary according to the philosophies and past experiences and those who are doing the measuring. For example, the corporation's shareholders, senior management, customers and the wider community may each have quite different views about its environmental performance.

It is also important in achieving environmental sustainability that companies look not only at the operations within their own organisation, but also at the **operations of others within their supply chain**. Just as a corporation's environmental credibility can be adversely affected by inconsistencies between the operations of different aspects of its operations, so it can be adversely affected by purchase from suppliers who are clearly not yet sustainable in their operations, or by supply of goods or services to others who use them in ways that are not sustainable.

##### ***6. Assessing the extent to which the organisation has moved beyond compliance with respect to environmental sustainability***

In gaining widespread community acceptance and endorsement for truly sustainable operations, a company must willingly move beyond what is required by existing regulation and must demonstrate that willingness to forge ahead to new ways of operating.

Sound environmental performance within current practice is itself a desirable outcome. However, as environmental crises escalate and understanding of ecosystem functioning increases, there is also a need to assess **the processes an organisation has put in place for continuous improvement**.

Adoption of **current best practice** (or better) for the sector within which the organisation operates may be combined with processes for continuous improvement. Depending on the nature of an organisation's operations, 'best practice' will include to varying degrees

- The introduction of an accredited Environmental Management System (EMS) to track performance and Environmental Management Plans to ensure organisational systems (for commissioning, operating and decommissioning phases) are in place and operating to attain goals and quickly respond to problems.
- tendering and purchasing policies which influence the environmental performance of providers in the supply chain
- life cycle analysis, which takes account of environmental impacts during materials selection, manufacture, use and disposal
- clean production through waste avoidance, re-use and recycling during production, operational and decommissioning phases of the organisation's activities
- energy efficiency through a progressive shift away from fossil fuel based energy to renewable energy use, cogeneration, use of passive solar design, and commitment to support and encouragement of public transport by employees
- water conservation and recycling practices
- minimisation, and where possible avoidance of environmentally harmful substances, including both ozone-depleting substances (CFCs, HFCs and HCFCs) and processes, and of organochlorine-based products (PCBs, PVCs and chlorine bleached paper)
- avoidance of contamination of land with hazardous materials and clean up of sites previously contaminated
- maximum protection and regeneration of biodiversity both through preservation and protection through effective management.

Although not yet widely practised among public or private sector organizations, those at the leading edge environmentally are **adapting their whole businesses to an operating philosophy based on natural systems**.

In moving towards a natural systems approach, organisations acknowledge the finite nature of many of the resources on which their businesses are built, and strive to bring together economic logic, intelligent technologies and 'best practice' design to 'do more and better with less'. As Hawken and his colleagues identify in their stimulating book 'Natural Capitalism'<sup>2</sup>, a natural systems approach seeks to redesign industry, using "biological models that produce zero waste, shift[ing] the economy from the acquisition of goods to the continual flow of value and service, and prudently reinvest[ing] in sustaining and expanding natural capital."

A prominent example is the floor coverings supplier Interface, which has as its aim 'to become the first sustainable corporation in the world, and then ... to keep going and become the first restorative company'.

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<sup>2</sup> Hawken P, Lovins AB & Lovins LH (1999). Natural Capitalism: The next industrial revolution. Earthscan Ltd, London.

Whether or not a particular company formally adopts the ‘natural systems’ approach as espoused by Hawken and his colleagues is less important than whether the fundamental elements of that philosophy become the basis for operating. The essential goals for a truly environmentally sustainable organisation include ensuring that the whole lifecycle of product or service delivery is ‘closed loop’ and that where impacts on the environment exist from previous operations, actions are taken to restore that damage.

## **Weighing up the indicators and making an assessment of environmental sustainability performance**

Much of the process for assessing performance in achieving environmental sustainability proposed in this Position Paper relies on self-assessment by an individual company. However, for that internal process to have public credibility, it is recommended that the process must be transparent, objectively informed and efficient, and that an independent audit process should be established to ensure this is achieved.

This issue prompts the question of how NGOs can most effectively assist the process and form partnerships with business, given NGO views can have a significant impact on the marketplace and perceptions of companies. It is likely that some groups will want to endorse or officially accredit some business sustainability reports and activities. As previously discussed, in order to undertake such tasks, a systematic tool is required to assist assessment and justify the 'green tick'. To some extent the process developed here self-selects those companies that wish to proceed along the path to sustainability, and environment groups would be keen to work with companies that wish to commit to the six steps of environmental sustainability.

Several matters arise when attempting to create an appropriate participation and partnership process. Should it be undertaken by one group or an alliance of groups and experts? Is it better to focus on one leading company (which may then influence the activities of similar corporations) or at a sector or regional industry level? What is the most influential route leading to real gains in environmental sustainability?

This Position Paper proposes the establishment of **an independent environmental Performance Evaluation Group** which could include

- a finance sector individual with a demonstrated interest in sustainable and ethical investment
- a relevant academic interest
- an organisation or skilled individual currently involved in either corporate auditing or external evaluation of Environmental Reporting Systems, and
- relevant environmental NGOs (eg. TEC)

Thus a sharing of resources and views is achieved. The involvement of environment groups with other participants and the methodology developed by this project, will be a resource intensive operation and inevitably a sharing of work and financial support from the company or industry sector will be necessary.

The Evaluation Group should be involved in working with individual corporations and industry bodies to set 'best practice' benchmarks for environmental performance, against which companies can self-assess their performance. It should also be available, with appropriate resourcing from both government and the private sector, to audit the environmental sustainability assessment report prepared by individual companies. It would be the Evaluation Group which, if required by the company would provide on a fee-for-service basis, a credible public report on the outcomes of its environmental sustainability processes and performance. It could also provide confidential reports which the company could use to improve its performance, as a lead-up to public reporting..

However, both of these activities would be voluntary on behalf of the company, and driven by the company's desire for public recognition of its efforts, and its continuous improvement activities.

The Evaluation Group could have a second important role to play in providing (again on a fee-for-service basis) independent, professionally based advice to those financial institutions involved in the rapidly expanding ethical investment sector. An appropriate arrangement with the institutions would have to be developed.

The piloting of this environmental sustainability assessment process with one or more interested organisations will serve several important functions. One of these will be in testing the role and operation of a Performance Evaluation Group. Its place, not only in providing an independent 'audit' of the whole process, but also in weighing up the various aspects of the self-assessment performed by the participating organizations, will be an important aspect of determining the 'reality' of the assessment process for the companies involved. The involvement of a Performance Evaluation Group and its part in weighing up the relative importance of different aspects of each company's performance should therefore be made an explicit objective of the assessment process.

An additional issue for the pilot phase will be the type of accreditation employed by the Evaluation Group. There is some disenchantment with relying on quantitative methods and the most appropriate commentary and accreditation approached will need to be fully explored. For example, the six steps could equate to a number of 'green ticks' or clear qualitative language used to describe a corporation's progress.

## **Final comments**

It is important that the Environmental Sustainability Assessment (ESA) process is both credible and challenging, with a strong eye to the future. Already there are a range of organisations assessing the sustainability of individual companies and sectors within corporate Australia. The success of this project is dependent upon having a process which complements existing sustainability assessment mechanisms in ways that stimulate participation by leading corporations and sectors concerned about sustainability. .

The Total Environment Centre has embarked on this process in consultation with the investment sector, credible business academics and an alliance of non-government, community-based environment groups. The outcomes so far are well placed to offer to corporate Australia a process that is methodologically rigorous and at the same time brings with it a high level of community credibility.

