



Dreaming of a Green Christmas?

Sustainability and the Retail Sector

Retailers may not be as green as they say they are. Beyond the occasional sustainable products, such as LED Christmas lights, organic cotton clothing, and fair trade chocolate, retailers have yet to green their operations. Shoppers have good reason to ask questions. After all, Canadians spent \$34.5B in December 2009, representing more than a 6% jump over the previous year's spending¹. This report provides an overview of the state of sustainability in the retail sector.

General Summary of Findings:

Our analysis of retailers reveals that firms have room to improve in three distinct areas.

Sustainability Related Products – While retailers have been slow to stock sustainability related products, they are taking some action to reduce the negative impacts of the products they do offer. Managing legal and reputation risks associated with the claims such products make may be driving this slow adoption.

Supply Chain – Retailers have adopted broad but weak social and environmental supply chain standards that are poorly monitored. While currently a rare practice, adopting 3rd party supply chain certification would help retailers improve transparency and bolster supply chain monitoring practices.

Workplace – Finally, although the retail sector is a significant employer, retail employees lack job security. In addition, diversity and discrimination practices fall short of policy promises.

Below we review our findings in greater detail.

1. Sustainable Products

Retailers have been slow to stock sustainability related products or offer sustainability related services but have attracted little negative controversy as a result.

None of the firms in our sample were noted for having sustainability focused products and services. However there is evidence that some retailers are starting to work to reduce the environmental impact of the products and services they do sell. Wal-Mart's much touted effort to reduce packaging has led to some moderate success such as in the detergent aisle with industry wide use of thin-walled plastic containers and concentrated product². Despite these encouraging signs, for the most part these efforts are largely confined to those that make dollars and cents.

Retailers have avoided significant negative controversy, in part by acting as a neutral party in providing what consumers desire.

Selling products that make sustainability claims – organic, natural, environmentally friendly or green – attracts attention and often demands accountability from the retailer. When possible retailers avoid making

claims that are difficult to substantiate and frequently rely on third party certifiers to act as expert arbiters. By playing it safe, retailers avoid controversy in the form of legal complications and/or greenwashing accusations. For instance, only one firm in our sample was deemed to have significant product or service related controversies such as the sale of products that did not meet environmental or other regulatory guidelines.

“Retailers are wary of the reputation risks associated with charges of greenwashing when products don't measure up”.

¹ <http://www.statcan.gc.ca/pub/11-621-m/11-621-m2005034-eng.htm#a1>; Accessed December 1, 2010.

² http://www.designnews.com/article/511658-New_Packaging_Designs_Stress_Sustainability.php; Accessed December 1, 2010.



2. Supply Chain

Supply chains are critical for retailers as they are the final leg of a product's journey to the consumer.

Retailers are adopting broad but weak social supply chain standards with modest monitoring.

66% of retail firms do not have supply chain standards and the remaining are broadly scoped with only 11% have what would be considered strong standards such as the adoption of accepted International Labour Organization (ILO) conventions. Worse still, it is unclear whether even the standards set are being followed as only 35% of retailers monitor those standards once contracts are in place.

“Retailers should consider 3rd party certification for their supply chains to improve transparency and help monitor their supply chains”.

While retailers turn to 3rd party certifiers to distinguish sustainable products, retailers are less enamored with similar certification for their supply chains.

95% of retailers have chosen not to externally certify their supply chains to social standards; certifications that could help retailers, and their customers and investors, better understand the social and environmental performance of their supply chains. This gap is curious given the reliance of retailers on 3rd party certification for products and services. Employing 3rd party certifiers may offer a relatively straight forward approach to increasing supply chain transparency and would bolster clearly lagging supply chain monitoring practices.

3. Workplace

Retailers are large employers. In Canada retailers employ more than 2 million Canadians, representing more than 11% of the workforce³. In the United States, Wal-Mart

employs more than 1.4 million exceeding the headcount of the top 10 largest manufacturing firms combined⁴. It follows that the retail workplace has become increasingly important.

Retail sector employees lack job security.

98% of firms have high turnover rates (i.e. greater than 10% per year) with more than 10% of their workforce being temporary. With high turnover it is no surprise that employees in 80% of firms analyzed were not protected by a collective bargaining agreement. As a result, retail employees have less job security when compared to other sectors. For example, an appliance manufacturer employee's average job tenure was ten years, whereas the average in the retail has been shortened to three⁵. Employment tenure has shortened over the past few decades, a trend that was found to hold in our analysis.

Action to bolster diversity falls short of promises made by diversity and discrimination policies.

60% of firms do not have programs in place to increase workplace diversity; those that did, were considered weak. Despite the significance of the retail sector as a key employer for Canadians, the mosaic of retail employees is not reflective of the broader cultural mosaic. More than 65% of firms had policies in place focusing on the elimination of discrimination, yet there is little action being taken to improve workplace diversity. No doubt policies are important, but greater action is needed in developing diversity and discrimination practices that encourage equal access and opportunity.

“With respect to discrimination and diversity practices, retailer actions speak louder than words; practices have been falling short of policy promises”.

³ <http://www.ic.gc.ca/eic/site/retra-comde.nsf/eng/qn00285.html>; Accessed December 1, 2010.

^{4,5} Davis, G. F. 2009. The rise and fall of finance and the end of the society of organizations. *The Academy of Management Perspectives*, 23(3): 27-44



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About Jantzi Sustainalytics Data

The Jantzi-Sustainalytics dataset tracks firm performance according to environment, social and governance (ESG) themes for more than 2,100 companies from 32 countries. Included are data pertaining to supply chain practices, products and services, philanthropy, community involvement, environmental impacts, business ethics, and corporate governance.

The data for this report are from December 31, 2009 and resulted in a sample of 75 retail firms from eleven countries including Canada, United States, United Kingdom, Japan, and Hong Kong.

Jantzi-Sustainalytics is the North American regional arm of Sustainalytics. This global firm has headquarters in Amsterdam and local offices in Toronto and across Europe. The company provides environmental, social, and governance research and analysis; sustainability consulting; and responsible investment services.

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