

Environmental Principles Training Package

Module

2

THE BUSINESS CASE FOR
THE GLOBAL COMPACT
ENVIRONMENTAL PRINCIPLES

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MODULE 2: THE BUSINESS CASE FOR THE UNGC ENVIRONMENTAL PRINCIPLES

Session 1: Setting the Scene – The State of the Global Environment

TIME: Between 2-4 hours (depending on which exercises are chosen and the nature and level of the group)

OBJECTIVES:

The objectives of this session are to:

- provide an overview of the current state of the natural environment, critically assessing whether there is cause for concern;
- provide a brief review of how corporate environmental responsibility has emerged over the past three decades, and
- set the context for the next session in which delegates will review some of the key business case arguments for implementing effective environmental management tools and practices.

SUGGESTED PROCEDURE:

The day before this session is scheduled, encourage delegates to read the following material in their manuals:

- Extract from the GEO3 synthesis
- Case study 2-1: Norsk Hydro.

The case study serves as a reference point in this module. There are no specific exercises relating to it. Make sure that you, as trainer, have read it and are familiar with it before the lecture, so that you are able to make use of it as much as possible throughout the session, particularly when reference is being made to the various decades/eras of corporate sustainability.

It is suggested that you spend approximately 1 hour and 30 minutes on the PowerPoint presentation (this includes time for Exercise 2-1 referred to in slide 2), 45 minutes on each of the Exercises 2-2 and Exercise 2-3, followed by a minimum of 10 minutes for questions.

Speaker's Notes

Slide 1 Title slide

Slide 2 The State of the Planet: Is there Cause for Concern?

Start the session by showing delegates a picture of Earth from space. Ask the delegates to identify any environmental concerns that they may know about – at a global and a national level. Record all of these concerns on a flip-chart. In doing so:

- Ask the delegates to explain the issue that they have identified and make sure that there is no misunderstanding within the group (note for instance that people often confuse the depletion of the ozone layer with climate change).

- Test the level of agreement within the group on each of the issues that is identified.
- Ask them to relate any incidents in which they have come face-to-face with any of the concerns that they have identified.

Slide 3 The State of the Planet: Issues of Concern – An overview

This slide summarises some of the key findings of the recent survey on the global state of the environment that was undertaken under the auspices of the United Nations Environment Programme (provided in “Global Environment Outlook Three” – or GEO3).

It is suggested that you use this slide to draw attention to the UNEP study and to summarise some of its key findings. It is useful to compare this brief checklist with the issues that were identified by the workshop delegates.

- Which (if any) of the issues listed here were not identified?
- Are there any additional issues that the delegates highlighted?

The next few slides examine some of the main areas of concern in a little more detail. These are intended to serve as a basis for discussion, and can be used in a flexible manner by the trainer.

Slides 4-5 The State of the Planet: Climate change

Climate change represents one of the most significant of all the current environmental threats. Slide 4 shows how there has been a significant recent increase in global average surface temperature. During the 20th century, global average surface temperature increased by about 0.6 degrees Celsius. This represents an unprecedented increase over the past thousand years. This warming is expected to continue, with increases projected to be in the range of 1.4 to 5.8 degrees Celsius between 1990 and 2100. While the exact nature and timing of the impacts are uncertain, it is anticipated that they will include crop failures, diseases spreading into new areas, droughts, heat waves, a rise in sea-levels and changes in eco-systems.

Slide 6 The State of the Planet: Resource Depletion – Freshwater

Using a number of the key statistics below, expand on the fact that access to freshwater is arguably the world's most urgent resource issue.

- Every year about 5 million people die due to a lack of access to water and sanitation.
- Approximately 30% of people live in countries which suffer moderate-to-high water stress, and by 2025 more than 4 billion people will be living in water stressed countries.
- Between 1900-1995, global freshwater consumption rose six-fold, more than double the population growth rate.
- More than 20% of the world's freshwater fish species have become extinct, threatened, or endangered in recent decades.
- In 60% of the European cities with more than 100 000 people, groundwater is being used faster than it can be replenished.

Slide 7 The State of the Planet: Population Growth

After reaching 1 billion for the first time around 1800, the world's population has since increased exponentially, reaching six billion by late 1999. Despite declining fertility rates, population is expected to increase to 8.9 billion by 2050. Nearly all of this growth will be concentrated among the poorest population in developing countries, taking place in the regions of the world least able to absorb large increments of people, threatening sustainable development and producing further deterioration in levels of living and quality of life. Without achieving the goals of the Programme of Action of the International Conference on Population and Development (ICPD) – particularly universal access to gender sensitive and quality reproductive health services – it will be difficult to achieve a more favourable balance between population and available resources.

The total environmental burden of human activity is a function of three factors: population, affluence and technology. The product of these three factors determines the total burden of human activity on the stocks of natural capital, on which many of the other capital stocks depend. For sustainability to be attained, the environmental burden of human activity will need to be reduced by decreasing the human population, changing consumption patterns, and/or changing the technology used to create wealth. Human population dynamics – coupled with consideration for the effects of poverty and excessive consumption – has a profound impact on each of the planet's five main capital stocks. It affects the assimilative and regenerative capacity of the natural environment and has significant implications for health, nutrition and education, as well as impacting on the nature and distribution of wealth and technology.

Slide 8 Population growth, consumption and production patterns

It is important to highlight that it is not population levels *per se* that are the main cause of environmental degradation, but rather the associated consumption and production patterns. An important challenge in terms of environmental management is to find an appropriate balance in terms of inter- and intra-generation equity: how to meet the basic needs of the existing population (such as food, shelter, health, education, and clothing), without unduly impacting on the capacity of future generations to meet their own needs.

As is highlighted in some of the following slides, finding this balance will require significant innovation in terms of our current production *and* consumption patterns.

Slide 9 The State of the Planet: Unsustainable Consumption

With the ongoing growth in personal income, there has been a general increase in the personal consumption of all types of products and services, ranging from basic needs through to more luxury items.

Such high levels of consumption by the world's affluent can have a disproportionate impact, particularly on natural capital stocks and human health. One-fifth of the world population is responsible for more than 80% of total personal consumption. This is clear from the graph, which shows a comparison between Germany and a developing nation, where the consumption of energy, pas-

senger cars and steel, and the resultant production of toxic waste, greenhouse gases, CFCs etc is compared.

To further illustrate this disparity, consider the following:

- One child born in the industrial world adds more to consumption levels in one lifetime than 40 children born in developing countries.
- The 20% of the world's population living in the highest income countries are responsible for 86% of total private consumption compared with the poorest 20%, who account for only 1.3%.
- In the next 25 years, the world will experience a two billion gain in population, almost all in developing countries, least able to bear the burdens of additional services and care.

Slides 10-11 Inequalities in consumption

- These slides highlight the current levels of inequality in consumption patterns, and raise an important dilemma: as more and more people in developing countries seek to enjoy the same consumption patterns of those in developed countries, there will be a potentially significant increase in resource use and waste/pollution generation, unless new models of production and consumption are used.
- There are currently 1.3 billion people living on less than US\$ 1 a day. The overall consumption of the richest fifth of the world's population is 16 times that of the poorest fifth. Nearly 160 million children are malnourished, over 880 million people lack access to health services, and 1.5 billion lack access to sanitation and clean water.

Slide 12 The State of the Planet: Unsustainable Consumption

We now have the emergence of a Global Consumer Class (GCC). This refers to people who live at or above the poverty level in Western Europe and have access to goods such as television and the Internet, therefore being subject to the values spread by these media. There is a very rapid growth in developing countries of the size of the GCC. Yet the relative share of people who belong to the GCC is still very low in China or India (19% of the total population in China, 12% in India). As a result there is further demand for growth and the prospect of increased social and environmental stress on the planet.

So from a consumption perspective, we have a three part world:

- wealthy nations, where consumption continues upward
- rapidly developing countries, such as China and India, where consumption is surging, and where the consumption potential is huge
- the poorest countries, where consumption is actually on the decline.

In this last category, which includes much of sub-Saharan Africa, household spending has actually declined in real terms by 20% over the past two decades.

For countries in this position, it is clear that we need to be talking about consumption increases, to the point that their people are able to live healthy lives that are full of opportunity.

Refer delegates to the Worldwatch Institute website for further reading (<http://www.worldwatch.org/>).

Slide 13 The State of the Planet: Car growth in China

A significant indicator of the potential concerns associated with a rapidly growing country is car ownership. In ten years there will probably be as many cars in China as in the US today, with a current growth of approximately 11 000 cars per day. This will have significant ramifications for the natural environment, both in terms of the resource implications associated with increased production, as well as – more significantly – the associated dramatic rise in pollution. Key to addressing this concern will be the need to redesign the technology associated with manufacturing and/or operating motor vehicles, including as far as possible a shift to smaller, more fuel efficient motor vehicles (as in the slide). Accompanying this should be the drive to address current consumption patterns.

Slide 14 The State of the Planet: Ecological Footprints

Ecological footprint analysis is a graphic approach for conceptualising the environmental impact of a particular individual (or organisation, product, service or political region), and for understanding how this relates to the overall carrying capacity of the planet.

The Ecological Footprint is an estimate of human pressure on global ecosystems, expressed in 'area units'. Each unit corresponds to the number of hectares of biologically productive land required to produce the food and wood people consume, the infrastructure people use, and to absorb the CO₂ produced from burning fossil fuels; thus the footprint takes into account the total impact people have on the environment. The world's Ecological Footprint is a function of population size, average per capita consumption of resources, and the resource intensity of the technology used. During 1970-96, the world's Ecological Footprint rose from 11 000 million area units to more than 16 000 million area units.

Encourage delegates to visit: www.redefiningprogress.org/programs/sustainabilityindicators/ef/

They can also find additional information on ecological footprints in Chambers, N., Simmons, C. and Wackernagel, M., (2000) *Sharing Nature's Interest Ecological Footprints as an indicator of sustainability*, London: Earthscan Publishing Ltd.

Slide 15 The State of the Planet: Four Earths

If we continue with our current production and consumption trends it has been estimated that we would need four planet Earths by the end of the 21st century. These extra planets would be needed to provide the resources necessary to maintain rapidly growing consumption patterns, as well as to effectively absorb the associated wastes and pollution that is generated. The problem of *overshoot* remains. Overshoot reflects our ability to exceed temporarily the carrying capacity of the earth, helping people to live better in the short run but putting our natural capital into decline in the long run.

Delegates can find additional information in Hawker, P., Lovins, A.B. and Lovins, L.H. (2000) *Natural Capitalism: the next industrial revolution* London: Earthscan Publishing Ltd

Slide 16 Mixed messaged from consumers

The activities of the 2 community are driven by a range of stakeholder interests, in particular by government regulation, the expectations of shareholders and financial markets, and by the end consumer. While consumers have the potential to play an important role in promoting environmental sustainability by exerting their power in the market place, they often provide a mixed message. Many consumers profess to being concerned about environmental and social issues, while at the same time seeking to satisfy personal needs and wants through increased consumption. On the whole, however, it is suggested that – with some exceptions – consumers are typically not exerting a sufficiently powerful message in the market place for improved environmental performance, nor demonstrating a sufficient willingness to change their own personal consumption patterns.

Slide 17 The need for increased resource efficiency

Following from the last three slides it should be apparent that if we are to avoid ongoing environmental degradation, there will need to be a significant increase in global resource efficiency. This issue is neatly captured in the following two quotations. Read these out to the class:

“20% of the world’s population consumes 80% of its resources. If everyone consumed at this level, it would take four extra planets to provide the necessary resources. Global marketing of this consumer lifestyle is headed for natural disaster.”

The Ecological Footprint

“Resource use and pollutant discharge will need to decrease to less than 10% of current OECD levels to reach sustainable equilibrium by 2040”

Netherlands Council for Environment and Nature

Slide 18 Implementation Gap

Read out the following quote from the Johannesburg Plan of Implementation. This was an important outcome of the 2002 World Summit on Sustainable Development, and one which highlights the need for fundamental changes in production and consumption patterns if sustainability is to be achieved.

‘Fundamental changes in the way societies produce and consume are indispensable for achieving global sustainable development. All countries should promote sustainable consumption and production patterns ... Governments, relevant international organisations, the private sector and all major groups should play an active role in changing unsustainable consumption and production patterns.’

WSSD Johannesburg Plan of Implementation, September 2002

Slide 19 The State of the Planet: The 'Factor Four' Improvements

It should now be clear that economic growth needs to be de-linked from environmental and social degradation by addressing the relationship between the fulfilment of human needs and the consumption/production of goods and services. Action is needed to re-orientate social and economic development to remain within the carrying capacity of the earth. Some prominent thinkers have suggested that we need a new industrial revolution where greater provision is made for preserving natural capital. Important elements of the required shift within the business sector include:

- dramatically increasing resource productivity, through redesigning products and processes;
- eliminating the concept of waste (by building on biologically inspired production models, where “waste” becomes a nutrient);
- re-investing in natural capital, and
- re-orientating consumer choices of individuals, industry and public institutions towards more sustainable lifestyles and purchasing decisions.

Recent studies by groups such as the Rocky Mountain Institute and the Wuppertal Institute have identified numerous profitable opportunities in which it may be possible to double economic growth while halving resource use (the so-called “factor four” improvements).

Delegates should be encouraged to read von Weizsacker, E., Lovins, A.B. and Lovins, L. H. (1998) *Factor Four: doubling wealth, halving resource use* London: Earthscan Publishing Ltd

Slide 20 The State of the Planet: The Need for Change

Based on all of the previous slides, it should be clear why many people believe that if we are to achieve environmental sustainability, we need to significantly change the way we currently do business. This sentiment is captured in the following statement made by the former CEO of a large multinational chemicals company.

“We cannot continue to do what we have always done, only incrementally better, and expect to achieve sustainability.

If sustainability is to be achieved, we will have to rethink virtually all of our industrial processes.”

Edgar S Woolard – Former CEO of Du Pont

Slide 21 Sustainable Consumption and the rebound effect

This slide highlights the need to understand the interrelationship between improved resource efficiency on the one hand and more sustainable consumption patterns on the other. While significant improvements have been made in resource efficiency (through the implementation of initiatives such as eco-efficiency, cleaner production, pollution prevention and waste minimization), these environmental gains have generally been off-set by the increases in production associated with growing consumption patterns.

This is known as “the rebound effect.” Although the problems associated with production processes are increasingly understood, there are generally significant gaps in our understanding of the

consumption (use) and disposal of products, with environmental impacts of consumption patterns not being sufficiently integrated into economic and social policies.

Slide 22 Promoting sustainable consumption and production

An important challenge underlying business responses to environmental issues is to contribute to an effective de-linking between environmental damage and economic growth. This will entail, for example:

- Developing new product-oriented strategies (that for example adopt a life cycle perspective in their design and manufacturing processes).
- Understanding what drives consumption patterns.
- Developing an integrated approach to sustainable consumption and production, in which environmental damage is delinked from economic growth and where sustainable consumption is integrated effectively into the policy decision-making.

Slide 23 Sustainable Consumption

There is no sustainable consumption without sustainable production and vice versa. It is important to appreciate that these two elements work hand-in-hand. From a business perspective, this typically requires greater integration of sustainability concerns throughout the company's portfolio of activities, for example within the marketing function.

Slide 24 How have corporates responded?

Having briefly identified some of the key environmental concerns and highlighted the need for a significant change in current production and consumption patterns, explain that it will be useful to now to reflect on where the business community has come from in terms of addressing environmental and social concerns, and to consider how the business community may in future respond to these issues.

Slide 25 Some business approaches

The diagram in this slide is useful for serving as the basis for a discussion of the various approaches that business may adopt in addressing some of the current environmental concerns.

Before presenting the three curves, explain the two axes to the delegates.

- The vertical axis shows the improvement in environmental quality (the higher up the axis, the greater the environmental improvement).
- The horizontal axis reflects the amount of time taken to achieve the improvement (the further right along the axis the longer the time).

After explaining the axes, you should then explain each of the three curves using some examples:

- **Incremental change** – the first curve is indicative of some of the readily available options for environmental improvement that exist in most companies; these so-called “low hanging fruit” (typically associated with eco-efficiency and cleaner production measures) can be used to

achieve a useful improvement in environmental quality over a very short period of time - but there are limits to the level of environmental improvement that can be achieved, as demonstrated by the flattening out of the curve.

- **Redesign** – the second curve shows that more significant environmental improvements can be achieved by redesigning existing products, processes and services; although these improvements will eventually be greater than those achieved through the incremental change, these improvements will generally take longer to achieve.
- **Rethink** – the final curve is used to suggest (as per the quote in the previous slide) that the most significant improvements in environmental quality may require a “rethink”; these changes will typically be longer to achieve than those associated with “redesign” – and will require a longer time to allow for investment in research and development – but will ultimately be of a higher level.

For a better understanding of the above options, it is useful to consider them in the context of some specific examples. In the automotives sector for example the stages could be represented as follows:

- Implementing cleaner production / eco-efficiency measures within the manufacturing and assembly processes (*incremental change*).
- Change the design of the vehicle to provide (for example) for greater fuel efficiency and reduced emissions, for increased use of recycled materials in construction, and for easier disassembly at the end of the vehicles life (*redesign*).
- The most significant environmental improvement however are likely to be achieved by a “rethink” – for example by moving from fossil fuel to hybrid / fuel cell vehicles, by revisiting the current reliance on individual automobiles in favour of greater use of public transport systems, and/or by promoting more widespread shared leasing of vehicles.

A similar set of examples may be found in the pulp and paper sector. Incremental improvements may be quickly attained, for example, through end-of-pipe treatment and/or cleaner production. More significant improvements (over a longer period of time) may be achieved by redesigning the process involved in producing pulp and paper (reducing the volume and nature of effluents and air emissions). The final – most radical solution – may be to identify alternatives to using paper to produce books (for example by shifting to recyclable polymers). Encourage delegates to read the following title for more innovative options: McDonough, W. and Braungart, M. (2002) *Cradle to Cradle: remaking the way we make things* New York: North Point Press

There are of course other examples that you may choose to use to highlight various options identified above.

Slide 26 A Brief History of Corporate Environmentalism: The Phases

It is possible to identify a number of distinct phases of corporate responses to managing environmental (and social) concerns. A useful distinction is that presented in the slide which suggests the following five broad phases:

- Before the 1960s: Blissful Ignorance
- 1960s and 1970s: Confrontation / Reluctant Compliance

- 1980s: Beyond Compliance
- 1990s: Changing Course
- Beyond 2000: Sharing Responsibility?

While these different phases are of course broad generalisations, and seek mainly to characterise the response of leading companies only, they may be seen as a useful typology of corporate responses more generally.

As you work through these phases, make reference to case study 2-1, to illustrate how one company responded to the ever changing external pressures.

Slide 27 and 28 A Brief History of Corporate Environmentalism

These two slides provide a useful diagrammatic overview of the various phases referred to above. While they take slightly different approaches, the broad message in each of these is the same: namely that there has been a significant increase in the level of awareness – and some important changes in response – regarding environmental concerns within the corporate sector. In the next few slides we examine each of the phases in a little more detail.

Slide 29 The 1960s and 70s – Reluctant Compliance

Rachel Carson's *Silent Spring*, which examined the damage wrought by chemicals, was the source of a growing public consciousness regarding the natural environment. It marked the beginning of the era of compliance, where corporate citizenship meant obeying the law. This was further reflected in the 1970 Earth Day demonstrations, and later epitomised by the publication of the Club of Rome's *Limits to Growth* and The Ecologist's *A Blueprint for Survival* in 1972, both of which forecast dire environmental consequences from current economic growth patterns.

1972 also saw the Stockholm Conference on the Human Environment – the first international gathering to consider a full range of global environmental issues. The Conference resulted in the establishment of the United Nations Environment Programme (UNEP) and produced the historic Stockholm Declaration.

The initial response of the business community focused mainly on actively resisting any efforts for increased regulation, with the environmental lobby seen by business leaders mainly as an obstacle to economic growth. Driven largely by a reactive compliance-minded framework, a number of the larger companies in the 1970s slowly began to build internal technical capacity on environmental issues, with some of the more progressive companies developing environmental impact assessment and basic environmental auditing tools. At a technological level most companies relied on installing pollution control measures, rather than reviewing opportunities for pollution prevention by changing their products or processes.

Slide 30 The 1980s – “Beyond Compliance”

A number of significant events in the early 1980s marked the beginning of the next phase of more enlightened corporate sustainability practice.

The leak of methyl isocyanide at a Union Carbide plant in Bhopal in 1984, and the 1986 Sandoz chemical spill in Switzerland catalysed increasing public scrutiny of corporate environmental behaviour. The Bhopal accident claimed 1500 lives and blinded thousands. It was a violent wake up call to all, and it became clear that corporate environmental practice had to change. It marked the beginning of an increase in communications and dialogue with concerned citizens.

At a policy level, a significant development was the publication in 1987 of *Our Common Future* (also known as the Brundtland report), which put the concept of sustainable development squarely into the international policy arena.

All of this was reflected in the changing management practices of many companies. More and more companies were developing environmental and/or social policies that contained specific performance commitments, including in many instances a commitment to adopting more stringent requirements where laws did not exist or were deemed inadequate.

These policies were generally accompanied by the establishment of dedicated environmental staff functions, and by increasing line management integration of environmental and social responsibilities. The period was characterised by the growing adoption of pollution prevention and cleaner production techniques, as epitomised by 3M's (a US-based multinational company) 3P (Pollution Prevention Pays) programme, an initiative that has saved the company hundreds of millions of dollars world-wide.

The decade also saw greater degree of networking between companies on environmental and social issues, as well as the establishment in 1984 of the chemical industry's Responsible Care programme, one of the world's first major voluntary industry initiatives on environmental issues.

This resulted in an increase in the "business and sustainability toolbox", which included such tools as life cycle assessment, eco-labelling and environmental and social audits. The late 1980s also saw a dramatic increase in the development of international and regional agreements and treaties on environmental and social issues. One of the most successful of these was the 1987 Montreal Protocol regulating the emissions of ozone depleting substances. One of the reasons for its success was the strong backing of businesses which had alternative technologies at the ready,

Slide 31 The 1990s – "Changing Course"

Various international efforts to find a co-ordinated solution to global concerns culminated in the Rio Earth Summit in 1992. An important outcome of these efforts was the launch in 1991 by the International Chamber of Commerce of their Business Charter for Sustainable Development. In the years following the Rio Earth Summit the corporate response to sustainable development reflected the increasing institutionalisation of sustainable development within the firm, as well as a growth in the development of more innovative technological solutions.

The decade since Rio has seen the development and widespread implementation of certified management systems (such as ISO 14001 and SA 8000), an increase in environmental and social

reporting practices, and greater integration of social and environmental considerations within corporate strategy.

Following incidents such as Shell's proposed sinking of the Brent Spar oil storage and tanker loading facility in the North Sea, more and more companies have been striving to adopt proactive stakeholder engagement strategies.

Institutionally, the business response has been co-ordinated and facilitated by the establishment of organisations such as the World Business Council on Sustainable Development (WBCSD) and its various regional offices, and by the development of numerous sectoral and theme-specific initiatives, including the financial sector.

Some of the leading companies began demonstrating innovative approaches to reducing the environmental and social footprint of their activities, moving beyond simple process-focused eco-efficiency measures towards greater use of product-oriented tools such as life cycle assessment, design for the environment and product stewardship. In many instances, significant improvements in efficiency and dematerialisation have been achieved with innovative strategies that involve moving from the manufacture and provision of products, to the supply of services.

Slide 32 Beyond 2000 – “Walking the Talk”?

A number of observers of the business response to environmental and social issues – sometime collectively referred to as “corporate social responsibility” or “corporate citizenship” – have suggested that the next phase could be one of increased public and private sector partnership, and a greater sharing of responsibility for addressing societal concerns.

In considering the future response, it is important to reflect on the following key drivers on companies to pursue more environmentally responsible management practices:

- Growing NGO and community pressure for **greater corporate transparency** and accountability; distrust of business.
- Increasing activism of **institutional investors** and the financial community on environmental and good governance issues, compounded by a growing disenchantment with traditional analytical approaches (especially post-Enron).
- Tightening global and domestic **regulatory pressures** on environmental issues.
- An increasing appreciation within the boardrooms of the **business case** for sustainability, and a growing acceptance amongst some of them of the need to address sustainability concerns.

These first three of these various key strategic trends are outlined in the following slides, while the fourth of these is examined in more detail in the next session.

Slide 33 Corporate Environmentalism: Strategic trends

There is growing NGO pressure for greater corporate transparency and accountability, accompanied by an increasing distrust in the activities of business. A number of NGOs (some of which are

indicated in the slide) are using Internet-based tools to monitor the activities of large companies, and many NGOs are calling for an international convention on corporate accountability.

Slide 34 Corporate Environmentalism: Strategic trends

Institutional investors and the financial community are becoming increasingly active on environmental and good governance issues. This is compounded by a growing disenchantment with traditional analytical approaches. Recent key initiatives in this regard include the Dow Jones Sustainability Index, the FTSE4Good index, and the Equator Principles relating to project finance. (These initiatives are examined in more detail in the slides in Module 5)

Slide 35 Corporate Environmentalism: Strategic Trends

There is evidence of tightening global and domestic regulatory pressures on environmental issues. Key issues in this regard include: the growing number of multilateral environmental agreements (some of which are indicated in this slide), the move towards an integrated product policy in the European Union, and calls within some jurisdictions for a reform of corporate law.

Slide 36 Climate change litigation

A related key trend is the increase in litigation on environmental issues, as evidenced by a number of recent initiatives relating to climate change issues. These include for example:

- Internationally: The launch of the *Climate Justice Program*, an alliance of 70 NGOs, lawyers, academics and individuals in 29 countries that seeks enforcement of existing laws to hold the perpetrators of climate damage accountable and liable.
- Australia: The Climate Action Network Australia notified directors of the top 200 listed companies of the financial risks and legal obligations of climate change. They targeted major GHG emitters, as well as property financiers. Companies are expected to respond by undertaking risk assessment of climate change exposure.
- USA: In July 2004, eight US States and New York City launched a public nuisance lawsuit against five of the US's largest power companies.

Slide 37 The next phase?

The following trends may be seen as indicators of the nature of the next phase of corporate responsibility to social and environmental concerns:

- **Sustainability Reports:** Many companies are publishing sustainability reports in addition to the traditional annual reports. The nature of these reports and the role of the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI) are examined in more detail in later modules.
- **Strategic Partnerships:** Businesses are increasingly forming partnerships with NGOs and civil society organisations in order to understand and create possible business opportunities associated with emerging environmental concerns. Environmental Defence, Rainforest Action Network and the World Wide Fund for Nature are three examples of organisations working with multinational companies on a variety of issues.

- **Financial Markets:** The financial sector is increasingly putting pressure on companies to improve their environmental performance. This is evidenced by the growth in the number and scale of corporate social investment initiatives, the increasing number of sustainability indices (such as the Dow Jones Sustainability Index and the FTSE4Good), and new initiatives such as the London Principles and the Equator Principles. An important trend in this regard is the extent to which environmental issues are increasingly becoming “mainstreamed” within financial markets, as financiers come to appreciate the significant risks and potential opportunities associated with environmental management issues.
- **Academia:** Environmental and sustainability issues are also becoming more and more integrated with the curricula of technical, business and professional courses. A small but growing number of universities are offering MBA programmes that incorporate environmental management and sustainability in their curricula and activities. In addition, an increasing number of top companies are holding seminars and workshops on sustainability in order to educate employees and launch company-wide initiatives. (Note: a comprehensive list of business schools that provide teaching and research in areas relevant to the Global Compact is found in the Global Compact Resource Package, www.uneptie.org/pc/pc/tools/globalcompact.htm).
- **Media:** Many prominent publications now feature articles on top environmental business leaders, the “greening” of the bottom line, the value of beyond compliance initiatives such as product take-back systems, and other components of sustainability.

Slide 38 Corporations in the new society?

The following quotation from a well-known management guru, underlines the argument that companies are increasingly facing pressure to build and maintain their social legitimacy (which encompasses the need for responsible environmental management):

“In the next society, the biggest challenge for the large company - especially for the multinational – may be its social legitimacy: its values, its missions, its vision.” Peter Drucker

You should make mention here of the concept of “licence to operate.” This is essentially the level of acceptance of the company by its stakeholders and can be ‘granted’ by stakeholders such as regulators, politicians, local communities, the general public, the media and civil society.

Slide 39 Corporate Sustainability: Features of an ideal company?

Leading practitioners and activists on corporate social responsibility have identified a number of possible features that they suggest would characterise a company that has successfully integrated sustainable development within its core business strategy. Such a company might look as follows:

- Environmental, social and economic development is integrated within the company’s strategic outlook, and is based on a detailed understanding of the company’s contribution to each of the five capital stocks.
- Efforts are taken to quantify the full social and environmental costs of the company’s activities.
- The emphasis is on constant innovation, based on whole systems thinking throughout the full life cycle of the company’s products and services.

- The company implements ethics-based business principles and sound corporate governance practices that provide for the rights and interests of all relevant stakeholders, and not only the interests of company shareholders.
- The company's activities are informed by a commitment to transparency and accountability, with opportunities being made available for the informed participation of stakeholders in all relevant decisions that affect them.
- The company uses its influence to promote meaningful change amongst its peers, within its neighbouring communities, and throughout its supply chain, recognising that for sustainability to be achieved it is not enough simply to change one's own company, but improve the performance of others.
- The company is willing for open dialogue with multi-stakeholders.
- The company uses its influence amongst its peers and encourages other companies and trade associations in the sector to develop support programmes and training initiatives.

Some useful definitions

Transparency: Transparency is the quantity and quality of information a company provides its various constituents including shareholders and other capital providers, suppliers, customers, employees, etc.

Accountability: Accountability is about 'organisational responsiveness', or the extent to which an organisation takes action on the basis of stakeholder engagement.

Stakeholder/s: An individual or group with an interest in the success of an organization in delivering intended results and maintaining the viability of the organization's products and services.

Corporate governance: Systems and processes for ensuring proper accountability, probity and openness in the conduct of an organisation's business. These focus particularly on the composition of the company Board and the responsibilities of Board members, including Chief Executives.

Corporate citizenship: A values-based way of conducting business in a manner that advances sustainable development, seeking positive impact between business operations and society, aware of the close interrelation between business and society as well as of companies, like citizens, having basic rights and duties wherever they operate. Some, for example the outcome texts of the World Summit on Sustainable Development, speak of Corporate Environmental and Social Responsibility (CESR).

Exercise 2.1 – Identifying environmental concerns

During the slide presentation, you will show a picture of Earth from space. Ask the delegates to individually list all the environmental concerns that they have at a global and a national level. In doing so, ask them to:

- **Explain in some detail two of the issues that they have identified.**
- **Describe any incidents that they have experienced that relate to the issues that they identify.**

This exercise has been designed to be incorporated into the lecture session. Spend about 45 minutes on this whole session. The report back session should be seen as a useful gauge as to the level of understanding and the calibre of the class. Pitch your subsequent presentations accordingly.

Exercise 2.2 – Key definitions

Divide the delegates into groups of about five people each and ask them to note down definitions (as they currently understand them) of the following terms:

- **Cleaner production**
- **Corporate social responsibility**
- **Corporate citizenship**
- **Corporate social investment**
- **Socially responsible investment**
- **Environmental impact assessment**
- **Environmental auditing**
- **GHG emissions**
- **ISO 14000**
- **Stakeholders**
- **Triple bottom line**

The aim of this exercise is to ascertain the level of understanding of the group, and to serve as a useful guide to you, as trainer, on how to pitch the sessions. Allow for some level of discussion on each definition at the report back stage, and then present the definitions below, which they can note down. Allow around 15-20 minutes for this exercise.

Definitions (as a general guide) follow:

- **Cleaner production:** Cleaner production refers to the continuous application of an integrated preventive strategy applied to processes, products and services with the aim of increasing *eco-efficiency* and reducing risks for human and the environment.
- **Corporate social responsibility:** Corporate social responsibility (CSR) is the continuing commitment by business to behave ethically and to contribute to economic development, while improving the quality of life of the workforce and their families, as well as that of the local community and society at large. Some texts (for example the WSSD texts), speak of Corporate Environmental and Social Responsibility (CESR).
- **Corporate citizenship:** A values-based way of conducting business in a manner that advances sustainable development, seeking positive impact between business operations and society, aware of the close interrelation between business and society as well as of companies, like citizens, having basic rights and duties wherever they operate.
- **Corporate social investment:** Corporate social investment refers to the activities that a company undertakes in spending a portion of its corporate earnings on social causes. This expenditure is often measured as a percentage of post tax profits.
- **Socially responsible investment:** Socially Responsible Investment (SRI) is an investment strategy in terms of which investors, when selecting and managing investment portfolios, consider a company's social, environmental and/or ethical performance, in addition to the company's financial performance.
- **Environmental impact assessment:** The assessment of the environmental impacts likely to arise from a major action (i.e. legislation, a policy, a programme or project) significantly affecting the environment.
- **Environmental auditing:** The systematic examination of the interactions between any business operation and its surroundings. This includes all emissions to air, land, and water;

legal constraints; the effects on the neighbouring community, landscape and ecology; and the public's perception of the operating company in the local area. Environmental auditing does not stop at compliance with legislation. Nor is it a 'green-washing' public relations exercise. Rather it is a total strategic approach to the organization's activities.

- **GHG emissions:** The main greenhouse gases are water vapour, carbon dioxide, ozone, methane, nitrous oxide and chlorofluorocarbons (CFCs). All but CFCs occur naturally. Collectively, these gases make up less than one per cent of our atmosphere, sustaining what is called the Earth's "natural greenhouse effect." Without this, Earth would be 30 degrees cooler – essentially, a frozen planet.
- **ISO 14000:** Developed under the auspices of the International Organisation for Standardisation, the ISO 14000 series addresses various aspects of environmental management, including environmental management systems (EMS), auditing, performance evaluation, eco-labelling, and life cycle assessment.
- **Triple bottom line:** An expanded baseline for measuring performance, adding social and environmental dimensions to the traditional monetary yardstick.

Exercise 2.3 – Understanding sustainable development

1. **What do you understand by the term sustainable? Illustrate your answer using examples of situations in which activities, practices or processes are sustainable or might become unsustainable.**

In general, sustainability conveys a sense of an activity, or process continuing, often indefinitely. Accept any answers or examples such as: mining becoming unsustainable once all of the minerals have been extracted, or the fishing industry in a particular region becoming unsustainable once fish stocks have been depleted.

Sustainability from an environmental perspective is really about leaving future generations with the same capacity and options that we have at present. For the planet to provide future generations with the same capacity and options, the following general rules should be considered:

- Pollution and waste emission should not exceed the capacity of the environment to assimilate (absorb) waste.
- The rate of the use of renewable resources should not exceed the rate of regeneration (for example, in the case of fish stocks, we should not fish beyond the "maximum sustainable yield" of these stocks).
- The rate of use of non-renewable resources (e.g. fossil fuels) should not exceed the rate at which sustainable renewable substitutes are developed.
- We should preserve biodiversity – if resources become extinct or severely threatened, the valuable services that these resources could potentially offer (such as medicinal) will be lost.

2. **What do you think is the relationship between sustainable development and:**
 - a) **Population growth**
 - b) **Technological innovation**
 - c) **The use of finite or non-renewable resources?**

The following thoughts may be useful:

- An increase in population will tend to give rise to increases in resource use and a concomitant increase in the production of pollution and waste. This could make development less sustainable.
- Technological innovation could give rise to decreases in (a) resource use and (b) the production of pollution and waste – which could in turn make development more sustainable. This would apply in situations where existing technology is replaced by more resource-efficient technology. Alternatively, technological innovation could give rise to increases in (a) resource use and (b) the production of pollution and waste – which could in turn make development less sustainable. This would apply where new technologies give rise to price cuts which in turn give rise to increase levels of consumption; or where they give rise to the consumption of entirely new goods and services.
- Renewable resources can in principle be used sustainably if the rate of consumption is less than the rate of replacement – sometimes known as the maximum sustainable yield (MSY). Finite resources can be used more or less quickly and more or less efficiently; but they cannot in principle be used indefinitely and, therefore, cannot be used sustainably. It is sometimes argued that the MSY of renewable resources and the finite nature of non-renewable resources impose a limit on the total level of economic activity that can be sustained in the long run. However, it is also argued that this limit can be circumvented more or less indefinitely by substituting one resource for another as stocks become depleted.

3. Do you think you share the values of sustainable development? To help you get your thoughts into perspective, consider the following:

Rank the following in order of importance/concern (for you personally). Rank from 1-10, with 1 meaning you hardly ever think about it, and 10 being something you think about constantly (and would wish to change, if you could):

- *Climate Change*
- *Making more money*
- *Waste and consumerism*
- *Upgrading your cell phone*
- *Habitat destruction*
- *Buying a bigger car*
- *Discrimination at work*
- *Your next holiday*
- *Climbing the corporate ladder*
- *Genetically modified crops.*

Ask the delegates to share these lists with the group. Ask them then to consider the list again and to identify the extent they have each taken action on the various issues. They should share their lists with the group, considering whether there is a difference between awareness and action

Spend some time explaining how sustainable development requires a change of mindset – which

is a challenge in itself. It demands that we have to start thinking further into the future, more often than not, on behalf of people you may never have met, or indeed, who have not yet been born. It also means we have to start thinking beyond our immediate borders (community or country), and to think of the ramifications of what we do (as a company) in the national, international and global context. It requires that we begin to consider a far broader set of stakeholders.

In essence, sustainable development is about:

- many intangible things (which one cannot often see)
- issues and impacts that span decades
- challenging conventional ways of doing and seeing things
- rethinking values.

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MODULE 2: THE BUSINESS CASE FOR THE UNGC ENVIRONMENTAL PRINCIPLES

Session 2: The Business Case – The Business Benefits of Corporate Environmentalism

TIME: Between 2-4 hours (depending on which exercises are chosen)

OBJECTIVES:

The objectives of this session are:

- to understand the various business (i.e. financial) benefits associated with sound environmental management practices;
- to appreciate the role (and limitations) of relying on the business case for ensuring sustainable development, and
- to understand some of the constraints against more widespread implementation of the business case.

SUGGESTED PROCEDURE:

The day before this session is scheduled, encourage delegates to read *Executive Summary of Sustainability and Business Competitiveness* (this is included in the Delegates' Manual).

It is suggested that you spend approximately 45 minutes on Exercise 2-4, which comes under slide 2 of the PowerPoint presentation. The remaining slides should take approximately 1 hour. Exercise 2-5 should take approximately 45 minutes. Allow a maximum of 15 minutes for questions and discussion at the end of the session. All the slides are available online at: <http://www.unep.fr/outreach/compact/index.htm>.

Speaker's Notes

Slide 1 Title slide

Slide 2 The Business Case: Understanding the Business Benefits of Corporate Environmentalism

The following quotation is useful as an introduction to the session.

“As the private sector has grown in size, influence and reach, so too have the demands for increased corporate responsibility. They are unlikely to go away. The ‘business case’ for corporate responsibility is becoming clearer, louder and more urgent.”

Jane Nelson – International Business Leaders Forum

After reading through the quote, ask the delegates to work through Exercise 2-4. Get them to spend 10 minutes (individually) to complete the questions in their manuals. Next, divide them into groups of five, and encourage them to take turns to discuss their answers to the questions. They should select a scribe and a rapporteur to provide an overall report back to the class.

This session should allow for the sharing of ideas, concerns and expose some of the key challenges faced by the different members of the group. Spend a maximum of 45 minutes on this exercise (including 10 minutes to complete questions).

Slide 3 The Business Case for Environmental Management

In assessing the extent of the business case for improved environmental management, it is important to examine the extent to which there is available quantitative evidence to support this argument. In this regard it is important to look at:

- statistical research on share price and financial performance;
- evidence from ethical investment analysts and sustainability rating agencies;
- case study evidence, and
- arguments of leading sustainability thinkers/researchers.

Various recent reviews of all of the above forms of evidence generally come to the same conclusion as that outlined in the following quotation:

“There is a growing body of evidence to support the assertion that integrating sustainability principles into business practice can generate business benefits. However to date none have been able to offer irrefutable evidence of ‘cause and effect’. Importantly, however, none have found a negative correlation ...”

*To Whose Profit? – Building a Business Case for Sustainable Development
(2001, WWF)*

Slide 4 The Business Case for Environmental Management

Two well known studies in the business case for corporate sustainability have been undertaken by UNEP, SustainAbility (a leading consultancy and think tank) and the International Finance Corporation (IFC). The first study (*Buried Treasure: Uncovering the Business Case for Sustainability*) looked primarily at evidence resulting from corporations in developed countries, while the second study (*Developing Value: The Business Case for Sustainability in Emerging Markets*) focused specifically on emerging economies.

The *Developing Value* study looked at more than 240 examples in over 60 countries, and identified the following issues as the most significant business opportunities associated with pursuing more sustainable approaches to business:

- saving costs through improved efficiencies;
- increased revenues by improving the environment and benefiting the local economy;
- reducing risks through stakeholder engagement;
- improved access to capital;
- building brand value and reputation;
- developing human and intellectual capital; and
- improving access to capital through better governance.

Slide 5 The Business Case for Environmental Management

The first of the studies mentioned above (*Buried Treasure: Uncovering the Business Case for Sustainability*) developed a *Sustainable Business Value Model* which links ten dimensions of sustainable development performance with ten more traditional measures of business success. The aim of this matrix is to provide a brief interpretation of the existing relationship between each of the sustainability dimensions and each business success measure, as supported by formal research or case studies.

Slide 6 Key Elements of the Business Case Argument

In examining the business case for improved environmental performance it is important to consider that while there may be many untapped “win-win” business opportunities (with positive environmental and economic results), generally these benefits will not be sufficient (under current market conditions) to address most of the existing environmental challenges.

The following elements of the business case should be identified.

- Developing a robust business case is a necessary but not sufficient element in mainstreaming sustainable development. The scale of what needs to be done to meet the Millennium Development Goals is far greater than can be met by the total benefits generated by today’s business case approach.
- The full scope of the business case is much more sophisticated than most business leaders realise.
- There is growing emphasis on the importance of the role of intangible assets (such as brand value).
- Ultimately governments are responsible for framing the market conditions within which the business case is made – the revision of framework regulatory requirements may be required to maximise the business case for sustainability.

Slide 7 Key constraints

There are many instances in which the business case is severely constrained by short-term market signals. The business case for sustainable development in any company can be constrained by a number of factors:

- Corporate myopia: a failure by many companies to even seek out a business case for improved environmental management.
- The financial benefits from eco-efficiency investments may not be sufficiently “material” to gain either senior management or investor buy-in. For large multinationals, even potential savings of tens of millions may not pass this test of materiality.
- What works as a “niche product” (for example fair trade coffee in high street coffee shops) may not translate into mainstream commercial strategies.
- Even a positive return on a sustainability investment may not be positive enough if the same amount of capital deployed in a different way can generate a much better return on investment.
- Capital markets are generally ill-equipped to evaluate a company’s business case for improved environmental management, but they are beginning to scale up capacity and increase their activities in this field.

- Predominant focus on short-term shareholder returns.

In addition to the above constraints, companies may fail to exploit the economic advantages of being more pro-active for the following reasons:

- insufficient technical expertise;
- a lack of information;
- middle management inertia;
- ignorance of marginal cost curves;
- insufficient resources to focus beyond core business functions;
- a reluctance to borrow capital, and
- uncertainty about future returns.

Ask the delegates whether they agree with the above-proposed list and whether they have specific examples from their own experience that support any of the issues. Ask them to discuss how joining the UNGC helps to address these constraints, i.e. access to information and guidance, inspiration through case-studies, bringing partners from business and other organisations to learn from each other.

Slide 8 The Business Case: Overview of the Main Benefits

This slide provides an overview of the main sets of themes under which the various business benefits will be reviewed. Briefly introduce these four main sets of business benefits, starting from the bottom left (licence to operate) and working up to the top right (new markets) noting how they relate to the risk and rewards axes. Explain that each of the following four themes will be reviewed in more detail:

- Licence to operate.
- Cost and liability reduction.
- Market access.
- New markets.

Slide 9 The Business Case: Forces Driving Corporate Change

Before unpacking each of the business case drivers, it is important to highlight that these should be seen in the context of other external drivers, most of which were identified during the previous session.

These external drivers include:

- **Environmental pressures** – reflect on how businesses may be directly affected by the various environmental concerns identified in the previous session (e.g. increasing water scarcity may drive up the price of water).
- **Social/societal pressures** – note the role of growing NGO and community pressures on corporate behaviour (for example how the internet can be used as a mechanism for increased scrutiny of corporations); mention also how the financial community is increasingly getting involved, as reflected in the growth of socially responsible investment funds and increasing evidence of shareholder activism on environmental and social issues.

- **Legal and regulatory trends** – identify some of the important recent policy developments that are impacting on business (these include the growing move to integrated product policy and extended producer responsibility in Europe, and the increase in the number and extent of multilateral agreements on environmental issues – such as climate change, the ozone layer, and chemicals and waste management).
- **Technological change** – technological developments (including in particular information and communications technology – ICT) are also having a significant impact on the way that businesses operate.
- **Market related forces** – in a number of industry sectors and/or markets evidence of sound environmental practices is becoming either an important condition of market entry, or a valuable source of competitive advantage.

After identifying these issues, you should then make the following points:

- Risks and opportunities associated with environmental management exist throughout the value chain.
- Aligning business strategy with the major drivers of change can increase growth and reduce uncertainty.
- Improved social and environmental performance is increasingly becoming a competitive issue that is important in the context of intensifying competition within the global market.

Slides 10-11 The Business Case: Licence to Operate

The first set of business case benefits relate to a company's "licence to operate" within existing or new markets and/or within different communities and jurisdictions. Following are some examples of how sound environmental management practices can create opportunities and value for companies:

- **Licence to Operate:** Evidence of a history of responsible corporate behaviour can assist in securing the approval of regulatory authorities regarding new business activities, and contribute to reduced costs associated with compliance and permitting. Environmentally responsible behaviour is also important in building positive relationships with local communities and other external stakeholders each of whom can have a bearing on a company's social "licence to operate."
- **Proactive Legislative Compliance:** Effective environmental management practices will often result in reduced costs associated with subsequent legislative requirements; companies that adopt responsible management practices will typically predict and be proactive in addressing legislative developments, and will thus usually incur savings over those who adopt a more reactive approach.
- **Employee Relations:** There is a competitive market for attracting and retaining the best-and-the-brightest employee. Graduates considering their employer of choice are increasingly looking beyond the specific job function to consider the company's value systems and operational practices. A number of companies have found that effective and visible sustainability initiatives can help to attract and retain talented and committed employees, as well as contributing to their ongoing motivation.
- **Brand Image:** The marketplace is becoming more environmentally sophisticated, with increasing implications for a company's intangible assets such as its brand image and

reputation. Appealing to the ecological and social as well as economic sensibility of consumers can increase customer loyalty. It has been estimated, for example, that since 1990, McDonald's has enhanced its brand image by buying recycled products worth \$3 billion without paying a price premium or otherwise increasing costs. Conversely companies that fail to identify and respond to consumer interests can incur significant additional costs, as Shell's experience with the proposed sinking of an oil platform in the North Sea in the mid 1990s (the Brent Spar) indicated (see slide 8). Similarly, as some recent experience with Coke and McDonald's indicates (see slide 9), a failure to identify and respond to stakeholder concerns may result in the company brand being used against them.

Slides 12-13 Images

The images on these slides relate to the discussion around brand image above. You could expand on the Brent Spar, Coca-Cola and McDonald's cases. Note also the quote included in the slide relating to the changing emphasis of consumers on brand issues.

Slides 14-15 The Business Case: Reducing costs and liability

The second broad set of business case benefits relates to the reduction of costs and liability associated with effective environmental management. Responsible environmental management is increasingly seen as a proxy for good management in general. Reasons for this include:

- **Improved operating efficiencies and enhanced productivity:** Effective environmental management practices can result in significant cost savings associated with reduced waste and pollution disposal costs, and lower input and resource expenses. Environmentally sustainable buildings are often more cost-effective to build and operate, and provide a comfortable working environment that can result in a healthier, happier and more productive work force.
- **Reduced risks and liability:** Proactive environmental management can also result in reduced costs (for example with legal liability and possible clean up costs arising from polluting activities). Many companies have found that ineffective environmental management practices in the past have come back to haunt them, in the form (for example) of significant site remediation costs and/or legal action from regulatory officials or personally affected individuals. The recent lawsuits relating to asbestosis highlight the potentially significant sums that may be involved.

Slide 16 The Business Case: Reducing costs and liability

A recent study of 13 US pulp-and-paper companies highlights the potential for environmental issues to have a significant impact on the financial bottom-line of companies. This study, conducted by the World Resources Institute, found that under what was seen to be a very plausible scenario involving more stringent environmental legislation, the financial exposure of some companies could amount to around 10% of the company's market value.

Slide 17 The Business Case: Reducing costs and liability

This graph highlights that the issue of climate change is already having significant implications for the insurance industry who are enduring significant losses associated with the increase in natural catastrophes. A recent international study (the Carbon Disclosure Project: <http://www.cdproject.net/>) suggests for example that:

“The discounted present value of potential carbon liabilities within a single emissions-intensive manufacturing firm could represent as much as 40% of its entire market capitalisation under certain plausible scenarios”

Slides 18-21 The Business Case: Improved Market Access

The third broad set of business case benefits relates to the potential financial advantages associated with improved market penetration and improved access to capital:

- **Improved market penetration:** With increasing consumer awareness of environmental and social issues there is the potential for companies to benefit by demonstrating environmental and social responsibility in the design, manufacturing, distribution, packaging and use of their products. In some markets and for certain products, such differentiation can provide the opportunity for higher margin and/or higher sales volumes.
- **Improved access to capital:** Provision for environmental and social concerns in corporate strategy is seen by many in the investment community as a proxy for sound financial and risk management. The recent growth in socially responsible investment funds, the increasing number of sustainability indices (such as FTSE4Good and the Dow Jones Sustainability Index), and the development of initiatives such as the Equator Principles. The Extractive Industries' Transparency Initiative and the Carbon Disclosure Project, is indicative of the growing interest of the financial community in sustainability issues (slides 15 and 16). This in turn is having an impact on companies who in a number of instances are finding that the implementation of effective sustainability strategies can reduce the cost of capital.
- **Condition of entry:** In a number of cases a company's environmental performance is also a *de facto* condition of market entry. Increasingly, larger companies are including environmental considerations within their procurement policies, with their suppliers being required to demonstrate socially and environmentally responsible behaviour.

Slides 22-23 The Business Case: Access to New Markets

Perhaps the most exciting of the business case benefits relates to the potential for accessing completely new markets. As Professor Stuart Hart puts it in an award-winning article in the Harvard Business Review:

“Over the next decade or so, sustainable development will constitute one of the biggest opportunities in the history of commerce.”

With growing populations and increasing demands for resource-intensive lifestyles, coupled with the existing evidence of certain resource constraints, it is highly likely that there will in the near future be significant changes in the pricing of a number of key resources (such as water and fossil-fuel based energy). A number of forward-looking companies are thus seeking opportunities associated with the development of renewable energy sources or new forms of personal transport.

Applying environmental principles to the design and manufacture of products has helped several leadership companies bring entirely new product lines to market. DuPont, Herman Miller and Patagonia are among those that have spurred innovation both inside their own companies and with their suppliers by applying environmental principles to product design and development, and in so doing have ensured market benefits.

Exercise 2.4 – Understanding the business case

Ask delegates to spend five minutes completing the questions. Divide them into groups of five (preferably into homogenous groups from the same company or sector), where you will take turns to discuss your answers to questions 1, 3 and 4. They should select a scribe and a rapporteur to provide an overall report back to the class.

- 1. Are environmental issues seen to be a key business driver for your firm? If yes, is this because of:**
 - a) The firm's values and principles**
 - b) The values and principles of the staff**
 - c) Pressure from potential customers**
 - d) Pressure from NGOs and other stakeholders**
 - e) Competitive advantage through new products and services**
 - f) Competitive advantage through lower costs and better processes**
 - g) The effect on brand image and value**
 - h) Regulatory requirements**

Rank the importance to your company of each of the above potential factors.

- 2. Where is the main challenge in dealing with environmental sustainability?**
 - a) Understanding the business case**
 - b) Understanding stakeholders' expectations**
 - c) The firm's ability to measure improved performance**
 - d) The technologies at the firm's disposal**
 - e) Customer's willingness to purchase more sustainable products / services**
 - f) Legislative and regulatory frameworks**

Rank the importance to your company of each of the above potential factors.

- 3. Which of the following (all sustainable development spin-offs) would you see as being the most beneficial to your business? Rank them from 1-5, with 1 as the most beneficial.**
 - a) The launching of one or more new products/services**
 - b) Making major improvements to existing products/services**
 - c) Establishing new processes**
 - d) Making major improvements to existing processes/operations**
 - e) Developing new ways of doing business**

This session should allow for the sharing of ideas and concerns and expose some of the key challenges faced by the different members of the group.

You should allow enough time for each of the groups to unpack their respective answers to the questions. Ensure that the ranking process in each question is well justified and reasoned by each group.

Exercise 2.5 – Envisaging an environmentally responsible company

Divide delegates into groups. As in the previous exercise, try and split them into groups containing people from similar companies or industry sectors. Ask each group to carry out the following task:

- Take two or three sheets of flipchart paper and put them in a line horizontally along the wall. Go to the far right hand side of the sheet, write '**Future Success**' and get each group to give some ideas about what a sustainable company would look like. As they give ideas, the scribe should write them up around the words Future Success.
- Each group scribe should then draw a 'road' from the word success across the flipcharts back to the starting point. Write the word '**Current**' and ask members of the group to give ideas about the current status of the company.
- The next step is to ask the group to look along the 'road' from Current to Future Success position and start thinking what barriers could come in the way and what could help them to get there (the drivers). Get them to brainstorm the **Barriers** and the **Drivers** onto post-it notes. Ask them to use a classification system on their post-it notes to indicate the level or size of a barrier or driver. Different coloured markers could work here (red for high, orange for medium and green for low level). On their post-it notes they would then have a symbol for level of barrier or driver plus the specific point which they would then place along the road between Current and Success. They could also use the road as a timeline. Get all groups to contribute ideas and then 'cluster' the similar ideas and see where differences and similarities are in perception of barriers and drivers between groups.
- The next step could be to ask groups to place a circle around the drivers and barriers that they feel they can **directly control**, to put a dotted circle around the ones they can **influence**, and finally to place a flag shape around those which they feel they have **no direct control** over.
- The final step could be to get them to write up **an action plan** of what needs to happen now. The things they can control/influence – what actions are they going to take, by whom, by when. What will they do about things they feel they cannot control or influence – do they need to get more information or to speak to someone else.

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