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Dear Reader,

I had the article for this month ready, when I read about a significant event. This month a new milestone was reached, that I think is the most important one since the Nobel Prize for the documentary "The Inconvenient Truth". What event am I talking about? Walmart unveiled the Sustainability Index, a project that has been in the works for over a year, involving industry, academics, environmentalists, NGOs and government. From this dialogue and hard work an initiative emerged that has been described as "huge", "audacious", "shaking the world", to name a few adjectives used in comments in the media.

Read the story and let your imagination fly, imagining how this step could change the world.

Enjoy the reading!

Isabel Rimanoczy  
Editor

#### Quote of the Month

*"If all the insects were to disappear from the earth,  
within 50 years all life on earth would end.*

*If all human beings disappeared from the earth,  
within 50 years all forms of life would flourish."*

Jonas Salk  
Medical Researcher & Virologist  
(1914-1995)

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## **An Historic Milestone: The Sustainability Index**

**by Isabel Rimanoczy**

It is February 2004, and Rob and Ben Walton — son and grandson of Sam Walton, founder of Walmart — and conservationist Peter Seligman — co-founder and CEO of Conservation International — are spending ten days in a lush, uninhabited Costa Rican national park. Seligman had been pointing out fleets of fishing boats that were destroying the delicate Costa Rican marine habitat. He addressed the Waltons and said: "We need to change the way industry works. And you can have an influence."<sup>[1]</sup>

While Seligman may not have known all the details, the company is the largest user of electricity in the U.S.; each of its 2,074 supercenters uses an average of 1.5 million kilowatts annually, which in total would be enough to power Namibia. The company has the second largest fleet of trucks in the USA, covering over a billion miles a year transporting goods to the stores. If each customer who visited Walmart in a week bought one of the new efficient light bulbs, it would reduce electric bills by US\$3 billion, conserve 50 billion tons of coal, and keep one billion incandescent light bulbs out of landfills. And there is more. With 1.8 million employees and approx 176 million customers shopping there every week, a change in the consumer behavior could have a huge impact. And then there are the practices of the over 100,000 suppliers to Walmart.

Rob Walton promised to introduce Seligman to Lee Scott, then CEO of the company. He must have felt that the timing was right, since the large discount chain was facing serious damage to its public image because of lawsuits based on accusations of gender discrimination, complaints that the organization's healthcare benefits were less than those of other corporations, and a poor environmental record that resulted in the company having to pay millions of dollars for violating air and water pollution laws.

Seligman's presentation was powerful: Walmart could improve its image, motivate employees, and save money by going green. Scott hired Conservation International to measure the environmental impact of their operations, as well as the impact of suppliers growing or producing all the products it sells and shipping them to stores.

Almost a year later, after getting ideas from consultants, NGOs, suppliers and environmentally savvy competitors, i.e. Patagonia, they collected a long list of business opportunities. For its own toy label, for example, they estimated they could eliminate excessive packaging and save \$2.4 million a year in shipping costs, 3,800 trees, and one million barrels of oil. They figured the fleet of 7,200 trucks could save \$26 million a year in fuel costs. They implemented the changes and many others followed; for example they worked with the suppliers to reduce the cardboard and plastics used in packaging, and then set up a recycling process themselves, for the remaining packaging, and sold it, which added \$28 million to the bottom line.

The company formed fourteen "sustainable value networks" made up of Walmart executives, suppliers, environmental groups, and regulators; they would meet every few months to share ideas, set goals, and monitor progress on areas such as facilities, internal operations, logistics, alternative fuels, packaging, chemicals, food and agriculture, electronics, textiles, forest products, jewelry, seafood, climate change, and doing business in China.

Over the next couple of years the company began to buy and sell local organic food in two dozen states, in order to reduce "food miles"; they also purchased organic cotton clothing, eliminating with that decision millions of tons of chemicals, since conventional cotton farming uses more

chemical pesticides and synthetic fertilizers than any other crop. When shoppers see signs about organic or environmentally friendly products, everyone's awareness is raised.

### **Three years later**

On July 16, 2009 Walmart unveiled another milestone: the development of a worldwide **Sustainability Index**, after over a year of conversations and hard work that involved some 20 universities, a handful of environmental activist groups, associations like Business for Social Responsibility, many of its key suppliers, and a few consultants. Clare Lindsay from the Environment Protection Agency, a member of the Sustainability Index Consortium, presented a dire picture:

- In the past 50 years the world has consumed more resources than in all previous history
- The USA consumed 57% more materials in 2000 than in 1975
- With less than 5% of the world's population, the USA was responsible for 1/3 of the world's total material consumption between 1970 and 1995
- As of 2005, it takes one year and three months to regenerate what we use in one year
- The global footprint exceeds the Earth's biocapacity
- The projections for 2050 are a 50% increase in the world population, a 300% increase in the use of energy and materials, and 500% increase in the global economic activity

To address these hard facts, Clare Lindsay indicated the need to consider the impact across the entire life cycle of materials and products, and then reduce the impact at each stage. "We need to reduce the amount of materials used, to increase recycling and re-usage, to use renewables in an appropriate scale. We need to sell more services and fewer products."

This group drew up the following wish list that they considered important for a meaningful Walmart sustainability index:

Empower buyers — Be credible — Share information — No greenwashing — Rate performance — Drive continuous improvement — Be peer reviewed — Ensure compliance — Foster product innovation — Be transparent — Auditable and challengeable — Make suppliers accountable.

The index will establish a single source of data for evaluating the sustainability of products. "Customers want products that are more efficient, that last longer and perform better," said Mike Duke, Walmart's new president and CEO. "And increasingly they want information about the entire lifecycle of a product so they can feel good about buying it. They want to know that the materials in the product are safe, that it was made well and that it was produced in a responsible way." Walmart understands that its future customers are definitely caring about sustainability more than current generations do.

Throughout the meeting at the headquarters, Walmart executives cited examples to show that its philosophy is just smart business. "There were case stories of low-flow toilets and low-carbon, free-range eggs that illustrated there are cost savings to be had, market opportunities to capture, and a chance to speak to the people (and youth) who deeply care about sustainability", indicates Catherine Greener, quality expert who was invited to the presentation in Bentonville, Arkansas.

Executives understand that they have to think business from a systemic perspective: what is better for the customer is low price, but this has to come with good quality and be good for the planet. Anything else is just shortsighted.

### **The Sustainability Index**

The initiative has three phases. The first phase is a questionnaire that their over 100,000 suppliers around the world are invited to fill out in the next months. The fifteen questions are grouped into four areas: energy and climate, material efficiency, natural resources, and people and community.

#### **Walmart Supplier Questionnaire**

##### **Energy and Climate: Reducing Energy Costs and Greenhouse Gas Emissions**

1. Have you measured your corporate greenhouse gas emissions?
2. Have you opted to report your greenhouse gas emissions to the Carbon Disclosure Project (CDP)?
3. What is your total annual greenhouse gas emissions reported in the most recent year measured?
4. Have you set publicly available greenhouse gas reduction targets? If yes, what are those targets?

##### **Material Efficiency: Reducing Waste and Enhancing Quality**

1. If measured, please report the total amount of solid waste generated from the facilities that produce your product(s) for Walmart for the most recent year measured.
2. Have you set publicly available solid waste reduction targets? If yes, what are those targets?
3. If measured, please report total water use from facilities that produce your product(s) for Walmart for the most recent year measured.
4. Have you set publicly available water use reduction targets? If yes, what are those targets?

##### **Natural Resources: Producing High Quality, Responsibly Sourced Raw Materials**

1. Have you established publicly available sustainability purchasing guidelines for your direct suppliers that address issues such as environmental compliance, employment practices and product/ingredient safety?
2. Have you obtained 3rd party certifications for any of the products that you sell to Walmart?

##### **People and Community: Ensuring Responsible and Ethical Production**

1. Do you know the location of 100 percent of the facilities that produce your product(s)?
2. Before beginning a business relationship with a manufacturing facility, do you evaluate the quality of, and capacity for, production?
3. Do you have a process for managing social compliance at the manufacturing level?
4. Do you work with your supply base to resolve issues found during social compliance evaluations and also document specific corrections and improvements?
5. Do you invest in community development activities in the markets you source from and/or operate within?

The purpose of the questionnaire is to collect information about the practices of the suppliers. Presently, it is not a rating system nor an eco-label. There are simply not criteria set nor a measurement of performance. It is interesting to note that the suppliers are asked to respond to the social impact of their business, and not only their environmental footprint.

The second phase will be the analysis of the information. This will be the task of the Sustainability Index Consortium. They will build a global product-lifecycle database, measuring the impact and resource use of products from raw materials through to end of the product's life. The database will be open to the world and will not be the proprietary information of Walmart. The data processed by the Consortium will offer transparency about companies, and the possibility to make comparisons with other companies on how they are performing.

The third phase, once all the lifecycle data has been analyzed, is the development of a rating system for customers, so that shoppers can make choices based on the environmental impact of their purchases. Consumers will be able to know the environmental and social costs of everything they buy at the retailer. How that information is delivered to consumers is still undetermined, but could take the form of a numeric score, color code or some other type of label. "Soon shoppers will be able to scan a product using a cell phone and be able to "meet" the manufacturer and learn more about the product's social and environmental performance", indicates Catherine Greener.<sup>[2]</sup> Because of Walmart 's immense purchasing power, this index may well become an industry standard.

### **The framework provided**

Walmart suppliers don't have to reply to the questionnaire, but participating will help in their relationship with their client. The responses to this questionnaire will be accepted in good faith, relying on the integrity of the supplier. However, any discrepancies between statements made and reality will ultimately be noticed and could clearly impact negatively the client-vendor relationship.

The suppliers are provided with some valuable examples of how each point of the questionnaire refers to an opportunity of doing good by doing well.

#### **Examples**

##### **Energy and Climate**

- Measuring the energy and greenhouse gas in your supply chain can help find opportunities to cut fuel and utility costs and create innovative products that save customers money.
- Publicly reporting emissions through the Carbon Disclosure Project demonstrates to your customers, competitors, and investors that you are strategically addressing climate change risks and pursuing opportunities to reduce costs, drive innovation and ensure access to capital.
- Supplier Dana Undies saved 71% off its annual energy bill by implementing energy efficiency best practices identified through Walmart 's Supplier Energy Efficiency Program.

##### **Material Efficiency**

- Eliminating waste can save money by reducing resource and logistics costs. See how Walmart has turned its own stores' waste into profit. Decreasing product return rate is one way to reduce waste and cost and ensure quality.

- Walmart 's Packaging Scorecard helps suppliers identify packaging reductions that, even if small, can have significant impacts the use of materials, manufacturing, shipping, storage, refrigeration, waste and energy use.
- By selling only 100% concentrated liquid detergent, suppliers will help save over 400 million gallons of water, 95 million lbs of plastic, 125 million lbs of cardboard and millions of dollars in transportation costs over 3 years. Learn more

#### **Natural Resources**

- Science-based, 3rd party certification and verification mechanisms can help identify supply chain efficiencies, improve quality and ensure materials are sourced and produced sustainably.
- Sourcing raw materials responsibly also allows you to tap consumer demand for sustainably produced products and mitigate supply chain risk. Here's an example from the seafood category
- Transparency – knowing where materials and components come from and how they were produced – in the jewelry supply chain has led to quality products and category sales leadership.

#### **People and Community**

- Creating opportunities to improve quality of life, health and communities can build competitive strength, create new markets and ensure license to grow.
- The first step is knowing more about the location and practices for producing your products.
- Managing social compliance ensures employees are treated with respect and in a manner which we and our customers expect. Walmart is committed to working with its suppliers to reduce social impacts and improve efficiency and quality.

Source: FAQ <http://www.greenbiz.com/files/document/walmart-intro-to-version-1-indexing.pdf>

A number of certifying institutions are listed, that provide support and orientation to the suppliers, and are recognized for the purpose of this Index. They cover areas such as Seafood (i.e. Marine Stewardship Council), Food (i.e. National Organic Council USDA). Electronics (i.e. Energy Star), Wood and paper (i.e. forest Stewardship Council), Textiles, and socially focused organizations such as Rainforest Alliance and Transfair USA for Fair Trade. Vendors are encouraged to contact the company with their questions and suggestions.

#### **The best is the enemy of the good**

As Joel Makover, from Greenbiz.com observes, the questionnaire is not perfect. It doesn't ask about worker issues, like wages, health care, and the right to air grievances, among many other topics generally included in this arena. "They don't talk about the energy efficiency of products or their recyclability or other disposition at the end of their useful lives. One need only compare Walmart's Index to **Nike's Considered Index**, which goes deep into product details", Makover observes.

And it may present many suppliers a large challenge to put in place the measurements that are suggested, to change their operations and to increase investment at a time when the global economy is constricted. Walmart's 100,000 suppliers are a small percentage of the suppliers of the world. However, those that are able to be a supplier for this large retailer must meet certain production volumes, and that makes them significant players. And there are other possible benefits. The EU passed legislation for mandatory certifications for electronics, where manufacturers had to manufacture fully recyclable products. Once R&D departments figured out how to comply, the manufacturers didn't restrict themselves to producing in just the European

region. When they are multinational, the good practice spreads. In a similar way, the improved business practice of a corporation in one area becomes a strong pressure to the competitors in the same industrial area, creating a "virtuous circle".

This is not a perfect solution. But it is a start, a step that will bring about learning and refinement. We, citizens of the Planet, don't have experience in how to solve this big problem we have collectively created for ourselves. The only way to address it is just taking action, observing, learning from it and incorporating the lessons learned into the next step. We don't have the time to wait for well-rounded solutions that look "perfect". We just don't have the time.

#### The Sustainability Consortium

The Sustainability Consortium is a partnership of researchers from leading global universities, non-government organizations (NGOs), governmental agencies, and business partners. For further information about joining the Sustainability Consortium or participating in a "sector" group, contact:

- Teresa Forst, Arizona State University, [teresa.forst@asu.edu](mailto:teresa.forst@asu.edu)

or

- Kimberly Randle, University of Arkansas, [krandle@uark.edu](mailto:krandle@uark.edu)

<http://www.sustainabilityconsortium.org/join>



<sup>[1]</sup> Gunther, M. The Green Machine, interview in Fortune Magazine, July 31, 2006.

<sup>[2]</sup> Source: Quality Expert Says Walmart's Sustainability Journey is the Real Deal, by Catherine Greener, <http://www.greenbiz.com/blog/2009/07/17/Walmart-sustainability-journey>

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- **FAQ**:<http://www.greenbiz.com/files/document/walmart-intro-to-version-1-indexing.pdf>



## "Sustainability: Doing Well by Doing Good" Workshop

\* Identify earning and savings opportunities \* Help the Planet \* Develop your people

Are you struggling to find creative ways to continue doing business while cutting costs and maximizing available resources? Did you already cut your training and development budgets, although you know how important it is to invest in learning to stay competitive? Are you sensitive to corporate environmental responsibility yet aware that there are other priorities on the table? If you recognize yourself in these dilemmas, we have a new perspective for you to consider. LIM has developed a way to identify low-hanging savings opportunities that can improve the bottom line, at the same time you can help the Planet and develop your people.

It is a workshop called "Sustainability: Doing Well by Doing Good". To learn more click here: [Sustainability: Doing Well by Doing Good](#)

### Upcoming LIM-Related Events

Be sure to check out and register for upcoming LIM events.  
For more information, go to <http://www.limglobal.net/events.html>.

If you want more triggers for reflection, visit <http://isabelrimanoczy.blogspot.com>



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