

Developing Value

The business case for sustainability in emerging markets



SustainAbility



International
Finance
Corporation

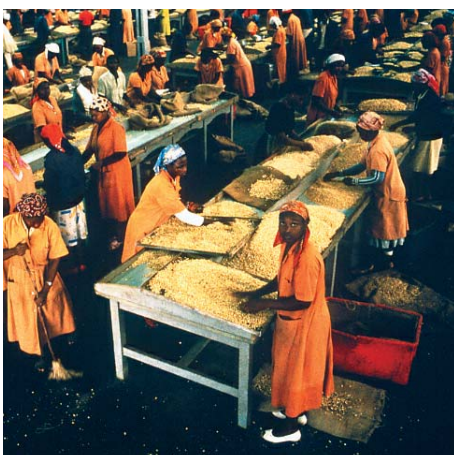


Ethos
Institute

Highlighting business benefits and risks
from social and environmental improvements
based on 240 cases from Africa, Asia, Latin
America and Central & Eastern Europe

Contents

Forewords	2	Country Study 1 Sustainability in Brazil	34
Executive summary	4	Chapter 3 The diversity of the business case	39
Chapter 1 Identifying the business case	6	Country Study 2 Sustainability in the Philippines	39
Case Study 1 Bank of Shanghai, China	9	Country Study 3 Sustainability in South Africa	43
Chapter 2 The best opportunities	10	Chapter 4 Getting started on sustainability	44
2.1 Save costs by making reductions to environmental impacts and treating people well	12	Chapter 5 Roles for other players	48
2.2 Increase revenues by improving the environment and benefiting the local economy	14	Chapter 6 Six themes	52
2.3 Reduce risk through engagement with stakeholders	16	Centers of excellence	54
2.4 Build reputation by increasing environmental efficiency	18	Glossary	56
Case Study 2 Zimele, Anglo American, South Africa	20	Endnotes	58
Case Study 3 Cembrit, Czech Republic	21	Acknowledgements	60
2.5 Develop human capital through better human resource management	22	Websites www.sustainability.com/developing-value www.ifc.org/sustainability	
2.6 Improve access to capital through better governance	24		
2.7 Other opportunities from community development and environmental products	26		
Case Study 4 Natura, Brazil	29		
2.8 The best opportunities in summary	30		



Sorting cashews, Mozambique

Entry points into the report and website for specific interests

Quick overview

Executive summary	4
Chapter 6 Six themes	52

The business case

Chapter 2 The best opportunities	10
Chapter 3 The diversity of the business case	35
Website www.sustainability.com/developing-value	

The case studies

Chapter 2 The best opportunities	10
Case Studies Bank of Shanghai, China	9
Zimele, Anglo American, South Africa	20
Cembrit, Czech Republic	21
Natura, Brazil	29
Website www.sustainability.com/developing-value	

Emerging markets contexts

Chapter 1 Identifying the business case	6
Chapter 3 The diversity of the business case	35
Country Studies Sustainability in Brazil	34
Sustainability in the Philippines	39
Sustainability in South Africa	43
Chapter 5 Roles for other players	48

How to implement

Chapter 4 Getting started on sustainability	44
Centers of excellence	54
Website www.sustainability.com/developing-value	

Roles of other stakeholders

Chapter 5 Roles for other players	48
--------------------------------------	----

The methodology

Chapter 2 The best opportunities	10
2.8 The best opportunities in summary	30
Website www.sustainability.com/developing-value	

Boxes

1 What is sustainability?	7
2 Defining emerging markets	8
3 Who are stakeholders?	8
4 Methodology explained	11
5 Social and environmental credentials	13
6 Alternative business models	15
7 Corporate governance	25
8 Private provision of public goods	27
9 'The right thing to do?'	33
10 Developed and developing markets	42
11 Socially responsible investing	49

The sustainability concept

Chapter 1 Identifying the business case	6
Sustainability factors	
1 Environmental process improvement	13
2 Local economic growth	15
3 Stakeholder engagement	17
4 Human resource management	23
5 Governance & management	25
6 Community development	27
7 Environmental products & services	28
Glossary	56

Website
www.sustainability.com/developing-value

Forewords



Kavita Prakash-Mani



Jodie Thorpe



Peter Zollinger

SustainAbility

For business, sustainability is about ensuring long-term business success while contributing towards economic and social development, a healthy environment and a stable society. It is rapidly moving up the agenda as a prime business concern across the globe.

Since its foundation in 1987 SustainAbility has guided business towards new pathways to sustainable development, both as strategic advisors and an independent think tank. The business case – showing that companies find business benefits from sustainability efforts – has been central to this work and, in 2001, together with the United Nations Environment Program (UNEP), we published our first business case report, *Buried Treasure: Uncovering the business case for corporate sustainability*. Recognizing the growing importance of engaging developing countries in this agenda, SustainAbility has begun to look more systematically at the role of business in this part of the world.

Developing Value is our first report with this focus. It aims to help business managers in emerging markets to understand the opportunities, risks and bottom line implications of sustainability strategies. It analyzes company examples from Africa, Asia, Latin America and Central & Eastern Europe, and shows how their sustainability efforts have improved business performance. We hope our findings will trigger action and result in making companies in emerging markets more sustainable and more competitive.

We are delighted to have had the opportunity to partner with IFC and Ethos, which have brought to the project unique emerging markets expertise.

Kavita Prakash-Mani
Jodie Thorpe
Peter Zollinger
SustainAbility



SustainAbility, the International Finance Corporation and the Ethos Institute are very grateful to Ireland Aid for its financial support



Deborah Feigenbaum



Stefanie Held



Glen Armstrong



Bernard Sheahan



Peter Woicke

International Finance Corporation (IFC)

For decades, three myths have hindered the advance of sustainability principles in the world of business. The first myth is that while sustainability might work for soft-hearted visionaries and futurists, it does not for mainstream, hard-nosed business people in search of markets. The second is that sustainability efforts belong downstream in the production cycle after the 'real' business is completed, rather than in ongoing operations. The last and perhaps most damaging myth is that sustainability makes sense for rich companies in developed nations but not for the private sector in the emerging markets.

This report on the business case for sustainability challenges all three myths with factual evidence and case studies drawn from virtually every region of the world. It makes clear that sustainability is not an all-or-nothing, one-size-fits-all proposition; that sustainability can increase all elements of the triple bottom line and contribute to the public goods realm rather than simply adding economic costs; and that sustainability is a pragmatic pursuit, not an ideological exercise. In short, this report makes the case that sustainability is about increasing opportunities, not limiting them.

We at the International Finance Corporation are fortunate to have had two excellent partners – SustainAbility and Ethos – in this endeavor and are very grateful for their contributions. We believe that these types of partnerships, which enable us to draw from a wider pool of experience, will become more common. More important, our collaborative process sets the stage for what we most hope to see next: a wider, deeper and more tangible development of sustainability.

Peter Woicke
Executive vice president
International Finance Corporation



Nelmara Arbex



Valdemar de Oliveira Neto

Ethos Institute – Business and Social Responsibility

The lack of systematic research on responsible management practices from companies in emerging economies and the impact of these practices on business have been one of the greatest obstacles to those dedicated to the promotion of corporate social responsibility.

In order to understand the business case for corporate responsibility deeply, we want to explore the contribution that these local experiences bring to the debate. This initiative offers the opportunity for companies and interested organizations to systematically examine evidence from Latin America, Africa and Asia, and to further develop, in a permanent process of reflection and evaluation, the evidence needed to build the business case for corporate responsibility/sustainability.

We are certain that this study will disclose unexpected, interesting and important information for all types of readers, and will confirm the wealth of these unexplored experiences for the construction of business cases.

The Ethos Institute considers this project to be an extremely important study, and we are delighted to be able to contribute the experiences of Brazilian businesses. We are thankful to IFC and SustainAbility for their invitation to participate in this important endeavor and to the sponsors and project teams for their participation.

Nelmara Arbex
Valdemar de Oliveira Neto
Ethos Institute

Executive summary



Stock exchange, Brazil

Many businesses in emerging markets are gaining valuable business benefits from initiatives which help progress towards sustainable development – sound environmental practice, social and economic development.

Developing Value aims to help business people in emerging markets identify these opportunities to increase profits by making progress on sustainability. It is aimed primarily at owners and managers who are relatively new to sustainability (although some may be addressing aspects of sustainability without describing it as such) and others who are interested in exploring the cost:benefit equation of their investments. This report also provides tools to help managers assess and construct their own case.

Sustainability has real relevance in emerging markets

Based on more than 240 real-life examples in over 60 countries, *Developing Value* is the first large-scale study analyzing the 'business case' for sustainability in emerging markets – the opportunity for businesses to achieve benefits such as higher sales, reduced costs and lower risks from better corporate governance, improved environmental practices, and investments in social and economic development. It pinpoints the many opportunities available to diverse businesses in Africa, Asia, Central and Eastern Europe, the Middle East and Latin America.

The companies examined are ordinary businesses taking practical steps to address specific issues, though some have integrated sustainability more strategically. The evidence confirms that there are compelling commercial reasons to take action, despite a common assumption that sustainability is a luxury which emerging markets cannot afford.

Concerns about sustainability issues and about development among policy-makers, consumers and investors have risen dramatically during the 1990s and will continue to grow, further fuelled by events such as the 2002 UN World Summit on Sustainable Development in Johannesburg. These growing concerns, accompanied by the rising importance of the private sector, have provoked fears about the impact of globalization on progress towards sustainable development. Contrary to common assumptions, this cocktail of concerns is often greater in emerging markets than in developed countries.

It means that emerging market businesses, too, face growing risks – and opportunities – as a result of increasing public apprehension about sustainability-related issues. Businesses which were unaffected by these issues three years ago are today affected, and businesses that seem unaffected today may well find themselves affected three years from now.

This trajectory is summed up by Rafael Wong, executive vice president of **Reybankcorp** in Ecuador, 'In five years, there will be no access to international markets for companies that do not show respect for the environment. It is becoming fundamental to international trade.'¹

Many opportunities exist

As in all business activities, there are no guarantees of success from improving environmental, social or corporate governance performance. Being able to identify the risks and capitalize on the opportunities will become increasingly important as the sustainability trajectory accelerates.

The most significant opportunities available through actively pursuing more sustainable approaches to business are to:

- **save costs** by making reductions to environmental impacts and treating employees well;
- **increase revenues** by improving the environment and benefiting the local economy;
- **reduce risk** through engagement with stakeholders;
- **build reputation** by increasing environmental efficiency;
- **develop human capital** through better human resource management;
- **improve access to capital** through better governance.

These opportunities are documented in many examples throughout the report, as well as in four in-depth case studies from Brazil, China, the Czech Republic and South Africa.

The business case varies by region and company size

Overall, the business case exists for all companies although the specific elements may vary. While companies of all types in all regions can achieve measurable commercial return by investing in their employees and in environmental process improvements, there is diversity in the business case, with interesting differences between regions as well as between types and sizes of company.

'In five years, there will be no access to international markets for companies that do not show respect for the environment. It is becoming fundamental to international trade.'

Rafael Wong, executive vice president
Reybankcorp, Ecuador

For **small and medium sized enterprises** the emphasis is very much on cost savings, although they also benefit from higher revenues and improved market access, especially through environmental products and services. **National companies and multinational corporations** based in emerging markets gain benefits in all areas, led by cost savings from environmental process improvement.

Foreign multinationals (headquartered in developed countries with operations in emerging markets) also experience more intangible benefits such as risk reduction and human capital development.

Export-oriented companies which demonstrate adherence to sustainability standards and management systems benefit from better access to markets and can sometimes apply price premiums to their products. Companies focused on the **domestic market** are more likely to gain from local economic and community development, which strengthens their license to operate and can deliver revenue growth.

In most **geographic regions**, eco-efficiency – cost savings from better environmental management – is the most significant relationship. South Asia appears to be the exception: the strongest evidence of a business case is for higher revenue from local economic growth, and community development leading to improved reputation. These geographic differences are also a function of the different business contexts in these areas.

Developing Value – a practical guide for change

Developing Value takes this discussion a step further, suggesting practical steps companies can follow in the implementation of sustainability activities and strategies, from understanding the business priorities to implementation and monitoring.

The business case is constantly evolving, reflecting changing expectations and relevance. Companies will need to be flexible in their approach to sustainability and monitor change. Sustainability is itself a continuous process – from small activities that bring quick returns to incorporation in strategies that bring long-term competitive advantage. Companies need to choose their focus.

Enhancing the business case

While the evidence demonstrates that businesses can benefit while helping to achieve sustainable development objectives, other players also have responsibilities and can help to strengthen the business case. Governments in emerging markets need to provide good governance, regulatory certainty, and an appropriate mix of policy tools, including clear and enforceable regulatory standards and appropriate economic instruments.

Investors and lenders, both local and international, could strengthen the business case by including companies' sustainability performance in funding assessments.

Business customers in developed countries could work with emerging market suppliers in meeting higher technological and management standards. Consumers should act on their values – question companies' sustainability performance and follow through in their purchasing decisions. NGOs can help by applying appropriate pressure on companies, and exploring collaboration and new partnerships involving business, governments and other players.

Developing Value is just the start of a discussion. It answers some questions but also raises many more. The full report can be used in several ways. Readers may select an entry point appropriate to their own interests and concerns, whether that be sustainability, the emerging market context or the specific business case. We hope that this work will be picked up and used by others in the field to find the business cases for specific regions and industry sectors – and by business managers seeking to customize the business case for their own operations.

www.sustainability.com/developing-value provides information on all the case studies examined in this report through a searchable database. It also links to sustainability tools and resources.

The business case matrix

A significant output of this study is the business case matrix which relates key aspects of sustainability to a set of recognized business success factors – demonstrating graphically where a viable business case exists. This matrix has been adapted from previous work by SustainAbility, *Buried Treasure*,² which examined the business case for sustainability in developed countries.

A comparison of the two studies shows that emerging market companies focus more on short-term cost savings and revenue gains, while intangibles like brand value and reputational issues are more significant in developed countries. Community investment and development are seen primarily as an overhead in developed countries, but in emerging markets they are shown to be important in retaining the 'license to operate' and in reducing risk.

The business case matrix		Sustainability Factors						
		Governance & engagement		Environmental focus		Socio-economic development		
		Governance & management	Stakeholder engagement	Environmental process improvement	Environmental products & services	Local economic growth	Community development	Human resource management
Business success factors	Revenue growth & market access	High	High	High	High	High	High	High
	Cost savings & productivity	High	High	High	Low	High	High	High
	Access to capital	High	High	High	High	High	High	High
	Risk management & license to operate	High	High	High	High	High	High	Low
	Human capital	Low	High	Low	Low	High	High	High
	Brand value & reputation	High	High	High	Low	High	High	High

Figure 1 The business case matrix

Chapter 1 Identifying the business case

Many opportunities exist for businesses in emerging markets to benefit from actions which advance sustainable development.

Developing Value reaches this conclusion on the basis of the first large-scale study to analyze the extent and nature of the financial benefits that companies in emerging markets gain from sound environmental practice, social development and economic progress — which we describe as the 'business case' for sustainability. (For a definition of 'sustainability' see Box 1.) This study documents more than 240 real-life examples from over 60 emerging markets (see Box 2) which show how owners and managers of businesses of all sizes and types have enjoyed business success as a result of improved environmental, social or governance performance, despite some of the risks.

The evidence from 176 companies³ shows that many emerging market businesses have been involved in areas such as social development or environmental improvements, and have achieved cost savings, revenue growth and other business benefits. The companies range from small businesses to multinational corporations in Africa, Latin America, Asia, the Middle East, and Central & Eastern Europe.

This is important because sustainability is rapidly moving up the business agenda globally, while the business environment has become significantly more competitive and volatile. The greater importance of the private sector in all regions and countries at all stages of economic development has fuelled concerns about globalization, the role of markets and global governance. Consumers, investors, policy-makers and NGOs have raised issues about worsening environmental and social problems, and the unequal distribution of benefits from globalization.⁴



Kunda Nordic Cement before changes

Emerging markets context

The sustainability debate has been most visible in developed countries. But in emerging markets, too, public interest and the intensity of debate is rapidly increasing. A recent analysis⁵ shows that through the second half of the 1990s, interest in globalization grew exponentially in Asia and Latin America, although it has declined in Latin America in the last couple of years. Events like the 2002 UN World Summit on Sustainable Development (WSSD) in Johannesburg help recharge the debate and ensure that sustainable development continues to increase in importance.

They also help focus attention on the needs of a world which will soon have to accommodate 8 billion people, where environmental resources will be under greater stress, while new health and security risks emerge, and issues of equity and access to resources, technology and markets will grow in importance.

Rafael Wong, executive vice president, **Reybankcorp**, Ecuador, commented, 'When we first obtained financing from IFC, the environmental standards seemed like an obstacle, but we now realize that they have helped us to build a strong business. In five years, there will be no access to international markets for companies that do not show respect for the environment. It is becoming fundamental to international trade.'⁶

While the trajectory of sustainable development's profile is likely to continue rising, the subject will continue to be volatile. New issues are likely to emerge, often unpredictably. The challenges of three years hence will be very different from those three years ago.

These challenges will have to be met in a difficult political and economic environment, with falling commodity prices and weak global economic conditions. Companies continue to struggle against corruption, crime, lack of infrastructure and unrealistic regulation, and have had to face economic crises in major markets like Argentina and Turkey, political unrest in Central and Southern Asia, and concern in Southern Africa over Zimbabwe and the falling rand.

Net private capital flows to the major emerging markets fell from \$169 billion⁷ in 2000 to \$132 billion in 2001.⁸ The growth of trade slowed and the trend in real commodity prices relative to manufactured goods prices shows no sign of improving. As a result, growth of real gross domestic product (GDP) in developing countries was forecast to increase by 1.3% in 2001, down from 3.8% growth in 2000.⁹

Poverty remains endemic — almost a quarter of the population in emerging markets lived on less than \$1 per day in 1999,¹⁰ while 28% of the world's children under five years of age are malnourished. HIV/AIDS incidence is increasing — 36 million people were affected around the world in 2000, with the majority living in Southern Africa and South and East Asia. Over 1 billion people worldwide do not have access to safe water sources.¹¹

However, there are some encouraging statistics. The economies of Central and Eastern Europe were spared most of the upheaval of 2001's global slowdown, with GDP growth rates averaging 5%.¹² Further, the situation for emerging markets as a whole is set to improve in 2002, with private capital flows expected to recover – rising to \$160 billion.¹³ Many developing countries are on track to achieve one of the Millennium Development Goals: universal primary education by 2015, and some are significantly reducing infant and under-five mortality.¹⁴ It is against this background, and in the context of globalization and growing concerns over the role of private firms in addressing environmental and social issues, that we have undertaken this study.

Key audiences for the report

This report is aimed at helping business people in emerging markets who are struggling to find the right balance between financial pressures on the one hand, and growing sustainability challenges on the other. It analyzes the benefits derived from implementing better governance, social and environmental practices and provides a starting point for companies to develop their own sustainability path. The analysis is based not on model companies who got it all right, but on ordinary companies that have implemented some sustainability practices and found value. While many of these findings might be intuitive, e.g. cost savings from environmental efficiency, this analysis provides a hook and basis for the intuition. It also raises new ideas and opportunities that companies can tap into.

The main audience for the report is business managers who are relatively new to the debate around sustainability. The report covers many kinds of companies which operate in emerging markets, from local small and medium sized enterprises (SMEs) to multinationals based in developed countries. For those leading companies that have already integrated sustainability into their vision, we hope the opportunities and case studies highlighted in *Developing Value* may spark new ideas. It may also help 'sell' the business case to any skeptics remaining in the organization, or to business partners such as suppliers.

Box 1 What is sustainability?

'Sustainability' is about ensuring long-term business success while contributing towards economic and social development, a healthy environment and a stable society. We use the term in this report to refer to the private sector's contribution to sustainable development – generally defined as 'meeting the needs of the present generation without compromising the ability of the future generations to meet their needs'.¹⁵

There are three broad components of sustainability. They are sometimes described as 'people, planet and profits', or the 'social, economic and environmental' dimensions. The need for businesses to address all three has been encapsulated in the concept of the 'triple bottom line'.

As well as these three components, there is also a process element to sustainability, concerned with accountability, transparency and engagement with stakeholders.

Sustainability is sometimes known as 'corporate social responsibility' or 'corporate citizenship'. Though we use sustainability here, we accept that in many respects the terms are synonymous. They cover the same broad aspects of the business: good governance, treatment of employees, impact on the environment, impact on local communities and business relationships with suppliers and customers.

Company case studies

The companies highlighted in *Developing Value* have undertaken a wide range of actions, from the strategic to the opportunistic, from major investments to relatively small changes in the way the business is run. In many cases the owners or managers were not explicitly addressing sustainable development, but were simply implementing what they saw as good management practices and sound business decisions.

Kunda Nordic Cement in Estonia demonstrates a more significant impact on the company as well as the community. Previously, the plant emitted high levels of pollution, adversely impacting the health of people and livestock, degrading soil and water and reducing catches by local fishermen. The plant implemented highly effective pollution prevention measures, yielding environmental benefits for Kunda and the entire Baltic region.



Kunda Nordic Cement after changes

Emissions were reduced by more than 98% of the 1992 level and the benefits in improved air quality extended throughout Estonia and as far away as Belarus, Finland, Norway, Poland, Russia and Sweden. This also saved Kunda operating costs of almost \$173,000 per year. In addition, if the Kunda facility had failed to change its operations in 1992, environmental and business concerns would probably have forced management to close the plant.

Kurzemes Piens, a Latvian dairy, is an example of a small company benefiting from the practical application of basic sustainability concepts. It saw the investment in preventing leaks from its refrigeration system pay back in just four months. It has avoided 12 tons/year of ammonia emissions, which has improved health and safety for workers while saving \$9,300 a year.

Structure of report

The relationships between the sustainability activities and financial performance in the cases we have gathered have been compiled in a business case matrix which graphically demonstrates the links between specific sustainability activities and measures of business success – both financial indicators and drivers. Details of our analysis, the key opportunities we found and the matrix itself are in **Chapter 2**, where we also address the counter-arguments from those who believe these issues are at best a distraction and at worst an attempt to disadvantage developing countries.

The key opportunities we describe are also documented in many examples throughout the report, as well as in four in-depth case studies from Brazil, China, the Czech Republic and South Africa.

While there is a business case to be found across all regions and types of companies, its specific nature varies. In **Chapter 3** we examine these differences, and include three country perspectives from Brazil, South Africa and the Philippines.

Box 2 Defining emerging markets¹⁶

The term 'emerging market' was originally coined by IFC to describe a fairly narrow list of middle-to-higher income economies among the developing countries, with stock markets in which foreigners could buy securities. The term's meaning has since been expanded to include more or less all developing countries. Developing countries are those with a Gross National Income (GNI) per capita of \$9,265 or less.¹⁷

Box 3 Who are stakeholders?

A stakeholder is any individual or group which can affect or is affected by an organization's or a project's activities, either positively or negatively. 'Stakeholders' are increasingly self-legitimizing – in other words, those who judge themselves to have an interest in an organization's operations, value and performance are de facto 'stakeholders'.

These include employees, local communities, local elected officials and local and central governments, indigenous groups and their traditional leaders, project sponsors, non-profit organizations, customers, financiers, shareholders, business partners, competitors and regulators.

The analysis highlights the dynamic nature of the business case. Risks and opportunities evolve rapidly – what was relevant some years ago is not relevant today. Companies need to keep a long-term perspective in mind as they plan sustainability activities, even if they start with short-term actions. **Chapter 4** provides practical guidance for businesses looking to mitigate risks and maximize opportunities from sustainability.

Finally, although the private sector is being asked to contribute to social and environmental development, other players such as governments, NGOs and citizens play an important role in achieving sustainable development. They can strengthen the business case by providing companies with the right incentives and frameworks, as we show in **Chapter 5**. **Chapter 6** wraps up the discussion and highlights the key messages.



Board meeting, Bank of Shanghai



The Bank of Shanghai (BoS) was established in 1995 through an amalgamation of 99 urban credit cooperatives. It has grown rapidly and

remains the largest of about 110 'city commercial banks' in China. But it is still relatively small: 4,500 employees, 45 branches and 198 business offices. The total assets for BoS under Chinese accounting standards were US\$14.7 billion at the end of 2001. It is a full-service commercial bank but most lending is currently to SMEs in the Shanghai region.

Promoting the private sector by lending to small enterprises is considered a social responsibility as well as a commercial opportunity. But the Bank remains selective about the businesses it backs, and has ensured that the loan portfolio is balanced with infrastructure finance and larger corporate customers. It also aims to expand in consumer credit and housing loans.

But all the city banks face international competition following China's entry into the World Trade Organization, as well as competing with the four state-owned banks that dominate the sector and are undergoing extensive commercial restructuring.

Corporate governance and management systems

Corporate governance has improved dramatically since investment from the IFC, accompanied by the appointment of John Langlois (a former managing director of JPMorgan) as a director.

Previously the board's function was mainly to approve annual business plans and dividend payments. It has now assumed an important role in its three core functions: strategy development, accountability and control, and management selection and remuneration. Board meetings have increased in frequency from twice a year to at least four times a year. The board has set up an audit committee, a compensation committee and a risk management committee. It is engaged in much more active discussions with management on the strategic development of the Bank.

Board meetings now include discussions on specific subjects relating to the Bank's management and special topic seminars to equip the directors with modern banking concepts and trends. The directors have fundamentally changed their thinking on dividend payments, and begun to emphasize the importance of increasing retained earnings to strengthen capital adequacy.

The management team has introduced improvements in all operational areas reflecting international best practice, particularly in credit risk management and internal controls.

Business benefits

Improved corporate governance and increased transparency helped to attract investment from HSBC and other foreign banks, and are likely to bring forward the date of a listing on the stock exchange. The Bank will need further capital to finance growth and to fund the necessary infrastructure improvements, e.g. IT systems.

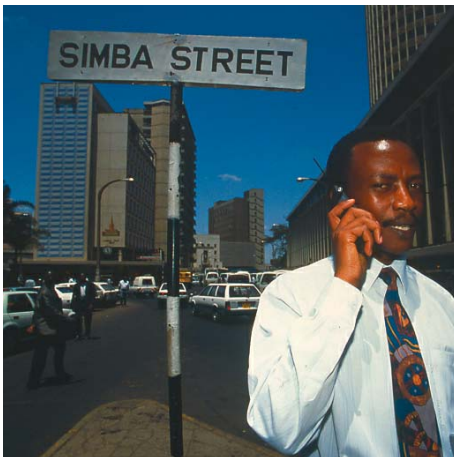
There has also been a significant culture change, part of which is greater long-term thinking, prompted by the more professional board focusing on strategy. Employees are generally more motivated, especially by the transparency which now allows them to see the Bank's financial progress, but some have found it hard to adjust to international standards and senior managers feel under greater pressure to deliver. Staff training is critical to continued improvements and addressing weaknesses more quickly. The new corporate governance standards have also improved the Bank's standing with regulators. The People's Bank of China has included BoS in a pilot corporate governance project aimed at improving standards throughout the country.

Fu Jianhua, CEO of the Bank of Shanghai, said, 'The cooperation between BoS and IFC has been very successful and it has played a significant role in BoS moving towards international standards and best practices in banking. We look forward to continuing our long-term partnership.' Brand recognition by customers will benefit from greater openness. It is very important for BoS to have established its credibility and brand name to retain its niche in the face of competition from foreign banks and the state owned banks.

Key barriers, challenges or difficulties

The main difficulty has been the increased pressure on management to address weaknesses. The International Accounting Standards audits that are part of the new governance structure have created a sense of urgency which is not appreciated by all staff. Some prefer the previous lack of transparency which helped to hide problems.

Chapter 2 The best opportunities



Stockbroker, Kenya

The aim of this study was to assess the business benefits, if any, which companies in emerging markets gain from sound environmental and social performance and good governance structures.

We tapped into business networks, spoke to local experts, searched through documented cases and drew on IFC's own project portfolio experience, ultimately analyzing 240 cases from 176 companies. These cases include all types and sizes of companies from small to multinational – though large national companies were predominant. They cover a wide range of sectors such as agriculture, manufacturing, infrastructure, and information technology all over the world in emerging markets.

We explored relationships between seven sustainability factors and six business success factors, with the results of the analysis illustrated in a matrix (outlined below). This business case matrix demonstrates graphically the connection between a particular sustainability action (environmental process improvement in this outline) and the resulting business benefit (cost savings). The shading in the cell indicates the strength of evidence for each particular link.

The full matrix appears at the end of this chapter, along with a more detailed description and acknowledgement of the limitations of this approach. The mini-matrices which appear throughout Chapter 2 serve to orient the reader by highlighting the matrix cell(s) being described in each sub-chapter.

The business case matrix		Sustainability Factors						
		Governance & engagement		Environmental focus		Socio-economic development		
		Governance & management	Stakeholder engagement	Environmental process improvement	Environmental products & services	Local economic growth	Community development	Human resource management
Business success factors	Revenue growth & market access			↓				
	Cost savings & productivity		←					
	Access to capital							
	Risk management & license to operate							
	Human capital							
	Brand value & reputation							

Figure 2 How the business case matrix works

Analyzing our case studies based on this matrix, we found the evidence was the strongest for several key linkages that we explore in depth in this chapter. They are:

- 1 **Save costs** by making reductions to environmental impacts and treating employees well;
- 2 **Increase revenues** by improving the environment and benefiting the local economy;
- 3 **Reduce risk** through engagement with stakeholders;
- 4 **Build reputation** by increasing environmental efficiency;
- 5 **Develop human capital** through better human resource management;
- 6 **Improve access to capital** through better governance;
- 7 **Other opportunities** from community development and environmental products.

These key links highlight the nuggets of good practice we have discovered which present the best business opportunities, although the evidence for the last two links was not as strong as for the others. Environmental products & services currently show the weakest business case but we believe there is potential here because of the scope for alternative business models and customer demand for sustainable products.

Box 4 Methodology explained

The six business and seven sustainability factors used in this study were determined primarily through a process of tailoring SustainAbility's work on *Buried Treasure*¹⁸ to fit the emerging market context as well as IFC's internal framework for assessing the contribution of private sector investments to sustainable development. The final selection also reflects the combined experience of the three author organizations in working with businesses in emerging and developed markets on the sustainability agenda.

The sustainability factors are divided into three main aspects of sustainability – governance & engagement, environmental focus and socio-economic development. The business factors are a mix of direct financial performance measures that are key to any business – cost, revenue and access to capital, and important financial drivers – risk management, human capital, reputation and brand value.

The case studies included in the report were selected from a thorough search of company case studies from publicly available information and reports that highlight best practice, IFC's own portfolio of projects, and conversations with experts and company managers in emerging markets. Inevitably there is a bias towards cases that build the business case, because companies are less willing to share information on sustainability initiatives that went wrong. Exploring this potential downside is an area for further work.



Fruit market, Bolivia

2.1 Save costs by making reductions in environmental impacts and treating employees well

The business case matrix		Sustainability Factors						
		Governance & engagement		Environmental focus		Socio-economic development		
		Governance & management	Stakeholder engagement	Environmental process improvement	Environmental products & services	Local economic growth	Community development	Human resource management
Business success factors	Revenue growth & market access							
	Cost savings & productivity							
	Access to capital							
	Risk management (in income to operate)							
	Human capital							
Brand value & reputation								

Highlighting cost saving & productivity resulting from environmental process improvement and human resource management. Full matrix is on page 31.

What's in it for business?

Businesses can reduce costs by making environmental improvements which deliver an immediate impact on the financial bottom line. We have also found strong evidence that treating employees well can generate financial returns by improving productivity – producing more with less – again resulting in direct cost savings.

Environmental process improvements

More than one in five of all the cases in our database demonstrated cost savings from environmental improvements – often described as eco-efficiency. Some savings flow directly from using less energy and materials. Others come from lower pollution costs, in the form of charges for waste handling and disposal, fees, licenses and fines for breaking environmental regulations. Reorganizing production processes, material flows and supplier relationships can also produce benefits such as higher productivity of capital and/or labor. For example, reducing waste volumes can reduce the need for labor and machines which handle waste. The evidence comes from many sectors, all types of company and all regions.

Intercell, Poland's second-largest producer of unbleached packaging paper for commercial and industrial use, wanted to cut \$2 million per year in environmental fees for discharge permits, penalties and water consumption charges. In 1992 the company installed new equipment which reduced water use by 7%, while chemical oxygen demand concentrations in liquid effluent and hydrogen sulfide emissions were slashed by 70% and 87% respectively. Over the next seven years the discharge fee rates grew threefold. By meeting higher standards, the company saved approximately \$12 million in pollution tariffs over five years.

Smaller businesses can also benefit. **Shivji and Sons**, in Dar es Salaam, Tanzania, has just 45 permanent employees, making laundry soap through a process which uses steam from a diesel-powered boiler. The company replaced leaking steam valves and taps, halved the time required for heating the fat storage tank through efficiency improvements and minimized steam consumption during the cooling stage. These measures cut diesel use by more than 50% and have resulted in annual savings of \$188,000 a year from an initial investment of \$830. This represents a payback period of just 1.6 days.

Human resource management

Effective human resource management can cut costs and boost the productivity of the workforce. Sound employment practices such as fair wages, a clean and safe working environment, training opportunities, and health and education benefits for workers and families can all increase morale and productivity while reducing absences and staff turnover. As well as productivity benefits, companies also save on costs for recruitment and training of new employees.

The Argus Group is one of the largest clothing manufacturers in the Caribbean. Alfonso Hernandez, the founder, realized that 85% of absences were caused by employees having to miss an entire day of work to reach state-provided medical facilities. In an effort to reduce absences he decided to offer free, full-time medical services on-site and health care for each employee's family. The investment in medical services has paid off in an absenteeism rate of 4%, compared with an industry average of 10%.

Laredo, a sugar company in Peru, improved the working conditions in its facilities and saw a reduction in accidents of 38%. This has improved employee relations and reduced costs.



Flower exporter, Kenya

Action on HIV/AIDS is another area where companies can deliver important benefits to workers and their families, and save costs at the same time. **Volkswagen do Brasil** launched an AIDS Care Program in June 1996, spreading awareness using the company radio, internal newspapers, bulletin boards and special brochures. Condom machines were installed in factories and offices. The program includes access to infectious disease specialists, social workers, nutritionists, psychologists, referrals to specialized hospitals and home care treatment. Patients are also given access to clinical tests and drugs. By the end of 1999, the company reported a 90% reduction in hospitalizations, a 40% reduction in the cost of treatments and care under its Health Plan, and found that 90% of the patients were active and without symptoms due to awareness, prevention and treatment of staff. There were also savings from reduced absenteeism and turnover of employees, and employee satisfaction with the company has increased.

Ignoring these issues can also result in higher costs. **Thor Chemicals**, a British company, set up a mercury reprocessing plant at Cato Ridge, South Africa in 1978. In 1991, tests showed that 87% of workers had mercury levels above safe limits, and a formal enquiry by the Department of Manpower found gross negligence leading to the poisoning of at least 29 workers. In 1994, the South African government forced the plant to close. In 1998, the families of workers who died from mercury poisoning sued Thor in British courts and received almost \$2 million. In 2000, a further 20 workers brought a second class-action lawsuit against Thor in Britain and obtained a settlement of \$400,000. The company settled out of court without admitting liability.¹⁹

**Sustainability factor 1
Environmental process improvement**

Also termed 'eco-efficiency', environmental process improvement involves producing the same level of output with fewer resources, emissions and less waste. Eco-efficiency can be increased by using alternative raw materials, redesigning equipment or techniques, using more efficient technologies, reorganizing the supply chain and/or siting production processes in a manner that reduces overall environmental impacts.

Why it matters

Reducing the use of energy and raw materials and limiting emissions and waste from production processes are key contributions that business can make to tackling the environmental challenges facing the world. Emissions from industrial activity can have serious impacts on human health and the natural environment. They also contribute to climate change, ozone depletion, acid rain and contamination of surface and ground water and soils. Maintaining finite resources is key for future growth and development.

Future trajectory

Concern for the environment is likely to grow in importance in emerging markets as populations grow, living standards increase, and environmental standards and expectations rise. Local communities are likely to become more concerned about environmental standards as awareness grows of the health and other impacts of pollution. Greater awareness is also driven by NGO activity and by greater access to environmental information, especially through the internet.

At the international level, climate change and loss of biodiversity are key concerns. The private sector is seen as a critical player and many multinationals have adopted environmental policies which extend through their supply chains in the form of requirements for suppliers to adhere to sustainability certification (see Box 5).

Box 5

Social and environmental credentials

Companies can demonstrate environmental and social responsibility by obtaining certification or labeling based on adherence to a management or product standard. These schemes are often developed independently of the industry concerned, although in consultation with companies as well as NGOs, and usually require some form of external verification. Some are international, while several countries also have their own codes, like the Kenya Flower Council Code of Practice and the Thai Green Label scheme. The main examples cited in this study are:

- **ISO 14001**, which prescribes corporate environmental management systems. Over 20,000 companies have been certified to ISO 14001 – nearly a fifth of which are based in emerging markets.²⁰ www.iso.ch
- **SA8000**, which focuses mainly on labor standards in manufacturing industries. Over 100 factories were certified at the start of 2002, three-quarters of which are in emerging markets.²¹ www.cepaa.org/sa8000_review.htm

- **Forest Stewardship Council (FSC)**, for wood from sustainably managed forests. FSC certification has been spreading from developed countries to markets such as Poland, Brazil and South Africa. www.fsc.org

The business case for such schemes can be very strong. Some cost is involved but this can be seen as investment which improves access to developed markets, including sometimes a price premium. Companies also find that these schemes help improve management control, resulting in cost savings and improved productivity.

There are potential drawbacks, however:

- Some codes or certification schemes do not relate adequately to emerging market conditions.
- It may be difficult for emerging market businesses to justify the initial investment, especially if multinational buyers do not provide technical or financial assistance.
- Verification of compliance can be technically difficult, costly and in some cases superficial. Certification also may not translate sufficiently to improved performance.

2.2 Increase revenues by improving the environment and benefiting the local economy

The business case matrix		Sustainability Factors						
		Governance & engagement		Environmental focus		Socio-economic development		
		Governance & management	Stakeholder engagement	Environmental process improvement	Environmental products & services	Local economic growth	Community development	Human resource management
Business success factors	Revenue growth & market access							
	Cost savings & productivity							
	Access to capital							
	Risk management (in income to operate)							
	Brand value & reputation							

Highlighting revenue growth & market access resulting from environmental process improvement and local economic growth. Full matrix is on page 31.

What's in it for business?

There are many opportunities to increase sales by improving the environmental impact of production processes and by taking action which helps local economies.

Successful approaches have been to innovate and develop new products, and to view 'wastes' as potentially saleable by-products. Improved processes can also make existing products more attractive to concerned customers. Recognition as a responsible producer – informally or through formal certification – can also open the door to some markets in developed countries.

Action which helps develop local economies, such as local recruitment, using local suppliers and providing finance and telecommunication facilities, can boost sales and may also have important public relations benefits for companies that are seen to be integrating into the community. Local small and medium sized enterprises themselves are involving their communities and finding innovative ways to grow sales, both locally and abroad, e.g. through eco-tourism and organic farming.

Together, these actions provide opportunities to:

- develop new products;
- sell more of existing products because:
 - they are more attractive to customers
 - local supplies have increased
 - greater local prosperity means more spending power;
- earn a premium selling price for products with positive environmental or social attributes;
- find markets for by-products or waste;
- gain or improve access to markets because of sustainability credentials.

We have identified such benefits for most types of companies across all regions. Local investment is particularly relevant in South Asia and Sub-Saharan Africa.

Environmental process improvements

Meeting environmental or social standards is increasingly recognized by formal certification schemes e.g. ISO 14001 for environmental management systems or the FSC certification for sustainable forestry. Such independent recognition can help companies gain access to markets or achieve premium prices. For example **Aserradero San Martin**, a Bolivian logging and wood products company which sells predominantly to North America, reports that FSC certification helped it to earn a premium of 10-15% over normal prices.

This can apply in many industries. In 1994 a German customer of Bombay-based **Century Textiles and Industries** required the company to comply with the Eco-Tex sustainability standard (developed by a European consortium, covering chemical use and other environmental issues). This involved changing dyestuffs, which resulted in a marginal cost increase. But Century, which is one of India's largest manufacturers and exporters of cotton and other materials, capitalized on meeting the Eco-Tex standard – the first company in India to do so. Compliance and associated quality improvements allowed the firm to increase prices by 8-10%. Sales volumes also increased – by at least 10% in the first year – as Century attracted new buyers from the US and the UK.

But certification is not essential to make money from environmental improvements. **Perion** is a medium sized company based in Budapest, Hungary, which makes batteries. It has created a new business line reprocessing car batteries, based on its own patented technology which has significant environmental benefits compared with the traditional process. This market opportunity developed from the company's efforts to improve its health, safety and environmental performance and avoid heavy fines for hazardous discharges and waste. Perion then saw the opportunity to collect used batteries through its store network. The business is sufficiently profitable to pay \$1 for each used battery. It brings in an extra 30 million forints per annum (\$110,000) for the company.

The development and implementation of an environmental management system by **Tecon Salvador**, which owns and operates a container and cargo terminal in Northeast Brazil, allowed it to secure a major contract with a newly established plant. The contract which is equal to 10% of the terminal's total volume helped the company achieve an increased market share of 75%.

'Trade is better than aid. We will only be able to reduce social exclusion if we are granted access to markets.'

Luiz Furlan, chairman

Sadia, Brazil

Financial Times / IFC conference
May 2002

Local economic growth

Building linkages with local businesses and employing local residents is key to local economic development and can also increase revenue for the companies involved. A clear link has also been established between poverty reduction and business growth.²²

Hindustan Lever is the Indian subsidiary of the Unilever Group. In the early 1970s its dairy factory in the Etah district was operating at only 50% capacity and incurring significant losses because of inadequate milk supplies. In 1976 Hindustan Lever established an Integrated Rural Development Program. The program set out to help farmers increase milk production, by addressing a range of farming practices that could be improved. The company sponsored education and training in animal husbandry, the development of basic infrastructure and the establishment of village development committees. Beginning in six villages, the project area expanded to more than 400. Milk supplies to the factory increased significantly to meet its capacity and the dairy is now one of the company's most profitable units.

Providing tools for economic growth, such as microfinance and telecommunication facilities, can be a viable business.

Local SMEs themselves are involving their communities and finding innovative ways to grow sales. For example, **Kuapa Kokoo** in Ghana is a cooperative set up in 1993 by the farmers to buy their own cocoa and sell it on. In 1998 they partnered with Twin Trading, Christian Aid and others to start the Day Chocolate Company to launch their own chocolate brands – Divine and Double – internationally, through fair trade which allows them to charge a 10-20% premium. Approximately 1,000 tons of cocoa is sold to the European fair trade market. When it started, Kuapa Kokoo had 22 societies. In 1998 this figure rose to 160 and in the 1999–2000 season, Kuapa had 460 village society members and 35,000 farmer members while being operational in five cocoa growing regions.

Sustainability factor 2 Local economic growth

This factor is about how companies can share the benefits from their investment activity with local businesses or provide tools for economic growth to local communities. Companies can transfer skills and technology to local residents and businesses, use and pay fair prices to local suppliers, help develop and support local SME suppliers and service providers, and provide microfinance and tele-communications facilities to local communities. The factor is also about how local businesses themselves can develop and grow through community involvement and innovative business approaches.

Why it matters

Economic development is a key objective for emerging markets and local communities are the foundation for such development. Shrinking public sector budgets have greatly increased the importance of the private sector in the developing world, and the sharing of benefits has become a major development issue.

Changed circumstances have required owners and managers to reassess their responsibilities to all stakeholders, while still keeping the profit motive in mind. This process has led to the recognition that, beyond taxes paid to government, some project revenues must be retained within local communities.

Investment to support local economic growth ultimately leads to a better pool from which to staff the business, cheaper and more reliable supplies, improved reputation and a more affluent local consumer base. Failure to aid local development can result in resentment and hostility – negatively impacting on a company's license to operate.

Future trajectory

Concerns about the impact of businesses on local communities have been growing and will continue to do so as the globalization debate focuses attention on the ways wealth is generated and shared. Action by leadership companies will increase expectations and put pressure on others to follow. Equally, NGOs are working to ensure that businesses in emerging markets share the benefits of investment with local communities.

Box 6

Alternative business models

Traditional business models are preoccupied with delivering conventional products or services to other businesses or to relatively affluent consumers. New models break out of this straitjacket to deliver new kinds of products or services, in unconventional ways, to new markets, or with unconventional business structures.

There are three broad categories of alternative business models:

- Multinationals or other conventional businesses developing products or services specifically for the poor, e.g. **Deutsche Bank** introducing microcredit.²³
- Smaller producers finding ways to access the global market, often with premium products which bypass conventional distribution systems including organic and 'fair trade' products, eco-tourism and certified forest products.

- Social enterprises, not-for-profit organizations, cooperatives or other institutions developing innovative solutions that provide a social, environmental or economic benefit to the community. Examples include 'digital dividend' projects which bring telecommunications and internet access to poor communities and solar power projects which bring electricity and other services to off-grid communities.

These are financially viable solutions which often particularly benefit vulnerable groups who may otherwise be excluded from economic activity. Business benefits include finding market niches and being able to charge a premium for the products.

While many of these developments have emerged without official stimuli, supportive government policies will help to expand the opportunities, for example efforts by Kenyan farmers to sell organic produce have been hampered by a lack of government assistance in obtaining certification. Attempts by emerging market producers to enter new markets also need appropriate trading relationships and rules.

2.3 Reduce risk through engagement with stakeholders

The business case matrix		Sustainability Factors						
		Governance & engagement		Environmental focus		Socio-economic development		
		Governance & management	Stakeholder engagement	Environmental process improvement	Environmental products & services	Local economic growth	Community development	Human resource management
Business success factors	Revenue growth & market access							
	Cost savings & productivity							
	Access to capital							
	Risk management & license to operate							
	Human capital							
	Brand value & reputation							

Highlighting risk management & license to operate resulting from stakeholder engagement. Full matrix is on page 31.

What's in it for business?

Businesses can reduce financial, reputational and political risks by engaging with stakeholders. Understanding the concerns and interests of employees, customers, NGOs, politicians and business partners helps a company to manage environmental and social expectations better, resulting in reduced risk of civil action or brand assassination, improved access to capital and insurance, cost savings and reduced vulnerability to regulatory changes.

Risk is intrinsic to business and cannot be eliminated. But companies can improve their risk profiles for environmental and social performance by understanding the expectations of a broad spectrum of stakeholders. Engagement helps companies understand stakeholders' changing expectations and needs. It allows companies to keep a finger on the pulse of the general social and political environment and helps to identify issues which could become crises or simply lead to changes in the way a business operates.

Social and environmental problems can have serious impacts on financial performance and therefore on borrowers' ability to maintain interest payments and repay capital. They can also extend to the lenders' reputations, as institutions involved in controversial dam projects have discovered, or can generate specific financial liabilities if a borrower causes environmental damage and cannot meet its liabilities.

The evidence for risk reduction through engagement and transparency is strongest for larger companies because regulators, international stakeholders and local communities expect more of them, but also because of the sensitive sectors in which many of these companies operate (e.g. mineral extraction).

Stakeholder engagement

Stakeholder engagement is essential to increasing community understanding of business operations. Community understanding of private sector activity, sometimes called a 'local license to operate', can sometimes be a major factor in a firm's operations. Such acceptance can help with reputation and brand value, and failure to have such acceptance can raise operational and production risks, at times with very significant costs to the companies involved. As examples below indicate, this local license to operate — obtained through consultation and good relations with affected communities — is sometimes the license with the greatest impact on a company.

The global climate is such that companies are seen as obstructionist when it comes to matters of environmental impacts and social development. To combat the climate of suspicion and mistrust companies must engage with stakeholders to learn their concerns and expectations.

According to Saroj Datta, executive director, **Jet Airways**, 'India has become an extraordinarily suspicious society, which can only be corrected through greater transparency, and the acceptance and practice of corporate citizenship and social responsibility by all companies.'²⁴

Electropaz, a private Bolivian electricity distribution company serving the cities of La Paz and El Alto, decided to improve its distribution system. There was opposition from the community of El Alto to an existing high-tension tower whose conductors were running over their houses. Electropaz held several public meetings with the community and the municipal government and reached an agreement to re-route the transmission lines as well as to relocate the tower. Responding to community concerns by relocating project assets helped it build community acceptance and reduce the risks of future grievances.

'India has become an extraordinarily suspicious society, which can only be corrected through greater transparency, and the acceptance and practice of corporate citizenship and social responsibility by all companies.'
Saroj Datta, executive director
Jet Airways, India

The **Inka Terra** tourism company in Peru, which operates two small hotels near Machu Picchu and the Madre de Dios forest in Amazonia, engages with the local community, government, NGOs, academics and other stakeholders. It employs locals and works with scientists to preserve the extensive biodiversity of the surroundings, which include the world's greatest diversity of ant species in a single location and the largest known collection of native orchid species. With funding from the Global Environment Facility, the company is developing plans for working with local communities to generate alternative livelihoods to mining and logging. This has enabled the company to get longer land leases and licenses to expand. It also maintains the support of the local community.

The **Sarshatali** coal mining project in India's West Bengal region worked with local NGOs, community institutions and the district authorities to reverse rising levels of dissatisfaction with the project. Relationships with the eight communities in the area had suffered because of loss of income to the population following land acquisition by the mine owners, and the situation was made worse by delays in securing finance, which stalled the mine development. Working with the NGOs, government and community partners, and independent facilitators, the project rebuilt trust and negotiated a Memorandum of Understanding. Pilot projects worked on restoring income for those most affected by lost land, and longer-term development projects were also identified. Improved relations gave the company the confidence to proceed with design and early construction work, based on evidence that the risk of social tensions had been reduced.

Sustainability factor 3 Stakeholder engagement

Stakeholder engagement is about consulting with business and non-business stakeholders on key sustainability issues facing the company. Such engagement can take place in many ways, including open dialogue and consultation on environmental and social impacts, public reporting, and ultimately through the inclusion of business and social partners in business decision-making processes. Engagement is more than communication. It is a two-way process leading to shared learning between a company and its stakeholders.

Why it matters

For private sector development to be mutually advantageous to both shareholders and other stakeholders, transparent and frank consultation with affected groups is essential. Shareholders are informed through annual reports and can voice their opinions through their votes or by divesting their shares.

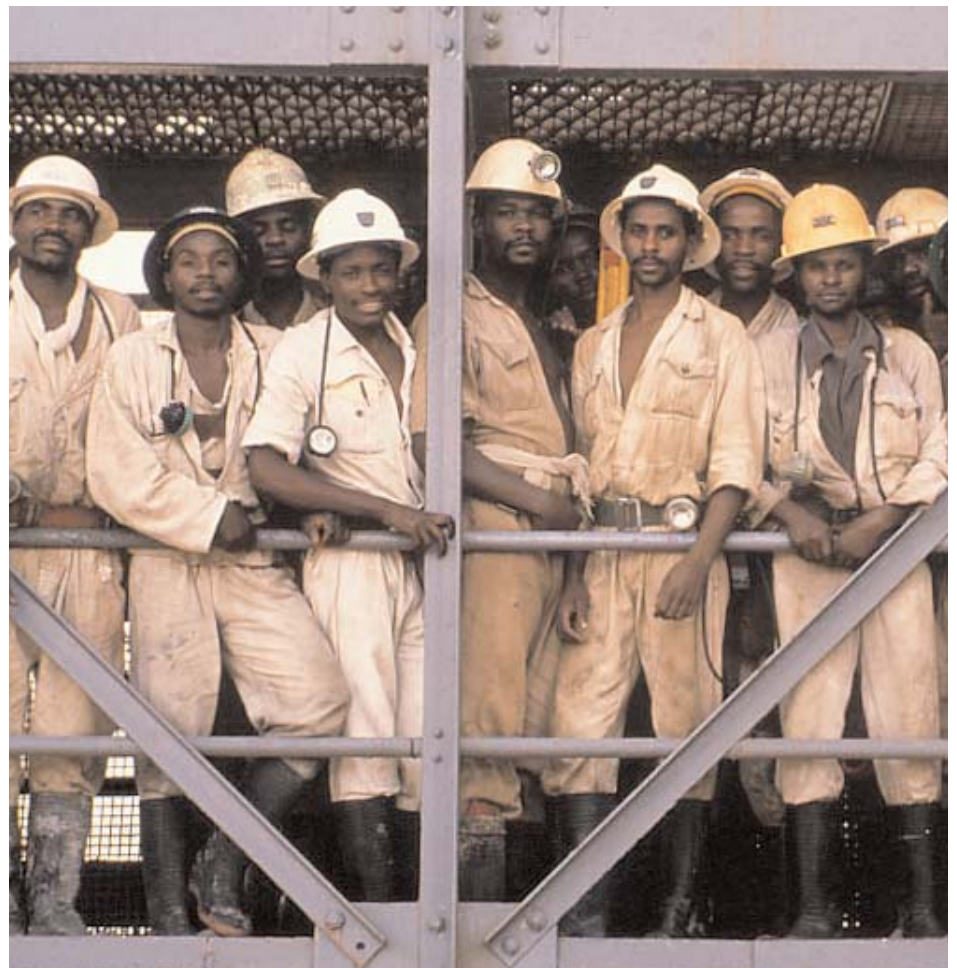
Other affected groups, for the most part, have no formal lever to change company actions or policies – although, as evidenced throughout this report, they can and do make their voices heard. Transparent and thorough engagement with stakeholders is a necessity for sustainable, win-win development outcomes for business and society.

Future trajectory

An increased level of transparency and honesty provided by companies is a key feature of stronger relationships. Expectations of increased business transparency have grown continuously in recent years, and the trajectory appears to be rising.

NGOs are becoming increasingly vociferous and other groups such as lenders and investors are also introducing risk management systems that include disclosure of environmental and social impacts and performance as key features. The importance of reporting on sustainability efforts is emphasized by many organizations such as the Global Reporting Initiative.

www.globalreporting.org



Copper miners, Zambia

2.4 Build reputation by increasing environmental efficiency

The business case matrix		Sustainability Factors						
		Governance & engagement		Environmental focus		Socio-economic development		
		Governance & management	Stakeholder engagement	Environmental process improvement	Environmental products & services	Local economic growth	Community development	Human resource management
Business success factors	Revenue growth & market access							
	Cost savings & productivity							
	Access to capital							
	Risk management & license to operate							
	Human capital							
	Brand value & reputation							

Highlighting brand value & reputation resulting from environmental process improvement. Full matrix is on page 31.



Textile printing, Bangladesh

What's in it for business?

Brand value & reputation can be significantly enhanced by action which improves a company's environmental and social performance.

A company's reputation is intangible but it helps to build sales, attract capital and business partners, and recruit and retain workers. It can be separate from, but related to, brand image. And in emerging markets, where brands tend to be fairly weak, the brand owner's reputation can be a significant competitive factor. There are many components of reputation but sustainability is an increasingly significant factor for governments, NGOs, customers and investors.

Measurement of reputation is not as precise as for many components of business success, but it can be assessed through customer satisfaction surveys, public opinion polls and rankings in lists such as 'most admired companies'. Brand valuation methodologies are also becoming increasingly sophisticated and include tracking of a company's overall reputation. Another rough but easy proxy for brand value for quoted companies is the difference between the company's book value and its worth on the stock market.

Reputation is not an end in itself. It matters because it enhances the ability to attract capital – both human and financial – to mitigate risk and to build a company's license to operate. A good reputation also provides companies with what might be called a buffer zone – space to make mistakes without being attacked, as might happen if the company did not have the trust of stakeholders. This is important at a time when companies are still coming to grips with the sustainability agenda and when even leadership companies are far from perfect.

Environmental process improvements

We have found that reputation can benefit from improving environmental processes more than from other dimensions of sustainability. In fact a worldwide survey²⁵ found that environmental responsibility was the third most important expectation of companies, after provision of jobs and quality products.

Most of the evidence we found of improved reputation is in the form of companies receiving recognition and awards from organizations, governments, rating agencies or public surveys. While awards are not necessarily the best benchmarks for reputation and brand value, they are a reasonable proxy indicator. National companies saw the greatest reputational gain, and it held across most regions.

Jolyka Bolivia is the first South American producer of laminate and other tropical hardwood flooring products to be certified by FSC.²⁶ It sells to the US and Europe, where consumers are increasingly concerned about the sustainability of tropical wood. In 2000, Jolyka was one of the winners of the business plan competition for promising enterprises that incorporate social and environmental benefits held by New Ventures, a World Resources Institute program. This brought direct reputational benefits, including coverage in the media as a viable, dependable and 'green' company. It also helped to raise new capital as in the following six months Jolyka was visited by four investors and has renegotiated \$2 million in long-term debt finance.

Girsa, a Mexican chemical company, has invested more than \$20 million in environmental efficiency improvements, including the capture and use of energy generated in the carbon black process, which yielded \$30 million in savings and has substantially reduced emissions and waste. From 1991 to 1998, carbon dioxide emissions and wastewater per ton of production were cut by more than 80%, and solid waste per ton of production reduced by more than 90%. The net income as a percentage of sales was improved drastically. The plant has gone from being a major source of controversy in the community to a model corporate citizen that locals are proud of. It has won numerous accolades for its performance at national and international levels, including the Mexican Environment Ministry's National Quality Award in 1997 and the National Award for Ecological Merit in 1999.

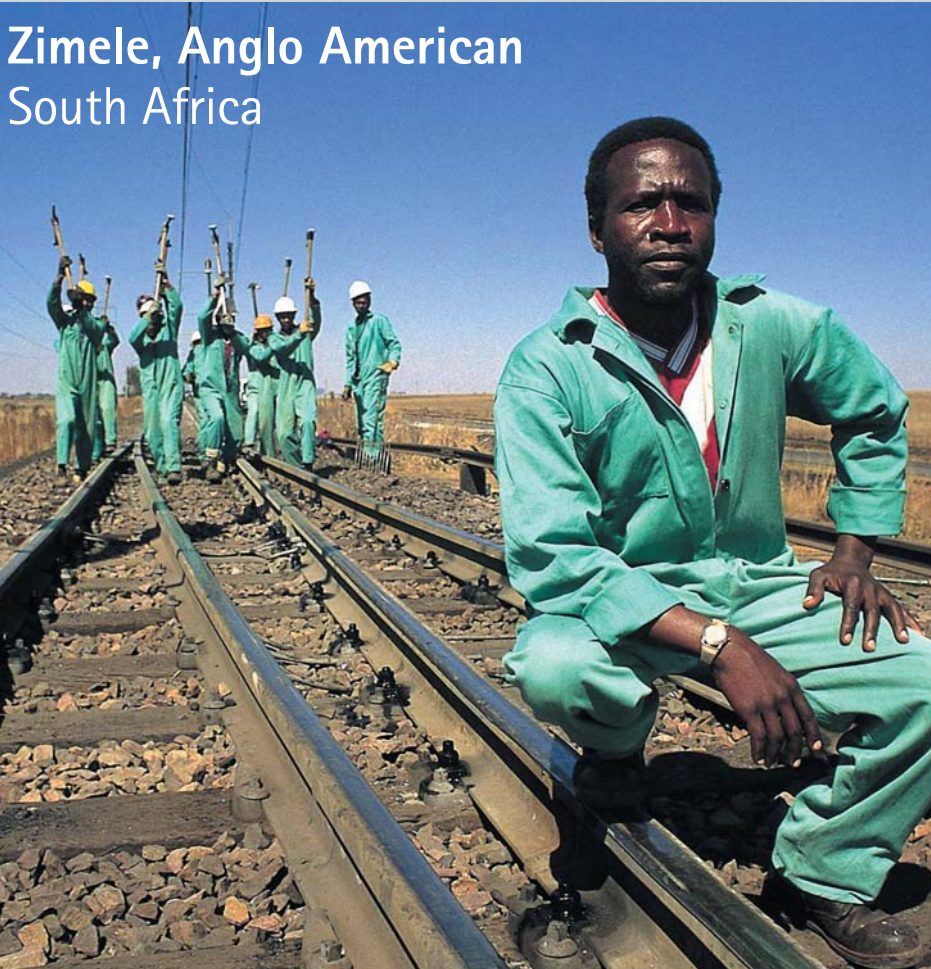
Buried Treasure found that in developed countries brand value & reputation had the strongest link to a company's sustainability efforts – even more than cost savings and revenue growth. This suggests differences in perception between developed and developing countries. It could be explained by some companies in emerging markets still concentrating on basic business survival, rather than being concerned about reputation or brand value. Or it could stem from the fact that brands are more established in developed countries and receive greater management and investment. Either way, it suggests that as emerging markets develop, companies are likely to see an upsurge of interest in brands and should even now be building this into their strategies.

Nevertheless, in emerging markets a company's brand may be tied into the owner's reputation, and may sometimes become synonymous with its sustainability deeds. In India, the name Tata is associated with a professionally run, respected company that has cared for its employees and neighboring communities while making excellent products.²⁷ The company invested in its employees and community and its reputation as a social and ethical company spread through word of mouth. In fact, the **Tata Iron and Steel Company (TISCO)** had gained enough recognition for its social deeds that it could run a television advertisement showing investment in social project like schools and sports, with the catchline, 'We also make steel.'



Recyclable adobe bricks, Cuzco, Peru

Zimele, Anglo American South Africa



Stimela Rail, railway maintenance company supported by Zimele



Anglo American is a South Africa-based global mining and natural resources company, with operations and developments in Africa,

Europe, the Americas and Australia. It has a long record of support for disadvantaged black communities in South Africa.

One aspect of this is now known as Zimele, a Zulu/Xhosa word which means independence, in the sense of standing on your own two feet and making your own way in the world.

The name is appropriate because the unit exists to invest in SMEs. It has emerged from a concern with unemployment, and now operates as a self-sustaining venture capital unit within the Anglo group.

Economic initiatives

The unit exists specifically to build local economies, especially black communities, by helping to expand the small business sector. As well as being open to approaches from any entrepreneur looking for backing, each Anglo division has a Zimele business development manager who looks for opportunities to invest in new businesses which can supply products or services the division may want to outsource.

Dr Lia Vangelatos, Zimele's senior business development manager, says the aim is to create sustainable businesses, not to hand out charity: 'The businesses we back have to be viable. The entrepreneurs may not have the skills or sophistication but they have to be passionate about their projects and committed to making money.'

Ventures have ranged from catering to lighting, and even include a banana farming business. Examples include Envirolight, which manufactures energy-efficient lighting units for both the mining and housing sectors, and Surmap Services, created to produce high quality maps using the latest photogrammetric technology.

Zimele takes a minority equity stake and may make loans to the businesses it backs. Crucially it also takes a seat on the board and continues to support the new entrepreneurs. It can also call on the skills of Anglo's managers – from information technology to mining expertise – and makes sure these new businesses adopt the high standards of health and safety which Anglo subscribes to.

'It is a hand-holding approach. We are not there to run their business but we are close behind, and that makes a difference,' Dr Vangelatos said. She distinguishes this from what she calls 'balance sheet support' – providing finance without the necessary management support, and without giving the recipients an equity stake in the business.

Originally support was aimed at micro-enterprises but now the targets are bigger, which led to the formalization of Zimele as a self-sufficient business unit in 2000, with 15 million rand (\$1.5 million) to invest. It is not a profit center, but is expected to cover costs, and did so in 2001 – the first year after being established formally as a separate operation. 'The message is invest it but don't lose it,' Dr Vangelatos said.

This is an intensive support operation, so there are only six to eight deals a year, but they can now be companies aiming for initial revenues of as much as 40 million rand (\$4 million).

Early in 2002 the operation had investments in 22 companies which together provided work for 1,300 people and had revenues of 145 million rand (\$15 million).

Benefits and challenges

Apart from the general benefits from helping to build – and being seen to build – a more vibrant economy, the Zimele operation also meshes with Anglo's policy of outsourcing many non-core operations. It means there are reliable, viable, local businesses which can become suppliers to the group with more fruitful and trusting relationships than would be the case with outsourcing based solely on price.

Zimele has some important advice for other companies wanting to follow this community investment path. It believes entrepreneurs should put in some capital themselves so they will have a serious stake in the business. But Dr Vangelatos also cautioned that this is not a get-rich-quick option, either for the entrepreneurs or for their backers. 'There are no shortcuts. You have to build the networks, roll up your sleeves and get involved,' she said.



Cembrit Czech Republic

Cembrit factory



Addressing environmental and social issues early on can often boost both the profitability and the environmental and social

benefits of private sector investments.

Cembrit, whose modernization program IFC helped finance through a \$5 million loan in 1995, is a producer of building materials in the Czech Republic. The experience of this company illustrates the practicality of a sustainable approach. Cembrit is a relatively small company, employing fewer than 400 people in two factories. But with the aid of external finance and expertise from IFC and its new owner it has penetrated new markets in Europe, as well as helped to clean up the local neighborhoods.

In the early 1990s the Czech government announced it would prohibit the use of asbestos materials in line with the trend throughout the European Union (EU). Such legislation would have shut down the formerly state-owned plant. But Cembrit began to address the regulatory requirements – including those of the EU.

The focus of the \$15 million project was switching from a hazardous, asbestos-based production process for making roofing materials to an environmentally sound cellulose-based process. The project also facilitated an extensive environmental clean-up, including the safe and proper decommissioning of the asbestos cement operations.

Cembrit was then able to expand its operations through exporting to the EU and other markets which had previously not been accessible. Although the original business plan projected that only 20% of production would be exported, today exports exceed 50%.

Mr Bubla, managing director, comments, 'The biggest benefit of our proactive approach was a new opportunity to start selling goods to attractive Western European markets. The asbestos ban had taken place there, and the new technology was the only possibility of exploiting these markets. Sales in 2000 were \$17 million, a 22% increase over the previous year and more than double what they were in 1996. Exports now account for more than half total sales, whereas previously it was impossible to export to Western Europe because of environmental regulations. We would not be in business today without these changes, so the benefits were tremendous.'

Following the success of the initial program, Cembrit has made further environmental and social investments as part of a long-term sustainability strategy. In 2002, Cembrit became ISO 14001 certified. This is in line with its commitment to continuous environmental improvements.

Business benefits

If asbestos had not been eliminated the company would have shut down. But by proactively addressing future regulatory requirements it has built competitive advantage, which has resulted in expansion, despite intense competition.

'The whole purpose of the exercise was to get ahead of competition and conquer new markets,' Mr Bubla confirmed. Access to markets has been the key element, but this opportunity would not have been grasped effectively without adequate finance, motivated and well-trained staff, and that has been another benefit from the sustainability approach.

The managing director is convinced: 'The investment allowed us access to both financial and human capital. Our employees became more motivated working in a healthier environment. Productivity has more than doubled since 1996 with the same number of employees. The company has a very low staff turnaround in an area where unemployment is under 5%.'

Social and environmental benefits

In addition, the modernization resulted in many benefits to human health and environmental quality. The immediate benefit has been the removal of hazardous asbestos, which has enhanced life expectancy and reduced negative health impacts on workers and the local population. By converting from coal to gas-oil fuel, the plant reduced air emissions almost 100% and made a cleaner source of energy available to local neighborhoods. By constructing a pre-treatment facility and connecting to the municipal sewage system, the project stopped the discharge of untreated liquid effluent into the Berounka River.

The prosperity of Cembrit has also helped the local economy, indirectly as well as directly through wages of the employees. A third of the company's suppliers are local and they have benefited from Cembrit's growth through winning more orders. Local businesses such as suppliers of pigments and spare parts have seen \$3 million in incremental sales per year.

2.5 Develop human capital through better human resource management

The business case matrix		Sustainability Factors						
		Governance & engagement		Environmental focus		Socio-economic development		
		Governance & management	Stakeholder engagement	Environmental process improvement	Environmental products & services	Local economic growth	Community development	Human resource management
Business success factors	Revenue growth & market access							
	Cost savings & productivity							
	Access to capital							
	Risk management & income to operate							
	Human capital							
Brand value & reputation								

Highlighting human capital resulting from human resource management. Full matrix is on page 31.

What's in it for business?

Human capital means the knowledge, skills, motivation, health and empowerment of workers. A quality workforce is critical for key aspects of competitiveness such as productivity, product quality and innovation. This applies in emerging markets even though in many cases there may be a large pool of available workers. The key is finding the right people and motivating them, and there are often shortages of the right people for the job – from contract labor to managers. Mistakes cost money to rectify, while committed workers can be invaluable in achieving required quality levels and boosting innovation.

Health issues in the developing world, particularly HIV/AIDS and other infectious diseases, are pressing areas of concern for human capital. An unhealthy workforce can lead to increased absenteeism, loss of trained employees and high costs for replacement and training.

The same organization also did a survey of the *Best Employers in Asia*,²⁹ in which the CEOs of the top 20 companies stressed the importance of people as key to their success. The CEOs also described acquiring and training talent as one of the main issues facing their business. They believe that employees are attracted to and stay with their companies because of learning and development opportunities, company image and culture, and the workplace itself.

Fernando Capellán, founder and president of the Dominican Republic company **Grupo M**, says, 'We have proven that you don't have to run a factory like a sweatshop in order to be profitable and to grow. We believe that we have been able to innovate, to expand, and to do what we have done because of the way that we treat our people. Everything that we give to our workers gets returned to us in terms of efficiency, quality, loyalty, and innovation. It's just smart business.'³⁰

The company operates 26 textile factories in the country and has become the country's largest private employer with 13,000 workers. It started providing better working conditions due to the requirement of its buyer, Levi-Strauss, but then progressed even further. The company provides subsidized transport, day care centers, medical and dental services for employees and their families, training at various levels, and pays wages of roughly 1,000 pesos a week – well above the country's minimum wage of 555 pesos a week. While apparel makers in countries like Honduras and China have lower labor costs, Grupo M can compete because its workers produce more goods of higher quality.

Better human resource management

Effective human resource management can improve the quality of the workforce by setting the right policies and practices. Aspects include good working conditions, paying what are seen as fair wages and appropriate benefits, training and development, and ensuring equal opportunities regardless of gender, race, religious persuasion or other factors. We found all types of company benefiting from this opportunity, especially in Latin America and Sub-Saharan Africa.

A recent study in India²⁸ covering 52,000 employees in more than 200 companies across 15 industries found a correlation between employment practices and financial returns. The best employers showed growth in return on capital employed despite most sectors recording negative returns in the period. According to the study, 'Indian CEOs are more than aware that they now handle a global talent pool. While the labor cost-advantage has eroded gradually, the biggest challenge for CEOs is to retain people and manage career aspirations, whether through motivation or training.'

Opportunities exist for smaller companies as well as multinationals or large national businesses. **LMC Enterprises**, an auto parts dealership in India, found benefits included a high retention rate and productivity from providing perks like paid holidays and medical help to its employees. According to the owner-manager, Ashish Jain, 'People drive a business and a focus on human relations is key.'

'Everything that we give to our workers gets returned to us in terms of efficiency, quality, loyalty, and innovation. It's just smart business.'
Fernando Capellán, founder & president
Grupo M, Dominican Republic

Alexandria Carbon Black (ACB) is Egypt's only carbon black producer and with 400 employees also a major employer. Mr K N Agarwal, the managing director, says ACB's phenomenal growth is linked to staff enthusiasm and his company's excellent reputation in the community. 'We are the fastest growing carbon black company in the world. You cannot increase production this rapidly unless your workforce is behind you and you have trust from the community you are operating in and the partners you are working with. If you work in an emerging market context you have to think very differently. To attract the best talent available in the country, you have to create a clean, green and healthy environment and an atmosphere where the people would like to work and grow, which is extremely important for improving the bottom line of the company. Then, through commitment to training and empowerment of local staff, you have to improve morale to improve productivity and increase efficiency. Then, you can develop and grow.'

Sustainability factor 4
Human resource management

Human resource management is concerned with the conditions under which employees work, the benefits afforded by their employment and their opportunities for development. Indicators of the degree to which a company considers human resource management a priority include the safety and cleanliness of the workplace, the provision of health care for employees and their families, the existence of policies to address issues such as freedom of association, forced/child labor and discrimination, and the availability of training and development opportunities for employees.

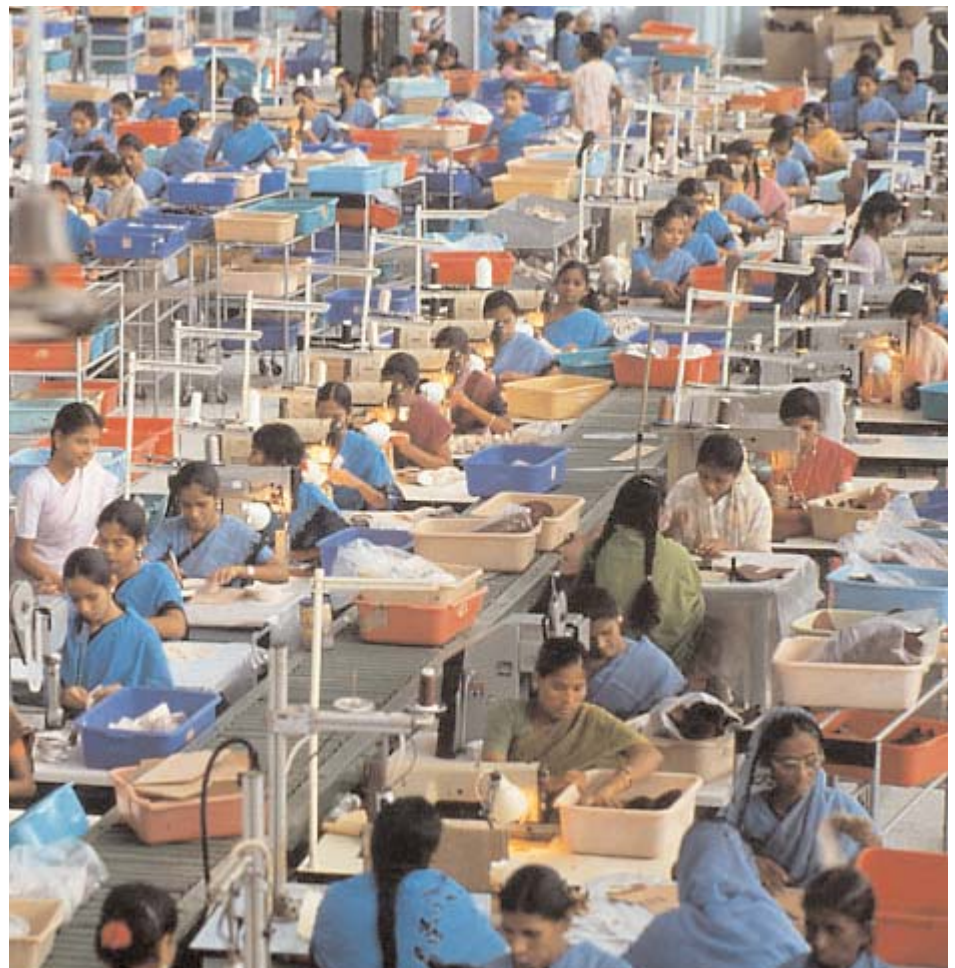
Why it matters

Companies' most basic and fundamental impact is through employment. Employment opportunities offering a safe, high-quality work environment, technical training, education or medical care make important contributions to reducing poverty and improving the quality of peoples' lives.

Future trajectory

Labor conditions have been rising up the international agenda for several years, and will continue to do so. The International Labour Organization has sought to raise the profile of what it terms the 'core labor standards'. These include prohibitions against forced labor, the worst forms of child labor and discrimination and the right to freedom of association and to bargain collectively.

NGOs and trade unions, internationally and locally, are also seeking to ensure minimum conditions are adhered to, through standards such as SA8000 (see Box 5, page 13). Consumers around the world are also sometimes boycotting company products that are believed to be produced using forced labor or in 'sweatshops'.



Clothing factory, India

2.6 Improve access to capital through better governance

The business case matrix	Sustainability Factors							
	Governance & engagement		Environmental focus		Socio-economic development			
	Governance & management	Stakeholder engagement	Environmental process improvement	Environmental products & services	Local economic growth	Community development	Human resource management	
Business success factors	Revenue growth & market access							
	Cost savings & productivity							
	Access to capital							
	Risk management & income to operate							
	Human capital							
	Brand value & reputation							

Highlighting access to capital resulting from governance & management. Full matrix is on page 31

'We believe we can gain a competitive advantage by going beyond generally accepted corporate governance standards.'
Zarir Cama, chief executive
HSBC, India
Centre for Social Markets conference
December 2001

What's in it for business?

Demonstrating that governance structures and management systems are designed to encourage attention to sustainability issues can help companies raise capital at attractive rates. Access to capital is critical for any company wanting to invest and grow, but it can be a serious constraint in emerging markets where equity is typically in short supply, and debt can be expensive and difficult to obtain except on a short-term basis.

Restricted access to capital is an even more important constraint in the present business environment in developing countries, with an economic slowdown, sharp decline in long-term fixed investment, low long-term debt flows and the retreat of many strategic investors. Sustainability action provides several opportunities to unlock capital:

- High standards of corporate governance reassure lenders and investors that the board is properly constituted, that shareholder and stakeholder rights are respected and that the highest standards of transparency and disclosure are maintained.
- Financial institutions are increasingly likely to require evidence of sound management of environmental and social issues as a condition of any deal.
- Since the cost of capital is driven by perceived risk, companies which can demonstrate good relations with stakeholders will reassure investors about potential volatility and should benefit through lower rates.
- Some specialist funds are available specifically for products or projects which will enhance sustainable development (see Box 11, page 49).
- Ultimately sustainability action is likely to enhance shareholder value for all the reasons covered in this report, which naturally improves a company's ability to raise all forms of capital.

Governance & management

We found evidence of opportunities to improve access to capital linked to all seven sustainability factors, although no one factor stood out as having a particularly strong link.³¹ The strongest evidence is connected to governance & management.

On the other hand, poor governance and a lack of transparency (implicated in the Asian financial crisis which hit many businesses in the region) is still a cause for concern. One prominent investor survey by McKinsey has demonstrated that international investors have been unhappy about the slow progress of corporate governance reform in emerging markets.³²

We found that enhanced access to capital through sustainability activities was particularly relevant for the larger national and multinational companies.

The **Bank of Shanghai** in China has attracted international investment after bringing its management and corporate governance up to international standards for commercial banks. In December 2001, HSBC signed an agreement to acquire an 8% equity stake in the Bank of Shanghai for approximately \$63 million (see page 9).

In El Salvador, **Banco Cuscatlan** obtained a credit line from IFC for on-lending to SMEs. It subsequently moved beyond IFC's minimum requirements for the specific credit line and started expanding environmental reviews to its entire portfolio and to all new commercial projects, enhancing its reputation as an environmental pioneer in that country. As a result, Cuscatlan has improved its ability to access long-term funding from multilateral and bilateral organizations. The fact that Cuscatlan has an environmental management system has helped to secure a credit line from Netherlands Development Finance Company (FMO).

There is also evidence of the negative impact of inadequate governance. **Samsung**, the South Korean electronics company, has battled to convince investors that its corporate governance is sound. Yet one financial analyst has estimated that poor governance represents a price drag of as much as 50% on Samsung stock. Hasung Jang, a shareholder rights activist and economist at Seoul's Korea University, has commented, 'Investors question [Samsung's] corporate governance. That's why its shares are so seriously devalued, compared to its US and even Taiwanese competitors.'³³

The **Itaú Bank** in Brazil has recently upgraded its corporate governance practices by extending 'tag-along rights' to its non-voting shareholders. This rare move in Brazil means that in the case of a sale of the company, the minority shareholders with non-voting shares would receive the same price as the controlling shareholder. The company's share price rose nearly 7% in the two days following the decision. The Itaú Bank is also among the first companies in Brazil adhering to the 'Special Corporate Governance Level 1' of BOVESPA, the São Paulo Stock Exchange. Its shares have been promoted to the most highly valued stock in the banking sector. The Itaú Bank also has the highest corporate market value in Latin America, close to \$20 billion.³⁴

Even for smaller companies starting along the sustainability path, specific investors are emerging. **A2R** in Brazil provides investment funds for financing environmental projects. Its Terra Capital private equity environmental fund can finance environmental projects with biodiversity benefits in areas including organic agriculture, non-timber forest products, fish farming and eco-tourism. Terra Capital was launched with an initiating investment from IFC and complimentary grant funding from the Global Environment Facility and includes additional capital mobilized from the Inter-American Development Bank, the Swiss government and private investors.

E+Co was established in 1994 with funding from the Rockefeller Foundation as an independent not-for-profit company focused on, 'Bringing together technology, people and funding to create viable local enterprises that deliver affordable and clean energy to those in need'. It has provided \$9.3 million in seed capital to 77 local clean energy enterprises in 34 countries in Africa, Asia and Latin America, e.g. 12 Rural Energy Service Companies (RESCOs) that serve more than 31,000 previously unelectrified households in Bangladesh, Brazil, Costa Rica, Dominican Republic, El Salvador, Gambia, Honduras, India, Lesotho, Morocco, Nepal, South Africa and Vietnam.

Sustainability factor 5 **Governance & management**

This factor focuses on the management systems which underpin a company's sustainability performance, as well as its governance structures.

It is about setting in place systems and processes that make a company more accountable to shareholders and other stakeholders. It covers the inclusion of sustainability concerns in mission statements, business principles, values and ethics, codes of conduct including policies on bribery and corruption and human rights, financial and sustainability transparency, reporting and audit. It is important that the management systems incorporate structures and responsibilities for sustainability issues at the highest levels within the company and align incentives and pay systems with this commitment. It also ensures alignment between a company's government-related activities and its sustainability principles.

Why does it matter?

A company's management systems and processes are the first steps to improved financial, social and environmental performance. They allow companies to plan, monitor and manage key issues with better control. Environmental and social management certification schemes such as ISO 14001 and SA8000 are often used by investors, as well as customers and civil society, as a proxy for the company's commitment to good environmental processes or good labor force management.

Future trajectory

Pressure on companies to improve governance & management, as well as the benefits to companies in terms of access to capital is increasing. This is reflected in initiatives from organizations like the World Bank and OECD to foster the development of appropriate national corporate governance frameworks.³⁵ With the increased scrutiny, the number of companies gaining certification of their environmental and social management is also increasing (see Box 5, page 13). This trend is likely to continue as companies begin to compete for markets and access to capital.

Box 7 **Corporate governance: building stakeholder trust**

Corporate governance is the 'system by which companies are directed and controlled'.³⁶ It is about improving the governance structures and processes of companies to improve their performance and make them more accountable to shareholders and other stakeholders. It covers issues such as the structure and operation of the board of directors, financial reporting, transparency and audit, separation of powers and minority shareholders' rights.

In emerging markets, where family firms undertake much of the business activity, the main divergence of interests is most often between the family shareholders and the external minority shareholders. In emerging markets the quality of corporate governance has become widely recognized as crucial. Weak corporate governance leads to what can be described as a general 'corporate governance discount'³⁷ which reduces foreign investment and capital flows to developing economies.

An increased international awareness is reflected in a growing number of initiatives from organizations like the World Bank and OECD to foster the development of appropriate national corporate governance frameworks.³⁸

The work of the King Committee in South Africa is groundbreaking and has led to a significant improvement of local corporate governance practices among listed companies. The committee suggests that corporate boards in South Africa should actively solicit and take into consideration feedback received from stakeholder groups other than shareholders.³⁹

In Brazil the initiative has been taken by BOVESPA (the São Paulo Stock Exchange). BOVESPA created the 'Novo Mercado' (New Market) in 2000, a voluntary approach to improving corporate governance standards. Companies that choose to list on the Novo Mercado commit themselves to following a stricter set of rules, including equal rights for all shareholders, higher standards of disclosure with annual reports, and improved procedures for election of the board of directors.

2.7 Other opportunities from community development and environmental products

The business case matrix		Sustainability Factors						
		Governance & engagement		Environmental focus		Socio-economic development		
		Governance & management	Stakeholder engagement	Environmental process improvement	Environmental products & services	Local economic growth	Community development	Human resource management
Business success factors	Revenue growth & market access							
	Cost savings & productivity							
	Access to capital							
	Risk management in income to operate							
	Human capital							
	Brand value & reputation							

Highlighting opportunities from environmental products & services and community development. Full matrix is on page 31.

The previous sections have highlighted the business opportunities for which we have found the strongest evidence. But other opportunities exist to bring value to both business and society, although the evidence is weaker. In this section we examine two of these areas – community development and environmental products & services.

Community development activity has a strong tradition based on philanthropy⁴⁰ and has often been the starting point for business sustainability in emerging markets. At the other end of the spectrum, environmental products & services are often part of a new business model, with the entire strategy based on environmental superiority going beyond just technology and encompassing the whole life cycle of the product – from raw material to disposal.

Community development

Companies have for some time recognized the need to ensure surrounding communities develop as a result of setting up a company's operation, for example by the building of schools, hospitals, roads or water facilities. What began as philanthropic gestures made to aid pet causes have since evolved into targeted interventions to address fundamental community needs and assist business objectives. This is not to say that company owners and executives do not still fund their special interests or make philanthropic contributions – only to point out that many businesses have recognized the strategic importance of community development and have exploited the opportunities that exist to improve their overall performance. Brand value & reputation benefits most from community development, but we found benefits in all the business success factors, especially revenue generation.

The creation of special community development departments and/or foundations by many companies, particularly those in the extractive industries, has permitted the scaling up of strategic actions designed to optimize positive returns for both the community and the business.

There is also evidence of community development helping to reduce costs as well as risk. For example, where there are large mining or exploration projects that may displace people and adversely affect their livelihoods, companies that work to affect local social and economic development positively may find it easier to win a local license to operate and to reduced delays and contain the costs of the project.

In Mozambique the \$1 billion aluminum smelter, **Mozal**, helped the government to manage the resettlement of people occupying the area specified by the government for the Beluluane Industrial Park, on which Mozal would be the anchor tenant. Mozal used its own and third party resources to help provide housing and replacement farmland in order to comply with IFC and World Bank standards regarding resettlement. It also supported the relocated people with agricultural know-how, seed and fertilizers, while its fully funded Community Development Trust provided further support including marketing support for agricultural commodities. This helped raise local income levels and provided support to the wider community in the form of projects covering infrastructure, education, sport, culture, health and small business development. IFC is working with Mozal to develop and implement social responses to AIDS-related issues and malaria. This has helped Mozal maintain its local license to operate as well as build good community relations.

Environmental products & services

There is a growing market for products and services that provide environmental benefits. It includes niche markets for environmental infrastructure and pollution abatement technologies, such as water supply, waste management, soil remediation, air and water pollution control, and other established environmental technologies. A distinct niche focuses on the growing demand for eco-efficiency, including industrial products and know-how which reduce the use of energy, water and other resources in production processes. There are also green niches of established industries that provide alternative ways of meeting market needs, such as renewable energy, sustainable agriculture, forestry and fisheries, and eco-tourism.



Teapickers, Sri Lanka

Products and services based on environmental considerations – from the raw material extraction to disposal – potentially command a price premium while also catering to the needs of specific target markets.

Creating an environmental product or service needs to be based on a coherent strategy which will embrace a company's entire operations and possibly business partners. In some cases such a strategy has been adopted by small enterprises following new business models that explore new opportunities and needs of customers around the world (see Box 6, page 13).

Emerging markets have specific advantages over developed countries in building alternative product and service markets. For example, countries can leapfrog stages of technology – in power, moving straight to off-grid renewable energy without ever having polluting power generation plants. Vast forests and concentrations of biodiversity represent natural capital not available in most developed countries, which may become valuable as carbon sinks, watershed protectors or the research laboratory for bioprospectors that developing countries are beginning to generate.

Eco-tourism opportunities in developing countries clearly offer an experience that is simply not available in the developed world. Eco-tourism – responsible travel to natural areas that conserves the environment and sustains the well-being of local people – is growing at almost 30% a year, compared with the 4% growth of general tourism. Eco-tourists are also found to be willing to pay more than the standard traveler.⁴¹

The **Conservation Corporation Africa** operates 27 lodges and camps in safari locations spanning six countries – including South Africa, Zimbabwe, Kenya and Tanzania. It is Africa's largest eco-tourism group, employing approximately 3,000 people. Since the early 1980s, the company has successfully raised equity from overseas investors by stressing the social responsibility of its operations. Much of this foreign-generated capital has gone into the construction of four lodges at the 30,000 hectare Phinda Game Reserve, in the southern part of Maputaland in KwaZulu-Natal, one of the most biologically diverse areas of the country.

Sustainability factor 6 **Community development**

Companies can go beyond economic growth in a community and support it through provision of health, education, water and sanitation, helping fight corruption and upholding indigenous and human rights. Support can be in the form of financial contributions or staff time and expertise. Companies may also seek to mitigate their potential negative impacts, including the siting of operations, security arrangements and relations with local government.

Why it matters

In many emerging markets the services, structures and human capital necessary for healthy communities may be absent to some extent. Local and national governments may not always be able to provide basic services such as clean water and power. Access to medical care and education may also be limited. Local populations may not have the skills and experience necessary to establish and run civil society organizations.

Without such important elements of infrastructure and human capital, communities will be unable to provide the environment necessary for people to achieve their potential. Helping to ensure amenities are available to the community creates opportunities for social and economic development.

This kind of business support will help to build positive relationships, enhance companies' reputations and provide a suitable environment for business success. In many settings such support has come to be expected of companies and in many cases the companies themselves do not consider community development an option but rather a necessity for doing business.

Future trajectory

As long as governments continue to lack resources or capacity to supply infrastructure and services for community development, the expectations regarding the role of business in this area will remain high. Companies which have embraced community development have found it to be a highly effective means of improving business prospects.⁴²

Box 8

The business case – private provision of public goods

The private provision of public goods, such as infrastructure and health care, is unique in making the business case for sustainability. Not only do they enhance the providers' bottom line, but the spill-over effects of the public good can be substantial. IFC's experience in these sectors demonstrates how business efficiency promotes sustainability. While economic and financial objectives are usually the prime motivation for transferring public services such as railways, ports or water supply to the private sector, there can also be significant environmental and social spin-offs.

The provision of public goods by private providers in emerging markets can deliver improved efficiency as a result of fewer resources being used to deliver the same service or the service being expanded without extra resources. Further, the benefits of the expanded service or production can spread well beyond the project, leading to greater opportunities for employment as well as community development.

New jobs may be created in the expanded service, or often in the new small businesses set up to support the community. For example, the investment plan of a water concession in Latin America has created jobs for 15,000 small contractors. Throughout Latin America, affordable basic water services have been extended to all population groups. Access to clean water and power has also made it possible for schools, health clinics and small businesses to be set up in poorer neighborhoods. The installation of sewage networks in some poorer communities is an example of how companies have demonstrated their high level of community interaction.

Private investment in clean water and wastewater treatment can also have important social spin-offs. Firstly, improved sewage collection and treatment reverses the trend of environmental degradation of surface water and public health problems caused by lack of sanitation. Secondly, actions taken to reduce water losses from the system help to conserve underground water resources. Finally, easy access to clean water can mean that girls can go to school rather than standing in line to collect water.

The organic food market demonstrates the potential of environmental products. In Austria and Switzerland, organic products represent as much as 10% of the food market, while the US, France, Japan and Singapore are experiencing growth rates that exceed 20% annually. This is a major opportunity, and emerging market suppliers can command premiums as high as 20% in these markets.

Café Mesa de los Santos is among the largest producers and exporters of organic coffee in Colombia. Its target market is North America, where the demand for organic coffee is increasing 15% annually. In 1999, the company produced more than 2% of all specialty coffee consumed in North America, and there are plans to expand to Japan and Europe. Its coffee is sold at the highest price paid in the marketplace.

Similarly, the São Francisco mill in Brazil produces an organic sugar called **Native**, which commands a premium of 60% over common sugar. Sold in 24 countries, with annual revenues of \$5 million, Native is one of the largest producers of organic sugar in the world. As well as earning a price premium, the sugar costs less to produce than the common product because of cost savings from productivity improvements and savings from the non-use of chemicals.

Vilniaus Bankas (VB), established in 1990, is the largest and most profitable private bank in Lithuania and second largest bank in the Baltics. VB is the dominant player in foreign trade financing, corporate, investment and e-banking. It has adopted a proactive strategy on environmental issues by building up a small portfolio of environmental investment loans as well as integrating environmental risks into its credit appraisal systems. Several of the bank's corporate and SME borrowers face significant environmental challenges, particularly as Lithuania has adopted EU environmental standards. VB identifies and tracks these issues and has provided project finance for the necessary capital expenditure programs, often as a co-financier with the State Environmental Fund. These pilot environmental investment loans are adapted to the Lithuanian economy, dominated by small processing plants and trade, and the products have been in demand mostly for upgrades of heating systems, ISO 14001, and dairy farming. VB expects the demand to increase with EU integration.

Sustainability factor 7 **Environmental products & services**

Analyzing environmental impacts throughout the life of products and services – from raw material extraction through to disposal – is recognized as increasingly important. Though much focus is placed on production processes, impacts that take place during the 'use' and 'disposal' phase can be very significant (for example in the case of cars the environmental impacts of their use far outweigh those associated with their production). Product stewardship, or embedding environmental principles in its products and/or services, can help reduce the overall impact of a product.

Why it matters

As pollution from 'point' sources such as factories is addressed, a growing component of the overall load on natural resources comes from 'diffuse' sources, associated mainly with the use or disposal of products.

Companies that think proactively about these issues and ensure that products and services are designed with the entire life-cycle in mind are likely to avoid the negative impacts and potential costs of remediation or compensation, as well as reputational damage. Such products may also be able to attract a premium by legitimately claiming to be environmentally friendly.

Future trajectory

The focus of sustainability has shifted slowly from process improvements to products and services and this is likely to sharpen further as international efforts intensify to combat climate change and improve the impact of business on society. The development of environmental products and services by new businesses will present competition to existing suppliers which will also intensify activity in this area. Emerging markets are likely to continue to play an important role in the development of these markets.



Wind farm, India



Natura laboratory



Natura, formed in 1969, sells cosmetics, personal hygiene products, perfumes and nutritional supplements throughout Latin America.

Sales in 2001 were 1.66 billion reais (\$630 million), an increase of 14% over the previous year. At the beginning of 2002 Natura employed 3,100 people directly, and had 286,000 sales consultants in Brazil.

Natura believes that investing in the quality of all its relationships is fundamental to creating a united enterprise, attracting and maintaining professional talent, establishing constructive dialog with communities and achieving consistent economic results.

In 2000 it became a signatory to the UN Global Compact and also began to produce an annual 'balanço social' (corporate social responsibility report) in accordance with the Global Reporting Initiative guidelines. Natura works hard on sustainability with its own workforce and in its supply chain.

There is an initial induction process for each employee in which the beliefs, values and objectives of the company are explained. Suppliers are visited at least six times per year by quality assurance staff. They monitor economic performance, compliance with labor laws, health and safety, and working conditions.

Environmental initiatives

The Natura Ekos line of hygiene and beauty products was launched in 2000, based on natural Brazilian flora extracted in a sustainable manner by local people. In partnership with Imaflora, an NGO which operates on FSC principles, Natura has also certified floral assets to guarantee that they are extracted in a sustainable manner.

Other environmental initiatives include supporting environmental restoration projects in the 650 hectare Fazenda Bulcão and of the Pomar project which promotes restoration of polluted areas on the banks of the Pinheiros River. Natura also partners with TV Culture, the public broadcasting station of São Paulo, on the Biodiversity Brazil project which includes production of documentaries and other programs about biodiversity in Brazil.

Social initiatives

Natura's Social Action Management identifies and develops social projects. For example, since 2000 product labels are printed at Laramara, an institution which cares for visually impaired people.

The company has also developed a program with the Abrinq Foundation, an NGO that promotes the rights of the child, called 'Seeing is Believing'. The proceeds from a line of special products support the development of educational projects involving 3,600 schools and 768,000 children in Brazil. A total of 9 million reais (\$3.4 million) has been invested since the beginning of the program in 1995.

An amount equal to 10% of shareholder's dividends is invested in social programs each year.

Business benefits

Natura believes it has benefited from:

- increased skills and motivation (human capital);
- improved ability to attract and keep employees;
- increased brand value & reputation, demonstrated by a high ranking in assessments by Ethos and the *Good Citizenship Guide*, prepared by *Exame* and *Carta Capital* magazines;
- consumer loyalty and willingness to pay a price premium – an annual study of Natura consumers has found that the company's social responsibility is regarded as its most important attribute;
- better evaluation from financial institutions.

Challenges

It is necessary to embed sustainability throughout the business, influencing the whole production chain, engaging people and integrating sustainability into management systems.

This can cause short-term disruption. For example, in 2000 Natura learned of an illegal supply of bark from the 'candeia' tree which provides an important extract. The company decided to suspend the purchase of this item until the suppliers proved the product was totally legal.

The challenges also reach beyond the company's own operations to increasing fair trade practices in the supply chain.

2.8 The best opportunities in summary

This chapter has highlighted the key opportunities and benefits identified by some companies from action on sustainability. The substantial body of real-life cases behind this analysis demonstrates clearly that sustainability action can deliver against the 'triple bottom line' which considers social, environmental and economic benefits. Many more examples are on the website at www.sustainability.com/developing-value.

As explained at the start of this chapter, the links between the six elements of business success and the seven sustainability factors create the business case matrix. The matrix shows the strength⁴³ of the evidence we have found for each pair of business / sustainability factors (rather than the strength of the impact, which we have not attempted to measure). The matrix below summarizes the linkages. It answers the question: How much evidence is there for a business benefit from a specific sustainability action?

The dark orange cells identify the strongest evidence. Companies are clearly realizing the business benefit described down the left side of the matrix by taking the sustainability action identified across the top. For example, a company making improvements in working conditions is very likely to achieve greater labor productivity. These seven dark orange cells are the connections featured in the earlier part of this chapter.

The light orange cells, which fill the bulk of the matrix, represent links where there is evidence of business benefits, but the evidence is not as strong as the previous seven clear winners. For example, we found evidence of improved access to capital from all sustainability factors but there was no single factor with overwhelmingly strong evidence. Meanwhile, although we have not discussed the light orange cells in detail in this report, these are the areas where the business case may have the greatest potential to strengthen in the future. Examples of companies already experiencing benefits in these areas can be found in the database on the website. Six cells are uncolored. In these areas, such as cost savings from environmental products, we did not find any evidence of business benefits, although in all cases there are other benefits from the sustainability factor.

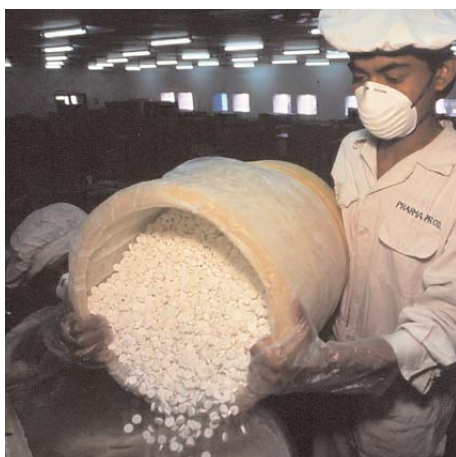
The lack of evidence does not necessarily mean that companies cannot achieve these benefits. It may be that the benefits are more difficult to measure or have not been measured. On the other hand, if these sustainability actions do not yield business benefits, then these might represent areas for governments and other players (see Chapter 5) to assess and redesign framework conditions and incentives to strengthen the business case.

The business case matrix illustrates our overall conclusions, although there are significant variations. Some benefits were more marked in some regions than others. The results also varied depending on the type and size of company, and the industry sector it operates in. These differences suggest that companies need to consider their own circumstances when deciding which sustainability opportunities to explore. These contrasts are explored further in Chapter 3.

It is also important to note that the business case is not static. As expectations and demands from stakeholders grow, along with environmental and social needs, the business case will evolve. A few years ago the environmental and social agenda was widely thought to be a fringe movement. But today companies are taking these concerns on board as their customers, investors and employees are examining their sustainability performance along the whole value chain. The future will see this agenda become mainstream and provide competitive advantage to companies which incorporate sustainability into their business strategies.

Limitations

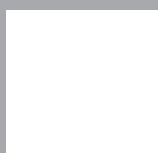
The matrix shows where businesses can help to achieve their objectives by taking action which also furthers sustainable development. The grading of the cells in the matrix, illustrated by the color codes, indicates how confident we can be of the connection between the two dimensions. It does not give any indication of how significant the business benefit is likely to be, nor have we attempted to judge the scale of the sustainability benefit, because it depends on the case. It also does not show which connections will be stronger in future, but rather is based on the present experiences of companies. Future trends are discussed, however, throughout Chapter 2 and in Chapter 5. We hope that others will be inspired to use the data we have gathered to investigate the links in greater depth, and that businesses will explore how the connections fit their respective cases.



Pharmaceutical factory, India

The business case matrix		Sustainability factors						
		Governance & engagement		Environmental focus		Socio-economic development		
		Governance & management	Stakeholder engagement	Environmental process improvement	Environmental products & services	Local economic growth	Community development	Human resource management
Business success factors	Revenue growth & market access	Strong	Strong	Strong	Some	Strong	Some	Some
	Cost savings & productivity	Some	Some	Strong	No	Some	Some	Strong
	Access to capital	Some	Some	Some	Some	Some	Some	Some
	Risk management & license to operate	Some	Strong	Some	Some	Some	Some	No
	Human capital	No	Some	No	No	Some	Some	Strong
	Brand value & reputation	Some	Some	Strong	No	Some	Some	Some

Figure 3 The business case matrix



No evidence of a business case



Some evidence of a business case



Strong evidence of a business case

The nature of this research also means that we have not gathered negative evidence. In other words, there may be cases where companies have made environmental process improvements, for example, which have resulted in cost increases. It could also mean that an activity had no immediate (or short-term) tangible benefit, or that nobody thought of observing the link to revenues, for example.

There can be no guarantees that a company will achieve a business benefit even by taking action which has produced the highest scores in the matrix. The evidence shows only that these opportunities exist. It is up to each company to find its own way of capitalizing on the opportunities which are relevant to its particular circumstances, as external conditions are important. Businesses must also see how certain activities are linked in their own company e.g. transparency, communications, partnership with suppliers. In Chapter 4 we provide some tools for companies to begin developing their own business case.

In context

It is important to put sustainability-focused management in context. It does not offer a magic recipe for success. It can contribute and add to success, but will not offset poor business practices or compensate for bad decisions in conventional aspects of marketing, production or financial control. Nor should business activity be seen as the solution to a country's sustainable development dilemmas. Business can contribute to sustainable development — and benefit in return — but governments and other actors are key, as we highlight in Chapter 5.

Our research has been concerned with examples of ordinary companies doing business in a more or less ordinary way. These companies are not paragons of virtue and the fact that we have identified some sustainability benefits does not mean they are doing everything right. In most cases they have not followed what might be called a 'sustainability strategy' but have acted in a piecemeal fashion.

It is likely, however, that the long-term benefits of strategic actions will outweigh the short-term benefits from tactical fixes. As Eve Anneke, executive director of **Spier Holdings** in South Africa observed, ⁴⁴ 'A sustainable approach asks people to think differently and make a fundamental leap in perspective. We find that when people are able to see the difference, their perspective changes.'

Answering the skeptics

We have found comprehensive evidence of the potential opportunities for business benefits from sustainability actions. Critics, however, raise several objections to corporate sustainability. We address them here:

'Sustainability is a trade barrier designed to make it more difficult for emerging countries to compete internationally.'

Corporate sustainability is primarily a strategic response to a changing external environment. It is underlying shifts in public opinion on the importance of environmental, social and governance issues which drive new opportunities and risks. In some cases, public opinion leads to changes in government regulations and policies, which may have the effect of raising standards and changing the criteria for trading partners. This may in some cases be a sustainability-related risk for developing country exporters. But the risk to these exporters does not lie in companies' focus on sustainability; instead it is a focus on sustainability which is often the best way for firms to mitigate that risk. The risks and opportunities targeted by most corporate sustainability strategies and programs are real — and require active management. Success brings improved access to markets and finance, helping build supply chain partnerships.

'Sustainability will add unnecessary costs which many companies simply cannot afford.'

It is a matter of investment, not cost. Like any investment, companies must find the resources and assess the paybacks. But this research has uncovered many cases where the paybacks have been swift and substantial, and it has shown that addressing these issues is more likely to help companies identify cost reductions than add to their costs.

'Sustainability interferes with the proper working of markets and distracts companies from their primary responsibility, which is to provide goods and services profitably.'

Sustainability is a response to evolving market pressures. Industrial and retail customers want to know that the goods they buy have been produced responsibly, with minimum environmental impact and optimum gains to the communities affected. Sustainability is a new way of thinking about business. It will become a basic characteristic of many goods and services, just as price and quality are.

'Sustainability is nothing more than philanthropy.'

The hundreds of examples on our website www.sustainability.com/developing-value demonstrate that sustainability is concerned with the core of a company's operations — the way workers are recruited and treated, dealings with suppliers and customers, and the impact of the products in use. These are central business issues. Philanthropy can be a part of sustainability, but it is not a central part.

'Companies are being asked to follow an agenda set by over-powerful NGOs.'

Sustainability is not about bowing to NGO demands. But NGOs represent many important stakeholders and it is critical to understand their interests and concerns. Many companies have found benefit from actively partnering with them. Business policies remain the prerogative of owners and managers but there needs to be a dialogue so that all parties understand the thinking and constraints of the others.

For all these reasons, and the evidence from over 240 cases, we believe sustainability offers a positive agenda for businesses in emerging markets all over the world.

Box 9
'The right thing to do?'

Some people feel sustainability action is a fundamental responsibility and there should be no need for a business case. This is reflected in business people saying they took initiatives simply because it was 'the right thing to do'. Looking for the business benefit as a justification can therefore be regarded as amoral. It implies that unethical behavior is acceptable if it pays, and that doing right is inappropriate if it damages profits. It is the kind of position which led the business world to oppose the abolition of slavery and the introduction of decent working conditions during the industrial revolution in the developed world.

The moral case argues that principle must precede profit, even if the two are not opposed. Profit is a necessary outcome, but the purpose needs to be rooted in something more substantial, such as the satisfaction of a societal need.

The reason why companies do not deliberately kill or poison people is not because it is bad for business, but simply because it is bad. Bribery, lying and polluting are not acceptable, regardless of whether they will be detected and therefore result in financial damage. The result is that companies must do right because it is right, not because it pays. Principle, not profit, should be the point of departure.

We do not dispute the assertions made by proponents of the moral argument. Our response is that it applies to fundamental principles, but there are many areas of corporate activity that are not matters of morality. The basic principles are usually enshrined in law – and certainly in United Nations declarations. But sustainability goes beyond legal minimums. Issues such as training and childcare, environmental innovation or responding to community concerns are not solely matters of morality. But they are areas where investment can help business success – and aid sustainability.

This box draws on the views of **Sir Geoffrey Chandler**, founder-chair of the Amnesty UK Business Group and former senior executive with Shell.⁴⁵



Bamboo transportation, Indonesia

Sustainability in Brazil



Car factory worker, Brazil

The concept of sustainability or corporate social responsibility emerged as a significant force in Brazil during the 1990s. But the seeds were planted already during the 1980s in a sequence of social and political events which definitively changed the attitude of citizens, including business community.

During the 1980s the country went through a process of re-establishing democracy. This was marked by vast participation of the people, culminating in a new constitution and direct elections for president in 1989.

The impeachment of the president, only two years after his election, was imposed by a national commitment against corruption. Citizen participation and civil society organizations continued to grow during the 1990s, fuelled by the Rio Summit which propelled environmental issues to the top of the world agenda, but also the campaign against hunger. This was led by Betinho (an intellectual and social leader responsible for many initiatives against poverty and hunger, ethics in politics and HIV patients' rights) and supported by an enormous group of organizations of all kinds, including business leaders, from all over the country.

This tide of concern for environmental and social issues began a fundamental change in attitudes in the Brazilian business world. The social movements brought together free trade unions, political parties, environmental organizations, ethical bodies and associations promoting the rights of consumers, women and children.

The series of changes in the business world have developed and become more prominent over the last ten years. Many business institutions were created to deal with themes such as economic and environmental sustainability, community and societal development, and corporate responsibility (such as the Ethos Institute – Business and Social Responsibility). These organizations are led by business men and women who actively take part in different social movements.

Spending on social projects has also grown substantially. The Institute for Applied Economic Research (IPEA) reported that in the last few years companies spent nearly \$4.5 billion reais (\$1.7 billion) per year in social investment, beyond spending required by law. This figure is comparable with the federal government's spending on social services and assistance.

The IPEA found that two-thirds of the companies in the Southeast of Brazil (the most industrialized region in the country) have community projects. Half of these businesses are small companies.

The growth of interest in sustainability in Brazil can also be demonstrated by the growth of the Ethos Institute. It began in 1998 with 11 associate companies, and by the beginning of 2002 nearly 600 companies are associated with Ethos. Their turnover amounts to more than a quarter of the country's GNP. These companies want to support the movement and get information about ethics, transparency, employment conditions, consumer relations, supplier involvement, community activity, the environment and government/society relations.

There are three main motivations for corporate sustainability:

- The need to adapt to the international market – the Brazilian business community is marked by a large number of branches of multinational and export companies which are aiming at developed markets.
- The desire to bring about swift and significant improvements in poverty and the country's extreme social differences.
- Concern to maintain natural and human resources for future generations.

The main challenge faced by companies is to develop a balanced style of management that maintains a focus on cost control, high standards of quality and other aspects of competitiveness, but also aims for sustainable growth in accordance with the demands of civil society. Many Brazilian companies are getting involved in sustainable aspects but are still centered on the issues of cost and quality.

A second challenge is training managers and professionals who will work in these companies in the new sustainability scenario. That is also a challenge for the teachers and trainers of the professionals of the future.

We can identify already increasing company interest in reporting on social and environmental activities – a few companies already report following the Global Reporting Initiative or similar guidelines – and a greater engagement with projects around public issues and social development.

A view of the development of corporate sustainability in one country, contributed by Ethos Institute, Brazil.

www.ethos.org.br

Chapter 3 The diversity of the business case

The cases we have gathered demonstrate the many and varied opportunities for businesses to achieve their objectives while undertaking activities which further sustainable development. The evidence set out in Chapter 2 confirms the business case for sustainability action, with some common threads running throughout. The strongest trend is that companies of all types in all regions can experience efficiency gains from investing in people and making environmental process improvements.

In addition to some common trends, the examples also show that the details of how the business case plays out in each specific company differs. There is a multitude of business cases, with some interesting contrasts between regions, sectors and types of company. The following analysis, based on the case studies gathered for this report, outlines some of the strongest differences by region and type of company, which are driven by the relevant context and business approaches.

Several of our case studies also suggest the importance of sectoral variation. However, while we touch very briefly on sectoral issues in the discussion of market focus, we do not attempt a comprehensive analysis, as there were not enough examples in each sector.

Different types of company

We have divided the companies into the three broad categories indicated in Figure 4. 'National and multinational (MNC)' refers to large companies based in the emerging markets, although they may have operations and customers anywhere in the world. 'Small and medium sized enterprises (SMEs)' are also based in the emerging markets, but are distinguished by their size. 'Foreign multinational (MNC)' refers to companies operating in emerging markets but with their ownership based elsewhere – i.e. in one of the developed markets.



Smallholder, Hungary

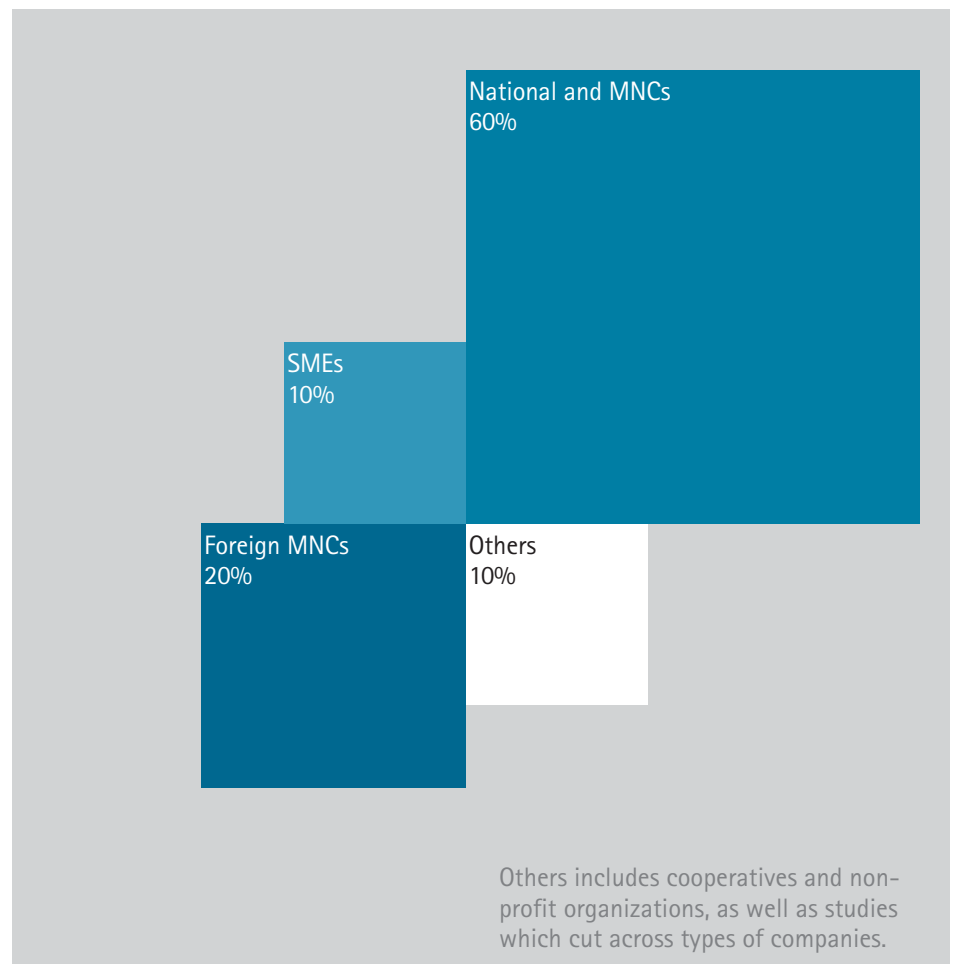


Figure 4 Percentage of cases by company type

Small and medium sized enterprises (SMEs)

Key trends

- Cost savings and revenue growth demonstrate the strongest benefits.
- No examples of enhanced access to capital or risk management.
- Environmental products more important than for other categories.

For SMEs, many of which operate in survival mode, even small changes in revenues and costs are critical, time horizons are short, and access to capital is problematic. The external sustainability drivers tend to be weaker, as these companies are likely to be under less public pressure than larger businesses to demonstrate high social and environmental standards.

Nevertheless, the examples in this study show that a business case does exist for SMEs. It focuses overwhelmingly on cost savings (accounting for nearly half of the SME cases, most based on environmental process improvements), as well as revenue growth & market access (over 40%). Governance & management also contributed to both cost saving and revenue growth.

None of the SMEs in this study benefited directly from greater access to capital because of sustainability activities. Indirectly, the increase in revenues and reduction in costs increased profitability, thereby improving credit worthiness. Enhancing SME access to capital is one area the World Bank Group has highlighted as a priority within the SME Linkage Program. Among other objectives, the program seeks to develop viable local financial intermediaries to support SMEs.

Some SMEs are leading the way in innovation, employing 'alternative business models' (see Box 6, page 16) to achieve business objectives by generating both social and economic development or creating environmental products. Examples include eco-tourism, microfinance, organic agriculture and 'digital dividend' projects. For example, the **Campements Villageois** in Senegal are successful eco-tourism developments. Local people plan, build, operate and manage the 'campements', with major decisions open to the whole village. Since 1974, 400 bed spaces have been created in 19 Campements Villageois, for a cost of around \$140,000. They represent 10% of the alternative tourism sector in Senegal, with annual receipts from tourists totaling around \$138,000.

National companies and MNCs based in emerging markets

Key trends

- Cost savings strong, but focus on revenue growth weaker than for SMEs.
- Greater focus on risk management and brand value & reputation.
- Governance and socio-economic growth were stronger factors than for other categories of companies.

As for SMEs, over half the examples of national companies and MNCs enjoyed the greatest benefits in the form of cost savings (60%). However, unlike the SMEs we analyzed, for which savings derived mostly from environmental process and governance & management, the benefits here came from almost all the sustainability factors.

Several national companies and MNCs also benefited from sustainability in two ways which SMEs did not – through improved risk management and access to capital. One-fifth of the companies in this category also enjoyed improved reputation, which resulted from a wider variety of sustainability factors than for SMEs, in particular human resource management and environmental process.

One example of reputational benefits is the **Haiha-Kotobuki** joint venture in Vietnam. Working with a number of local partners, the company helped develop programs for the prevention and control of HIV/AIDS. The company's deputy director has identified corporate reputation as one major benefit from the partnership. 'Instilling public trust in a company's quality products and the procedures involved in providing the product to the public is vital to our success.'⁴⁶

Foreign MNCs

Key trends

- Stronger focus on intangibles than for national companies.
- Governance and environment are less important as sustainability factors than for other categories of company.

We found examples of foreign MNCs which experienced financial benefits from improved sustainability in all areas. But compared with companies based in emerging markets, cost saving was a less important benefit (29%). Risk reduction (24%) and human capital (11%) were somewhat more important.

Interestingly, environmental process improvements and governance & management show up less as sustainability drivers of financial performance for foreign MNCs than for companies based in emerging markets. This may be a result of companies based in developed markets differentiating themselves less through these factors. These companies are more likely to focus on developing their own global standards than using certification schemes, for example.

As with national companies, risk management was an important aspect of sustainability contributing to business success for foreign MNCs. Driven by a wide variety of stakeholder pressures both in their home country and their country of operation, MNCs based in the developed markets more frequently derive benefits from engagement and social development activities as a means of managing risk and maintaining their local license to operate.

MNCs analyzed in our study also demonstrated a willingness to move beyond traditional concepts of social development such as community development. Some have chosen to analyze the social impacts of their products and processes and taken steps to mitigate those that are adverse. One such example comes from **Henkel Chile**, a producer of adhesives and other household products. As part of its production of adhesives, the company used toluene, an organic solvent also frequently used as an inhalant by children from poor and marginalized social groups. In large or frequent dosages, toluene has been shown to have irreversible negative impacts on the central nervous system even leading to death in extreme cases.

To limit availability of the substance in the community, in 1995 Henkel Chile developed non-intoxicating substitutes for toluene solvents. Despite expected start-up costs associated with such a change in product, the company has increased its market share and enjoyed excellent public relations as a result of its decision. Finally, Henkel Chile was well ahead of its competitors when Chilean law was changed three years later to ban the use of toluene solvents in adhesives.

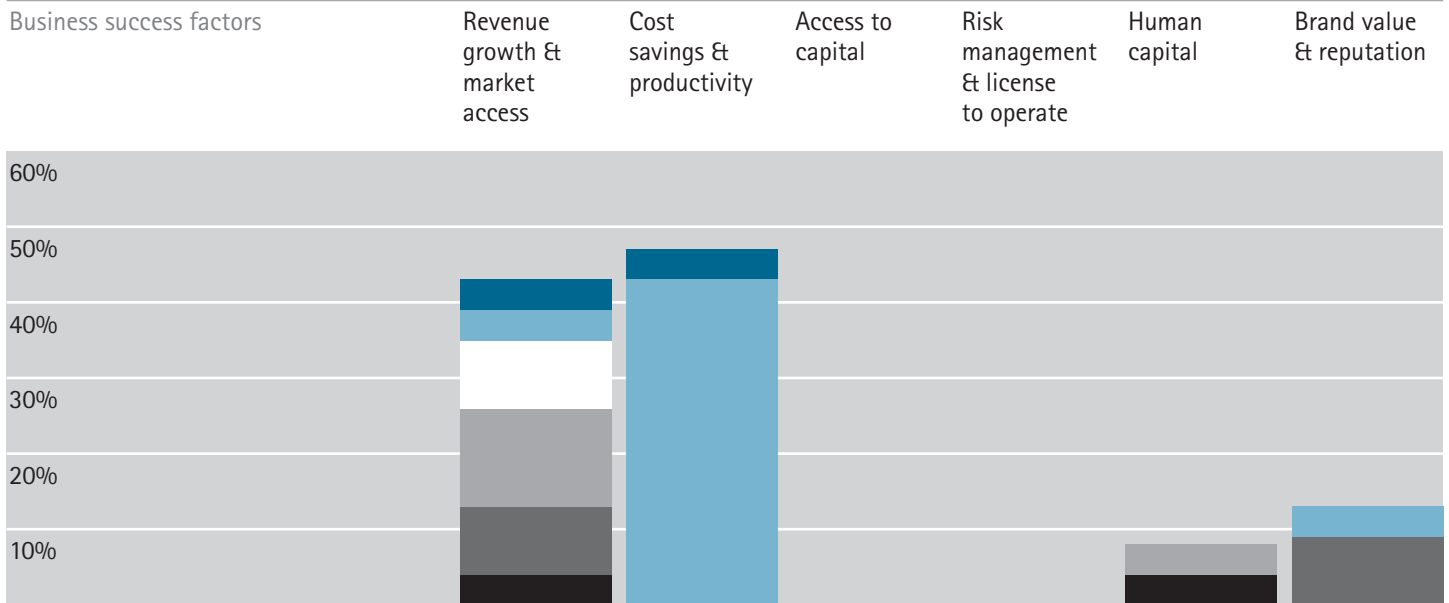
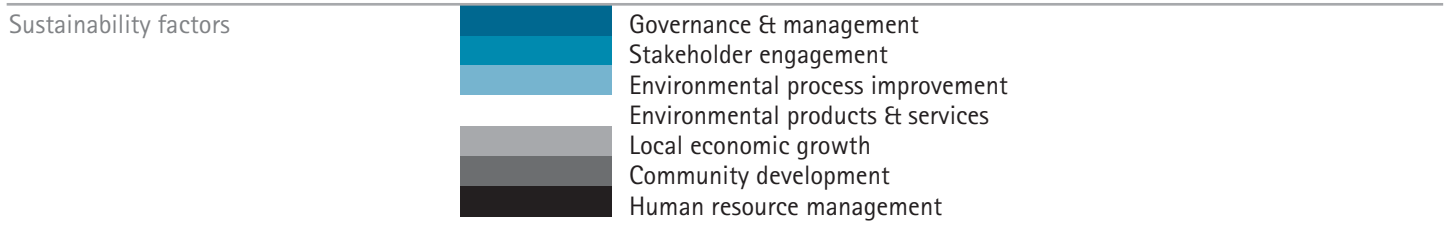


Figure 5 Percentage of SMEs showing specific business cases

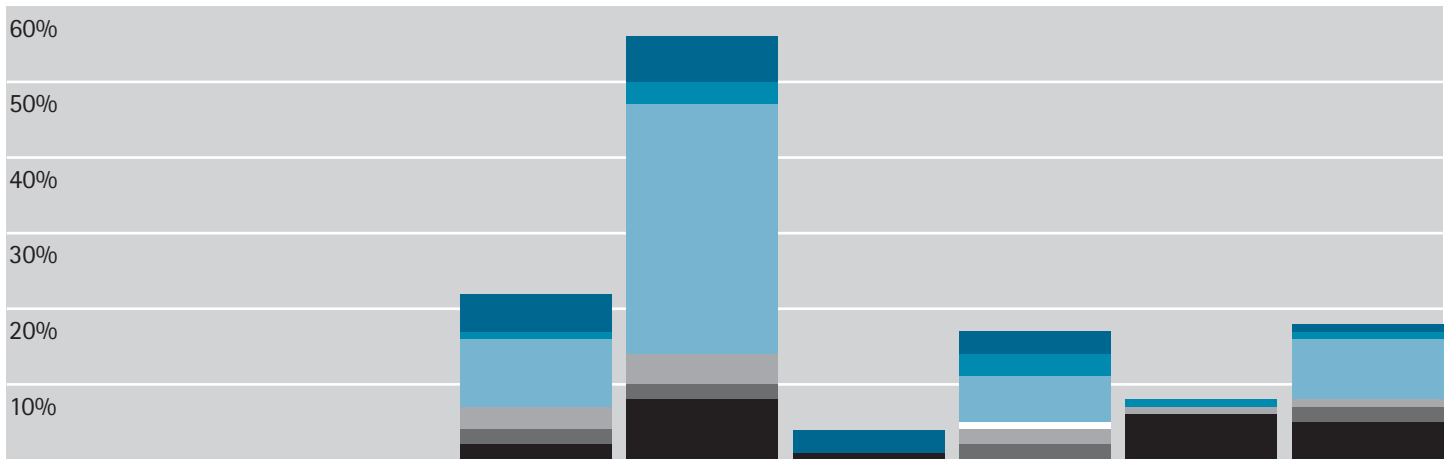


Figure 6 Percentage of national companies and MNCs showing specific business cases

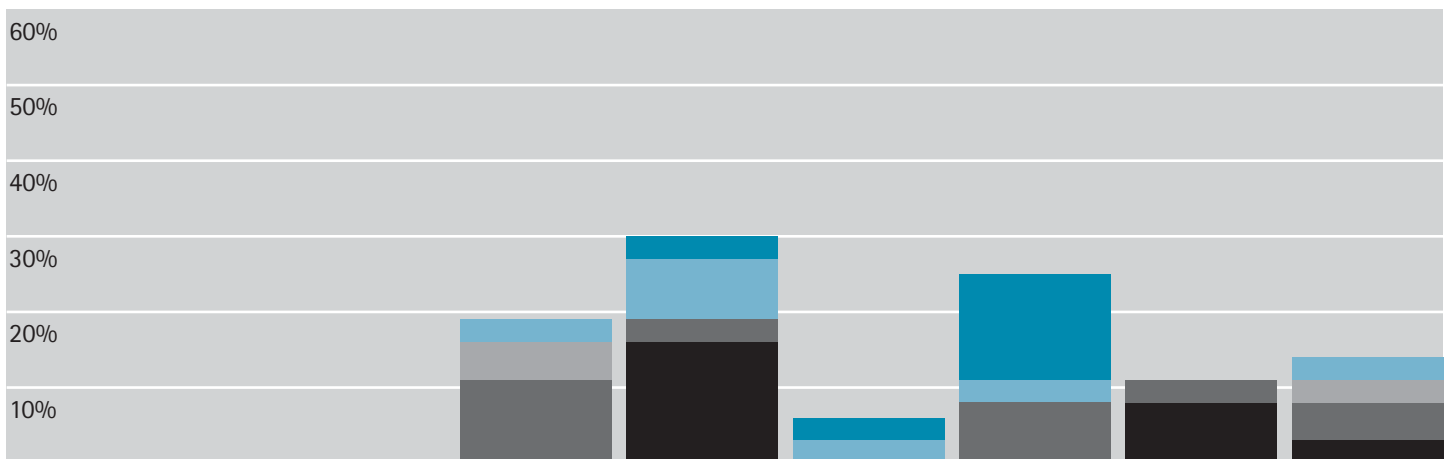


Figure 7 Percentage of foreign MNCs showing specific business cases

Differences by market focus

In addition to the type and size of company, we found that market focus – whether the company trades domestically or internationally – had a significant influence over how often firms gained from sustainability. This difference is also in part a reflection of sectoral differences, with resource-based sectors and agriculture and textiles more heavily represented among export-focused companies, and service industries more typical of domestically-focused companies.

Export-oriented companies are more likely to concentrate on meeting international environmental and labor standards, and on adherence to recognized management systems. In some cases, companies became more competitive internationally, gaining greater access to international markets and customers, and sometimes price premiums. This is especially true for those companies receiving recognized certification (see Box 5, page 13).

SMEs are also taking advantage of these opportunities – combining them with the development of environmentally and socially beneficial products, such as organic and fair trade agricultural goods.

Companies focused on the domestic market, on the other hand, respond to a wider range of local societal pressures, but also reap more diverse rewards. They are more likely to gain from local economic and community development, focusing on their license to operate, which helps them further their own revenue growth. Stakeholder engagement is another way companies producing for domestic consumption lower risks and cost. Domestically-oriented financial services firms have been particularly successful at gaining improved access to capital through governance improvements.

The following chart illustrates the different impacts on these dimensions.



Zen car production, India

	Market	Sustainability factors	Impacts	Opportunities
Large companies	Local	<ul style="list-style-type: none"> – Environmental process – Engagement 	<ul style="list-style-type: none"> – Cost savings – Risk management 	To develop business models to source and supply goods in ways that meet society's needs and expectations: <ul style="list-style-type: none"> – through local SMEs and supply networks
	International	<ul style="list-style-type: none"> – Local economic growth 	<ul style="list-style-type: none"> – Revenue growth – Market access 	To provide basic and sustainable services: <ul style="list-style-type: none"> – connectivity (digital dividend) – power (solar, off-grid)
SMEs and local entrepreneurs	Local	<ul style="list-style-type: none"> – Environmental process – Human resource management – Management systems, including certification 	<ul style="list-style-type: none"> – Cost savings – Market access 	To improve competitiveness and innovate
	International	<ul style="list-style-type: none"> – Environmental product – Local economic growth 	<ul style="list-style-type: none"> – Revenue growth – Market access 	To develop niche, premium markets: <ul style="list-style-type: none"> – organic – certified forest products – eco-tourism – fair trade

Figure 8 Impacts and opportunities

Sustainability in the Philippines



Intercropping, Philippines

History

Business efforts towards sustainability in the Philippines date back to before the 1970s, and began in the form of philanthropy. Wealthy families belonging to the 'illustado' class and individual international businesses led the trend of making donations to support communities. In 1970, the business sector came together in response to the turbulent situation in the country with 50 of the country's top corporations pooling resources to form Philippine Business for Social Progress (PBSP), with an initial focus on poverty alleviation and building social capital.

In the 1980s businesses began to realize there was a business case for community involvement, as it helped to improve relationships which might otherwise be confrontational. This trend has continued, with companies understanding the need to build reputation as a route to competitive advantage. The emergence of thinking around sustainable development broadened companies' understanding of corporate responsibility. This has led to the notion of stakeholders being critical to business success rather than merely participants in transactions.

Sustainability now

Concerns about the impact of globalization and the development of international standards, especially for labor conditions, have helped drive business to look into their internal and external practices. The government has also provided an impetus with legislation such as the Indigenous Peoples Rights Act (IPRA), the Mining Act and the Fisheries Code which highlights the need for stakeholder engagement.

The NGO sector is a very powerful driver and traditionally the business sector has been wary of dealing with it. The feeling has been mutual — some NGOs have mistrusted business deeply, especially during the Marcos regime. But over the past few years, the business community and civil society have started to work together and identify areas of collaboration.

Consumers, on the other hand, do not have the purchasing power to pressure the business sector. With about 30% of the population below the poverty threshold, what matters is the price of the commodity and not how the product was made. The government has recently made good governance one of the key pillars of its administration, and is the first country to adopt the Asia-Pacific Economic Cooperation framework of corporate governance reform.

The social, economic and political context of a given country plays a very important part in the whole business sustainability and development discourse. In the Philippines, factors such as the conflict in Mindanao, labor disputes, corruption and lack of basic infrastructure facilities are ongoing problems that affect business.

Priorities

PBSP recognizes and encourages members to work on four areas:

- **Social investment** with potential benefits from a higher quality workforce, improved reputation and returns from investments in social enterprises.
- **Corporate–community partnership** to empower communities, ensure respect for social and cultural values and validate companies' license to operate.
- **Environmental stewardship** to mitigate adverse impacts of operations on the environment.
- **Managing workplace concerns** to provide an enabling working environment, including good health and safety conditions and the provision of appropriate benefits, protect human rights and promote the spirit of volunteering.

PBSP's CSR Impact Report finds that the strongest positive impacts companies experience are improved human and intellectual capital, stakeholder acceptance especially from local communities, operational efficiency especially from resource efficient technology, reputation and managing risk of negative publicity. On the other hand, the evidence of eco-efficient practices improving their financial performance is weaker. Companies also find weak evidence that CSR practices reduce their security costs or vulnerability to bribery.

The future

Most companies need to work on communicating sustainability policies and programs to stakeholders and on measuring impacts. Businesses face the challenges of dwindling resources, increasing stakeholder demands and corruption in the political, social and judicial systems. Costs are a barrier to business pursuing sustainability. More documentation and sharing of good practice, and better evidence of the business case from empirical studies, would help people to break out of this old paradigm.

A view of the development of corporate sustainability in one country, contributed by the Philippine Business for Social Progress — Center for Corporate Citizenship . www.pbsp.org.ph

Regional differences

Attitudes to sustainable development vary widely from region to region, and even within regions. While broad generalizations can be dangerous, the case studies we analyzed showed some regional differences in the opportunities being grasped by companies.

This does not necessarily mean that opportunities are not available to some companies, just that local priorities and pressures play an important role in the particular benefits being experienced in those regions. It also suggests that there is potential for cross-regional learning, both for the corporate sector and for other stakeholders that wish to help companies improve their sustainability activities (discussed in Chapter 5).

The discussion below considers five regions – **East Asia & the Pacific** (countries east of Bangladesh and south of Russia); **South Asia** (Bangladesh, India, Nepal, Pakistan and Sri Lanka); **Sub-Saharan Africa**; **Central & Eastern Europe** and **Latin America & the Caribbean**.⁴⁷ In all regions except South Asia, the strongest evidence of a business case was for eco-efficiency – a fifth of all cases in the study. To focus on the differences, the 'key link' indicated on the map on page 41 thus refers to the strongest link apart from eco-efficiency.

Interestingly, however, cost savings were the main benefit from implementation of these management systems, even in cases where they were developed to meet customer demands. In a survey in Thailand,⁴⁸ for example, 76% of the respondents said they achieved cost savings from ISO 14001. More than two-thirds said they also achieved greater efficiency.

The 1997 Asian crisis has been influential in spawning calls for greater transparency and better corporate governance in the region. There are some examples of companies starting to benefit from improved corporate governance, such as the **Bank of Shanghai** (see page 9).

It is notable that East Asian companies did not show significant benefits from better community relations. This may reflect a lack in some parts of the region of strong NGOs, trade unions and consumer groups, which can be important in raising issues and stimulating corporate responses. A global study by Environics International⁴⁹ found that only 8% of citizens in Asia had punished companies for being socially irresponsible, compared with 23% in Latin America and 42% in North America.

East Asia & the Pacific

Companies in the region experienced strong benefits from environmental and social management systems, particularly those which are internationally recognized, such as ISO 14001 and SA8000. Production for the global market is important for many East Asian and Pacific companies, and certification systems can help them win international customers. **The Hua Hui Industrial Company** in China, for example, which makes toys and dolls, found that SA8000 certification helped it to acquire new customers and access new markets, with orders up by 30%.

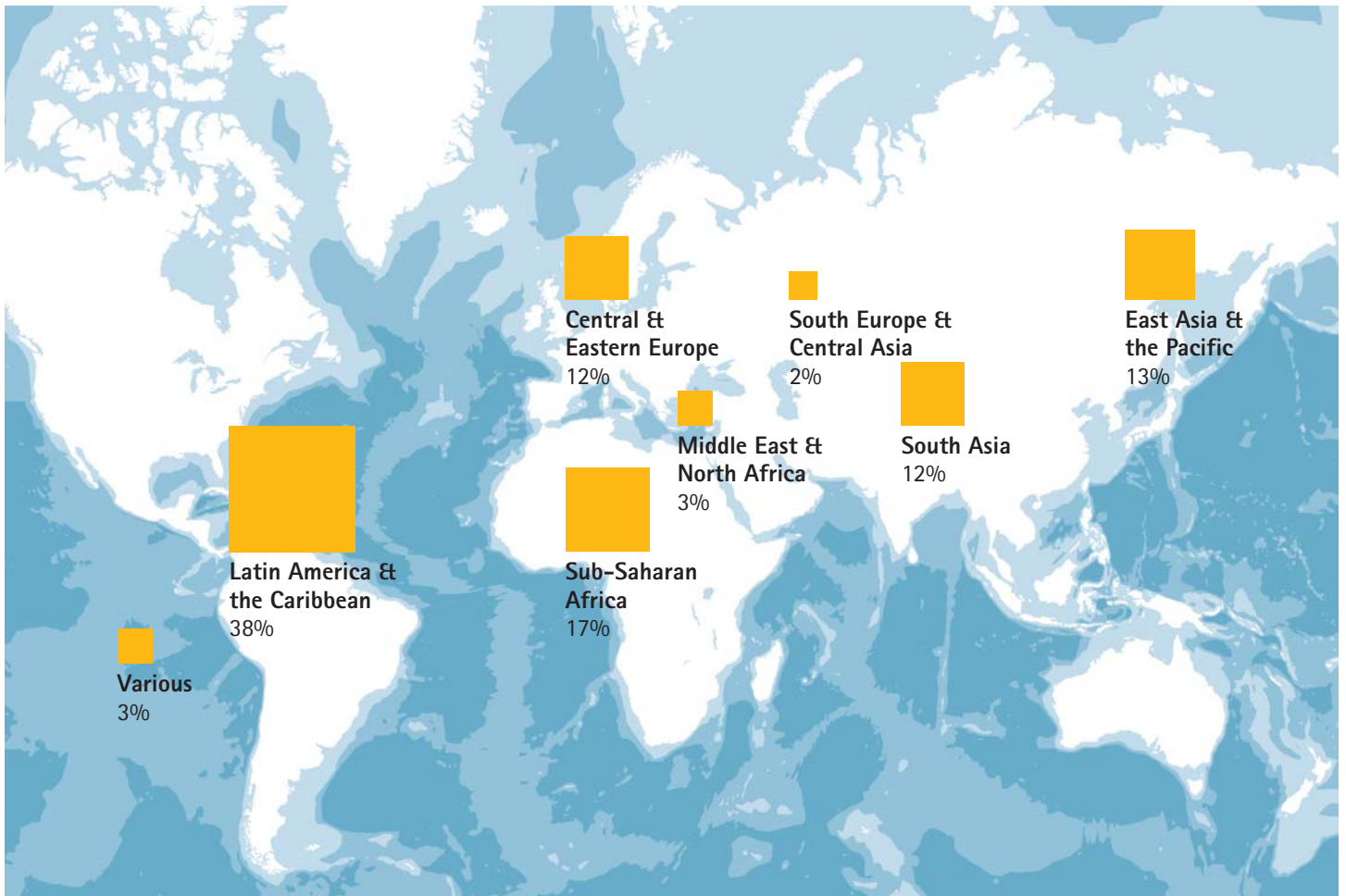


Figure 9 Percentage of cases by world region

South Asia

Social issues such as harmful child labor, fair labor practices and community welfare are more prominent than environmental concerns in South Asia, the only region for which eco-efficiency benefits were not common. In some countries, such as India, large companies commonly provide comprehensive welfare benefits for employees – well beyond what would be expected in developed countries, such as subsidized housing, children's education and development resources for neighboring communities.

But that is not to say that the environment is not important. A survey in India found that the general public perceives the primary role of companies to be providing quality products at cheap prices, but then expects them to ensure that operations are environmentally friendly and that employees are treated fairly in accordance with global standards.⁵⁰

Himal Power made the first direct foreign investment in Nepal's hydropower sector. It built a separate small power plant for the surrounding rural community, which is not connected to the grid. In addition, it provides both human resources and infrastructure towards the improvement of social services around its facility and supports local service providers. Its community outreach program contributes to good community and local government relations. As a result, it has remained largely unaffected by the civil conflict that has threatened development efforts throughout much of the country.

Companies in South Asia also experience important reputation benefits from social investments. For example, the extensive social development program of **Tata Iron and Steel** in India promotes positive industrial relations, as well as generating community rapport and good relations with local government.

In contrast to East Asia, we did not find any evidence that corporate governance has been a major factor in South Asia.

Sub-Saharan Africa

Despite significant commercial pressures in Africa, there was substantial evidence of a business case in the social areas, as well as a stronger focus on human resource management than for South Asia. Companies in Africa with a proactive approach to managing the labor force are experiencing increased productivity and motivation, and lower staff turnover.

Some of the community focus may derive from governments' unwillingness or inability to provide services. Ayo Ajayi, managing director and CEO of the UAC in Nigeria, says, 'In developed countries, governments provide education, health, law and order. In Africa, these are areas where companies are likely to use up their CSR budget. Good leadership is lacking in Africa.'⁵¹

Health is an important issue, with company activities ranging from focusing on safe working conditions to HIV/AIDS initiatives. These issues are clearly urgent, and can place demands on companies to develop and implement prevention and care strategies.

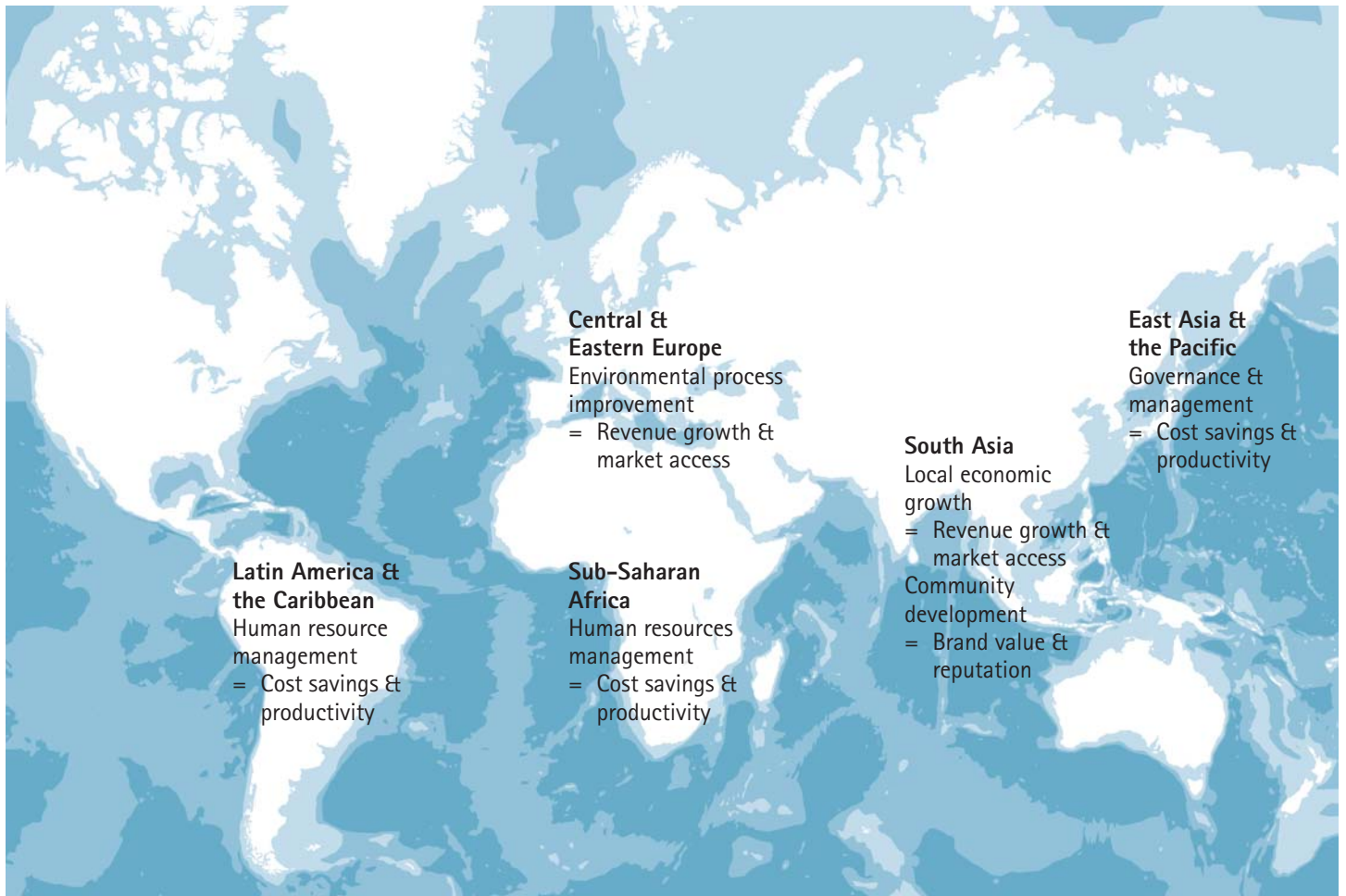


Figure 10 Strongest business case link by region (apart from eco-efficiency)

While it is difficult to quantify costs and benefits of HIV schemes accurately, one study found that the total cost per new HIV infection (due to sick leave, productivity loss, recruitment, training, etc.) is likely to be greater than the cost of treatment and care to keep employees in the workforce.⁵²

Companies in Africa have also benefited from revenue gains through the development of environmental products & services, including organic agriculture and eco-tourism. For example, the **EPOPA** program in Uganda was set up to develop organic cotton for export, thereby enabling producers to benefit from access to new international markets and a price premium in some cases of 50% over non-organic cotton. In addition, prices for organic cotton tend to be far more stable than prices for non-organic, adding a degree of certainty to the production process for these farmers.

Central & Eastern Europe

Opportunities to benefit from environmental process improvements are especially prevalent in Central & Eastern Europe, where the strongest business case evidence is for revenue growth and cost savings. Companies pursuing these improvements can also help address the legacy of communist era pollution and prepare themselves for possible future EU accession.

At the Estonian textile company **Krenholm**, investment in acquisition of modern technologies is addressing reduction in water use and energy efficiency – including more efficient lighting and installation of a new gas fired boiler. Reduced resource consumption has led to reduced costs.

The companies of the region have also saved costs with the assistance of cleaner-production programs such as those of the World Environment Center and participation in the EU's Phare program, as well as from management systems.

Box 10

Business case in developed and developing markets

In 2001 SustainAbility published a report, *Buried Treasure: Uncovering the Business Case for Corporate Sustainability*, which focused on developed markets. These are the key similarities and differences between the findings of the two studies.

Similarities

- Environmental process improvement is by far the strongest factor in both studies, with evidence of strong cost savings.
- Human resource management is a strong category in both studies, with a strong link between workplace conditions, training and increased productivity.

Differences

- There was stronger evidence for revenue growth, access to markets and cost savings in emerging markets.
- Brand value & reputation are more important and more strongly correlated to sustainability in developed countries.
- Human capital was more important in developed countries.
- Community development is seen primarily as an overhead in developed countries. In emerging markets it is important in retaining the license to operate and reducing risk.

The key difference is that emerging market companies are more concerned with short-term cost savings and revenue gains, while brand value and reputational issues are more significant in developed countries. This could suggest that, as companies gain business stability and operate in an increasingly global world market, intangible assets like brand value, reputation and human capital will become more important business drivers for emerging market companies than cost savings and revenue growth.

Latin America & the Caribbean

The most important link in Latin America (after eco-efficiency) was for cost savings and higher productivity from good human resource management. This emphasis on labor force issues may also derive from the strong trade union tradition in many countries, although the role of trade unions has generally weakened in the last few decades.

Good human resource management can also bring benefits when it encourages greater worker loyalty. In one survey in Peru, 92% of executives and 94% of workers interviewed indicated that increased employee loyalty was a benefit of corporate sustainability action. Community development activities have also been important in Latin America, helping companies to build trust and linkages with local communities.

License to operate is a particularly important concept in some regions of Latin America, where the legitimacy of official institutions is often weak and communities may not, in any case, accept an official permit granted by the government.

The evidence shows that Latin American companies have improved their access to capital through actions in all seven sustainability factors – a fact that did not hold true in any other region. Governance & management systems and environmental process improvements demonstrate the strongest link to access to capital for these firms. **Sadia**, a poultry and pork processor in Brazil, has extensively upgraded its health and safety policies, making the company more attractive to international investors and helping its recent listing on the New York Stock Exchange.

Finally, in the cases we gathered, Latin America is the only region apart from Africa with examples of companies benefiting from environmental products & services (although other research⁵³ has found evidence that Asia and Central & Eastern Europe are achieving strong growth in environmental products). Companies have increased revenues and accessed new export markets through organic products such as coffee in Colombia and Venezuela, and sugar and heart of palm in Brazil.

Sustainability in South Africa



Tourists, South Africa

The emphasis of sustainability in South Africa has been on the social rather than environmental aspects. This can be attributed to the country's isolation during the apartheid years, and the poverty and social problems in black communities that the country is now seeking to address. 'Corporate Social Responsibility or Investment' (CSR/CSI) is thus the preferred term to describe business commitment to sustainability.

Some companies have a history of highly innovative, cutting edge work that was carried out almost clandestinely to deal with some of the problems of apartheid. On the other hand, some companies have traditionally not been as involved and have recently come to the realization that they need to make a contribution.

CSR is in the process of maturing from being mainly a philanthropic add-on to becoming part of business strategy, at the heart of the business, and with a potential benefit for the bottom line. So far, few companies have progressed very far in this direction, however. Many are struggling to understand what to do and how to ensure the best impact. Some overseas firms are coming to terms with the significant role and contribution expected of business in South Africa.

Large companies are involved directly (albeit informally) through the President's Big Business Working Group, which has agreed a framework for the encouragement of fixed investment and has held high-level discussions on issues such as Zimbabwe, black economic empowerment, the budget, obstacles to investment and land reform.

The key drivers have been the need for social stability, better education and economic growth. The King Reports deal with the need for companies to demonstrate strong corporate governance, especially King II.

Health has risen up the agenda in the last few years, especially driven by HIV/AIDS and employees pressing for improved health provision. Investors have also begun to be concerned about companies' social performance.

The role of key players

Government has helped by clearly articulating socio-economic priorities. Business organizations such as the National Business Initiative (NBI) have helped to sensitize business to social responsibilities and to implement CSR in line with the government's priorities.

There is also a growing acceptance of the benefits of working in partnership, even in some cases with competitors, in support of the bigger picture.

The NGO sector played a large role in developing and implementing CSR prior to the democratic government, but has since been hampered by funds being diverted through the government. NGOs are changing to maintain support, becoming more accountable, relevant and business-like.

Trajectory

There is a growing understanding of the key role business has to play in developing the South African society and economy. This trajectory could be given an added impetus by four factors:

- A large number of new businesses will mature and make their contribution, particularly information technology companies and black businesses.
- Consumers could become stronger in pushing for CSR in the companies they buy from. This needs to develop as a force in South Africa.
- Social pressure on companies has not been as significant as in some countries. Civil society is developing, as has been demonstrated recently in campaigns over the provision of anti-retroviral drugs in the fight against HIV/AIDS.
- Environmental issues are a very new concept for this country. Those issues that affect our children, our health, shelter and food will become more of a rallying point for lobbying.

The NBI believes that business must contribute to building a stable democracy in which a market economy functions to the benefit of all. Business has a duty and opportunity to contribute to public policy, social development and economic growth.

Business collective action needs to focus on aspects where public and business interests intersect. South Africa will succeed only through the empowerment of all people through basic education and skills development to support economic growth and job creation. Thus the NBI believes the priorities of CSI in the country are skills development and job creation.

A view of the development of corporate sustainability in one country, contributed by the National Business Initiative
www.nbi.org.za

Chapter 4 Getting started on sustainability

Businesses may be aware of the potential opportunities in sustainability action, but may be reluctant to move forward because the subject seems to be beyond their experience and expertise. In fact, the evidence reported in the previous chapters demonstrates that companies can seize certain opportunities without necessarily being or ever becoming 'sustainability experts'. This chapter outlines how owners and managers can identify their own specific opportunities, possibilities and priorities.

It is not necessary to develop a full-blown sustainability strategy before taking action. Many businesses find that small, discrete actions can yield benefits. But ultimately integrating sustainability in core business strategies will provide longer-term benefits, maximizing the alignment of business, social and environmental objectives. Again, this is consistent with other aspects of management.

This is a generic approach rather than a universal prescription which can simply be implemented by any business. As we have shown in previous chapters, there is no single business case for sustainability action. There are many business cases, but each company has to develop its own rationale, and the case will change over time.

In the words of María Emilia Correa, vice-president for social and environmental responsibility at **Nueva Group** in Costa Rica, the fundamental business case question is how can sustainability help the company win market share? 'Saving money is an engineer's mentality – get your head out of it and think like a CEO. Environmental management is like any other line of business. Be strategic!'

Business sustainability must be rooted in practicality and flexibility in the same way all other aspects of management are. The business case is as dynamic as the business world. So sustainability plans have to be flexible, fitting in with the changing needs of the business as well as the changing expectations and needs of society.



Construction site, Thailand

'Saving money is an engineer's mentality – get your head out of it and think like a CEO. Environmental management is like any other line of business. Be strategic!'
María Emilia Correa, vice-president for social and environmental responsibility
Nueva Group, Costa Rica

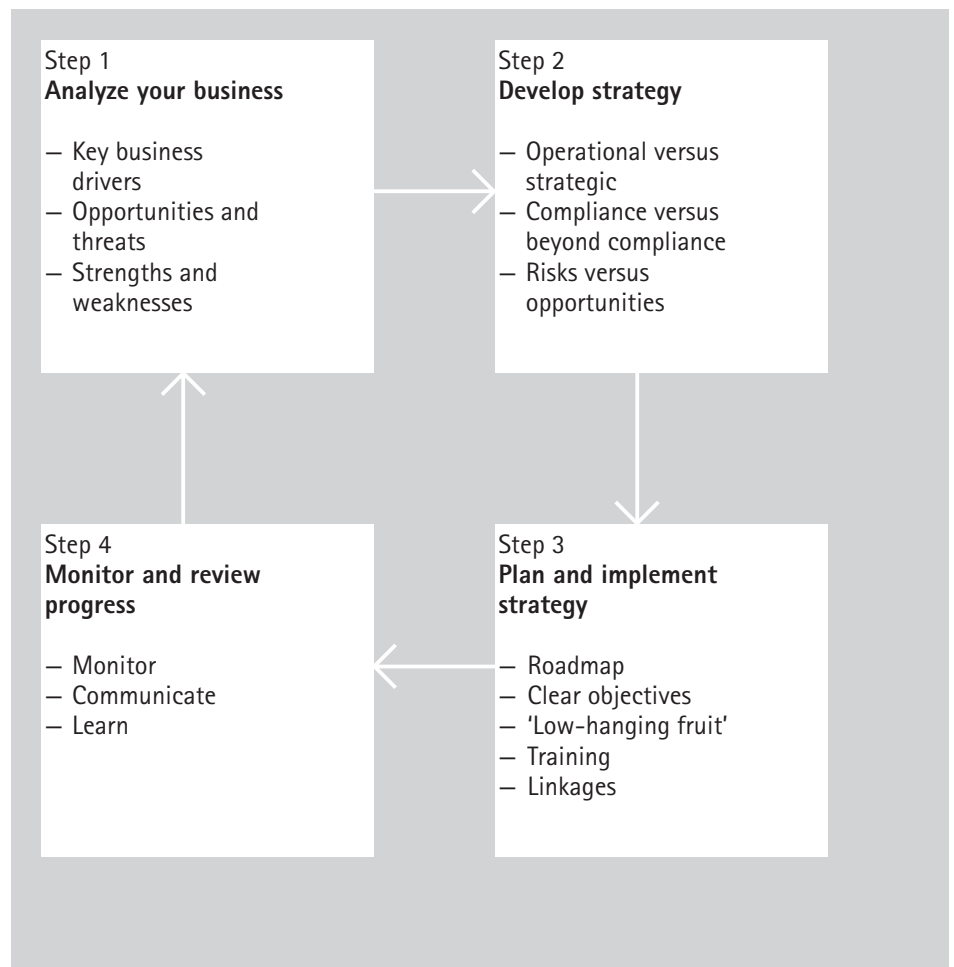


Figure 11 Four steps to monitor and review progress

Four steps to add value to your business

This report has helped to uncover areas of business potential in sustainable development. The challenge for managers is to apply these findings to improve understanding of the links between sustainability performance and business success in their own organizations. Below, we offer a basic four-step approach to help companies begin that process.

**Step 1
Analyze your business**

The first step – as for any other business process – is to analyze the business situation and priorities. Our business case matrix in Chapter 2 might provide a useful reference point to identify and prioritize sustainability issues relevant to your business, and their links to business performance. Consideration of the company's strengths and weaknesses, opportunities and threats – a SWOT analysis – will help create a better understanding of how business success is affected by sustainability.

- **Key business drivers**
What are the key business drivers? For example, is a good reputation with customers paramount? Would improving productivity, for example through reduced downtime and absenteeism, give you a real competitive edge? Would reducing insurance premiums by reducing risk be a serious cost-saver?
- **Opportunities**
Are there untapped opportunities for action on environmental, social and/or governance issues? As we demonstrated in Chapter 2, these could include increased productivity and reduced staff turnover from better human resource management, reduced costs from environmental process improvements, access to new markets or premium product pricing, or a lower cost of capital.
- **Threats**
What are the threats to the business from the emerging sustainability agenda? These could be coming from issues such as conditions in the supply chain, low worker productivity, reputational risks to you or your customers, or increasing informal barriers to trade (e.g. product standards imposed from elsewhere).

- **Strengths and weaknesses**
What are the business strengths and weaknesses which will determine your ability to respond to sustainability challenges, opportunities and threats? Do you have the skills and expertise to manage this emerging set of issues, or understand how to gain this expertise?

This is just sound business planning applied to sustainability. The process needs to consider short, medium and long-term perspectives and to draw on the insights and experience of many people from within and outside the company. Good internal communications are important. They help to gain clarity on a company's strengths and weaknesses as well as to provide a good opportunity to learn from earlier successes and failures. An inclusive process also helps people to become confident about their capacity to undertake specific actions, as well as to build commitment and motivation.

Early engagement with external stakeholders will add important insights into their concerns and priorities, which will help in understanding the trajectory and relevance of sustainability issues. Engagement with stakeholders such as the government, local communities and NGOs helps managers understand their expectations and concerns around the company and to make an early assessment of opportunities and threats. Such engagement could be in the form of small informal conversations or more formal structures like facilitated dialogues. It could address short-term, specific issues or help with the development of a long-term vision.

While there are many advantages of engagement the risks should not be underestimated. External dialogue brings a company into the public eye. This greater scrutiny will make it critical that the company ensures stakeholder expectations do not exceed its ability to deliver.

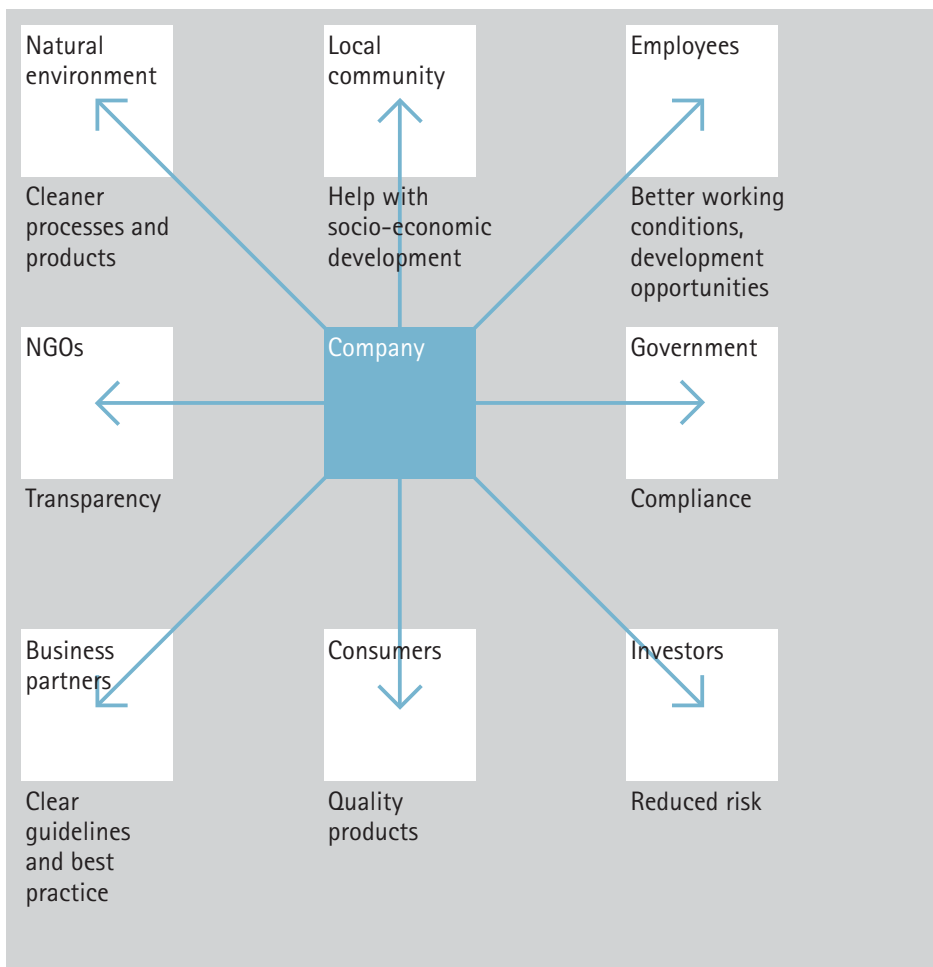


Figure 12 What stakeholders might expect companies to provide

Step 2
Develop strategy

The analysis in Step 1 should produce a better understanding of the sustainability issues facing the business as well as the company's ability to deal with them. The response to these issues needs to be right for your business – the business case for sustainability is not a one-size-fits-all proposition. The strategy needs to build on the issues identified in Step 1 and reflect the following key considerations:

Distinguish operational from strategic actions

The action taken could be at a basic operational level, e.g. changing the production system to reduce the environmental emissions from a plant, or at the strategic level, putting in place overall governance and management systems. For instance, **Bank of Shanghai** in China put in place better governance structures that had an impact throughout the company (see page 9).

Distinguish compliance measures from projects which go beyond compliance

The strategy could be merely to ensure that the company is in compliance with regulatory requirements. Or sustainability factors could be used as one of the market differentiating factors to gain competitive advantage and leadership in the field. For instance, **Natura** in Brazil has based its entire strategy on the provision of products that are environmentally and socially superior (see page 29).

Distinguish between risk and opportunities

The issues identified in Step 1 may represent risks or opportunities, or both. For example:

- Risk of future regulation could trigger advanced environmental requirements in one of your key markets. The potential opportunity could be access to a wider market and first mover advantage among local competitors through investment in higher standards. A good example is **Cembrit** in the Czech Republic which removed asbestos prior to regulation and could expand its market into Western Europe as a result (see page 21).
- Risk of a major customer adopting new environmental or social standards in their supply chain could require substantial investment. It could also bring an opportunity for greater technical and capacity-building support from the customer and possibly guaranteed contracts.

That could open up access to new customers that require similar standards and the opportunity to improve overall management systems. For instance, **Century Textiles**, India, was able to gain new customers once it was awarded the Eco-Text certification which was required by its German customer.

- Risk of political unrest near a key production facility due to ethnic tension could cause workforce problems and reduced productivity. The potential opportunity would be to engage openly with the community, provide support to marginalized groups and give equal opportunities for employment. This would strengthen the company's license to operate while also improving retention and motivation among employees. For instance, **Anglo American's** Zimele project helps develop the community through financing and developing small business. This helps in black empowerment in South Africa, builds local economies as well as helps Anglo American gain in employee motivation, reputation and local license to operate (see page 20).

Step 3
Plan and implement strategy

Planning and implementing sustainability strategies requires the same disciplines as any business process:

Roadmap

Prepare a roadmap which clarifies the key stages, success factors and indicators.

Clear objectives

Set clear objectives for each stage, and the desirable outcomes.

'Low-hanging fruit'

Start with the easy successes which build confidence and enthusiasm among the workforce, and yield the simplest financial paybacks.

Training

If necessary, provide training and develop internal incentives for delivery, as with any organizational or business change.

Linkages

In implementation, consider linking up with others. Connectivity is an important aspect of sustainability. Stand-alone action is always possible and can yield dividends, but linkages inside and outside the business can have a multiplier effect.

Links can be made to:

- **Other company plans and goals**
Sustainability plans should match business priorities and available resources and mesh with the company's overall approach to risk management.
- **NGOs**
They possess enormous expertise which can often be tapped to help understand issues, identify solutions, plan and implement appropriate action.
- **Business/industry sector associations**
There can be synergies from working together on common issues across a sector or value chain, especially where solutions require cross-sectoral support and individual companies can have only a limited impact.
- **Other initiatives**
Government departments or organizations such as the World Business Council for Sustainable Development (WBCSD)⁵⁴ or the United Nations Global Compact,⁵⁵ might be looking at similar issues. Joining such initiatives can save time, energy and possibly money.

Step 4
Monitor and review progress

This is a rapidly changing and evolving agenda so it is important to review the strategy periodically as well as to check progress against the targets which have been established. This will allow the strategy to evolve in line with business needs and keep key personnel focused:

Monitor

Monitor performance and measure progress to keep on track.

Communicate

Be transparent and communicate performance against targets, internally and externally wherever possible.

Learn

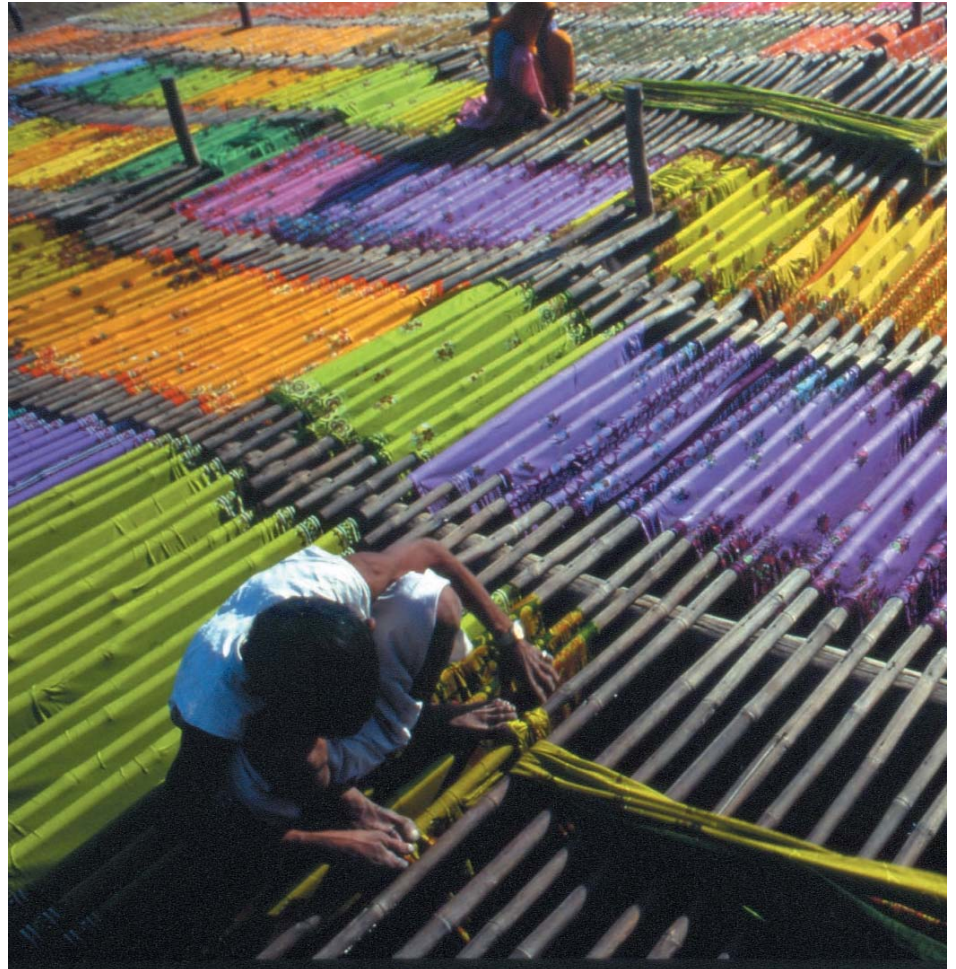
Learn from successes and failures, as well as changes in the business and sustainability environment, and feed the learning back into the process so that plans can be adapted.

Sustainability is a journey – keep going

The trajectory of sustainable development became steeper throughout the 1990s and shows every sign of continuing in the same vein. This means that the pressures on companies are likely to continue growing, increasing both risks and opportunities. Doing nothing, or taking very limited action, is in itself risky. Companies are likely to find that risks can be minimized and opportunities maximized by seeing sustainability as a journey, with each step building on the previous ones.

This fits with the management philosophy of continuous improvement, in which companies constantly seek to achieve higher standards in all areas of the business. As we have mentioned, small sustainability steps are valuable and bring benefits. But if these are built into a long-term vision or strategy, they have the potential to create longer-term competitive advantage.

Like every aspect of the business environment, but perhaps more volatile than most, the sustainability agenda is dynamic and evolving. New issues will emerge, presenting new opportunities and risks. Assuming the upward trajectory of sustainability continues, demands on companies will increase. But this should be seen as an opportunity: well-managed companies which are aware and can anticipate the direction and nature of changes can capitalize on them. With appropriate systems and processes in place, companies can be well placed to address the sustainability challenge and use the opportunities it presents to their advantage.



Drying sarees, India

Further help

Some specific tools that can be used for the process steps outlined in this chapter are available on the report website at www.sustainability.com/developing-value and also at www.ifc.org/sustainability. These include environmental and social indicators, stakeholder engagement processes, best practice codes for corporate governance, as well as references to other sources of information. The site also offers corporate case studies from around the world in a searchable database.

The three sponsors of this report – IFC, SustainAbility and Ethos – can each provide assistance based on their own specific expertise (see back cover) while key sources of further information and advice are listed in the Centers of Excellence on pages 54–55.

Chapter 5 Roles for other players

This report has outlined many ways that businesses can improve their impact on society, while also benefiting themselves. The business case matrix summarizing those relationships, however, shows that there are several areas where the business case can be further strengthened.

Undoubtedly some business benefits exist which are simply not being attributed or reported, which helps to explain 'holes' in the matrix. But the role of other players — governments, investors and other stakeholders — also has an important impact on the business case. These players are tending to demand greater action from companies on sustainability, but there may also be actions they could take to strengthen the business case.

This chapter examines what key players can do and are doing based on the cases we studied, as well as interviews with experts from companies, business associations, NGOs and academia. The main trends are summarized in the table on page 50. Our aim is to sketch out some of the important issues and key players which we feel are relevant to the business case in many emerging markets. We acknowledge, however, that there is not enough space here for an exhaustive discussion.

Emerging market governments

Many of those we spoke to highlighted **government** as one player that generally could do much more to strengthen the business case. Weak governance is a major problem for emerging market businesses, with issues such as unsuitable economic policies, corruption, general policy instability and inconsistent regulations topping the list of grievances. Environmental laws are often described as being too rigorous — to the point of being impossible to comply with. Yet enforcement is generally weak, with the result that there is often insufficient incentive for companies to attempt to comply with regulations.

A recent study showed that, on average, neither pollution nor the number of accidental poisoning cases fell as the number of regulations imposed by governments across the world increased.⁵⁶ Some government policies actually create incentives that weaken the business case, such as subsidies encouraging environmentally damaging activities. Estimates of these 'perverse subsidies' range from \$500 billion to \$1.5 trillion a year worldwide.⁵⁷

Few emerging market governments are using alternative policies such as environmental charges, taxes and other economic instruments⁵⁸ to support the business case for good social and environmental performance — due in part to a lack of capacity to develop and implement such policies within the state institutions of most emerging market governments.

Overall, good governance, regulatory certainty and an appropriate mix of policy tools — including clear and enforceable regulatory standards, economic instruments and voluntary initiatives — each have a key role to play in promoting the business case for sustainability. While there is some evidence of emerging market governments implementing innovative policies despite institutional capacity constraints, there is nevertheless significant potential for government to have a greater impact.

Investors and lenders

Investors are a very broad and diverse group — as well as being very influential. They range from the local financial community in emerging markets to international private investors and financial institutions. As the evidence grows for the link between a company's sustainability activities and financial performance, this community will be increasingly likely to favor more sustainable companies in their investment decisions — further strengthening the business case.

However in this research, access to capital was the only business benefit which did not have a strong link to any of the sustainability factors. While there are undoubtedly more examples of this benefit which we have not uncovered, this also suggests that providers of capital are failing to reward good social and environmental performance in emerging markets, despite the fact that they have been rewarding them in developed markets.

The nature of the **local financial community** varies significantly between countries, but bank loans remain the dominant form of capital, and one which rarely rewards sustainability activities as such. As local banks become more cognizant of asset and reputational risks, as well as sustainability risks and opportunities, they can be expected to use lending policies to move companies towards more sustainable behavior.



Monetary exchange, Russia

For **companies listed on a stock exchange**, the incentives from the financial community to undertake sustainability activities are already greater and definitely increasing. For example, the 'Novo Mercado' is a new listing segment of the São Paulo Stock Exchange.⁵⁹ Companies listed on the Novo Mercado commit themselves to the highest standards of corporate governance, thereby seeking to reduce the general 'corporate governance discount' applied to Brazilian firms. **BNDES**, the Brazilian national development bank, offers these companies special lower interest rates, while the pension fund regulator allows pension funds to invest a larger proportion of their assets in companies listed on Novo Mercado.

The efforts of **international financial institutions** (IFIs) to disseminate good practice in sustainability suggest that they can also be increasingly important. For example, the IFC has developed leading-edge expertise in social and environmental issues in emerging markets, which is used to help companies, other lenders and governments negotiate difficult issues such as the impact of projects on natural habitats and indigenous peoples. The role of IFIs is two-fold: first, to ensure adherence to strong 'do no harm' environmental and social standards; and second, to disseminate best practice and understanding of evolving risks and opportunities related to sustainability. In emerging markets, especially during this period in which private capital flows have receded, IFIs have wide influence on what firms do. Many of these institutions could do more to strengthen their role in both these areas, and encourage the convergence of economic development and sustainability objectives.

Private investors, entrepreneurs and venture capitalists are also playing a role, by investing in sustainable enterprises throughout the emerging markets. But in general investors could do much more to strengthen the business case – for example by becoming more sophisticated in assessing and selectively rewarding companies' sustainability performance. There is a tendency for international investors to make blanket decisions regarding an entire country or region, without considering the merits of individual companies.

For Lawrence Pratt of the Institute of Business Administration of Central America (INCAE), a key question is how to demonstrate sustainability performance and value to the company without excessive documentation which does not match realities on the ground. 'Europeans are obsessed with certification and documentation,' he notes.

Box 11 Socially responsible investing

Socially responsible investment (SRI) aims to encourage sustainability by investing in special portfolios of the most sustainable companies ('screening') and/or by putting pressure on companies to improve their sustainability performance ('engagement').

It has developed rapidly in North America and the UK since the mid-1990s and is beginning to spread to emerging markets. The value of screened funds in the US was put at \$2 trillion in 2001,⁶⁰ while the figure for the UK was £4 billion (\$6 billion).⁶¹ The Dow Jones Sustainability Indexes and FTSE4Good from the UK now provide mainstream indices focusing on sustainable companies.

While this provides opportunities – and risks – for companies seeking international equity capital, local funds are also springing up. For example the Association for Sustainable and Responsible Investment in Asia (ASRIA) was launched in 2001.

'The activities that Latin American companies are doing do not show up because it's just a normal part of doing business. Companies down here do way more for the community but they get no credit for it from European and American analysts.'

Business customers

Through their supply chain, **business customers** have been an important influence in motivating emerging market companies to improve labor standards and environmental performance. Many companies, particularly in developed economies, are under considerable pressure from NGOs and consumers over their sustainability performance. These companies in turn place demands on their suppliers – many of which are based in emerging markets. **Nike** is a prime example. Responding to pressure from developing country NGOs, Nike has begun strengthening relationships with their key suppliers, creating 'strategic partnerships' where there is exchange of expertise to improve conditions in many sub-contracted factories.

In Brazil, Banco Real launched the ABN AMRO Ethical FIA, a mutual fund for companies with good social, environmental and corporate governance practice. Unibanco, Brazil's fourth largest private sector bank, also began to carry out SRI research in January 2001 (the first in any emerging market). In South Africa, Frater Asset Management specializes in SRI and has launched a unit trust focusing on good corporate citizenship.

Evidence suggests these opportunities will continue expanding. Media coverage of SRI in Latin America and Asia has grown exponentially over the past five years, although the frequency of mentions is still small compared with Europe or the US.⁶² And local Business Councils for Sustainable Development in South Africa and Argentina are aiming to develop a sustainability index for their local markets.

However, the decision by CalPERS, the California Public Employees' Retirement System, to stop investing in Asian emerging economies, partly on the ground of social concerns, also suggests that socially conscious investors, like mainstream investors, consider at least some emerging economies too risky at the moment.

Concern has been raised, however, that emerging market suppliers are left to bear a disproportionate amount of the costs in meeting international standards. Greater collaboration along an entire supply chain to help emerging market suppliers overcome capital and capacity constraints is one way that companies in developed markets can enhance and protect their own reputations, while maintaining their supplier relationships. Nike's policy is to negotiate both improvements and the costs with their 'strategic partners', while guaranteeing orders for a certain length of time. This reinforces the long-term intentions of both parties plus ensures tangible improvement all round.

Consumers

Although the impact of **consumer** activism in developed economies has sometimes been considerable, consumers in emerging markets have so far played a relatively small role in driving sustainability. That helps to explain the weak business case we found for companies to focus on developing environmental products and services for local markets.











	Current impact of influence	Trend of future influence	Means of strengthening impact on business case
Emerging market governments			<p>Providing a clear and stable framework of demanding targets and enforceable minimum standards.</p> <p>Creating an enabling environment for the adoption of stakeholder partnerships and voluntary initiatives where appropriate.</p> <p>Promoting the internalization of costs by using economic instruments and by eliminating economic disincentives.</p> <p>Participating in the development of international codes of conduct and/or developing local ones.</p> <p>Providing information to help overcome market failures.</p>
Investors			<p>Understanding the business case for sustainability and how it impacts the quality of investments.</p> <p>Developing tools to incorporate sustainability-related considerations in lending criteria, taking into account local context.</p> <p>Implementing appropriate SRI screening funds.</p>
International business customers			<p>Encouraging the adoption of sustainability practices in the supply chain, sensitive to regional differences and constraints.</p> <p>Assisting suppliers with resources and technology – allowing adequate time for improvements.</p>
Emerging market consumers			<p>Questioning companies about their sustainability performance.</p> <p>Making purchasing decisions that reflect personal values.</p>
Emerging market NGOs			<p>Partnering and engaging with companies.</p> <p>Exposing companies with poor performance, but also rewarding those making sustainability efforts.</p>



Figure 13 Influence of stakeholders on business case

Even in affluent countries, most consumers put price and quality before other considerations. Price is even more significant in regions where poverty levels are high. Consumers often do not have the luxury of putting pressure on companies through their purchasing – and goods are often bought through the informal sector.

However, some recent surveys⁶³ have shown that there is a genuine concern among consumers in emerging markets about the sustainability performance of companies, and these consumers are set to be an increasingly strong driver for the business case as economies develop. These consumers can enhance the business case by acting on their values – questioning companies about their sustainability commitments and performance, and following through with their purchasing decisions.

As discussed, consumers in developed markets can also affect the business case in emerging markets through their pressures on corporate supply chains.

Non-governmental organizations (NGOs)

Local NGOs and community groups strengthen the business case by granting responsible companies the local license to operate, while exposing those companies with poor performance – although their influence is much greater in some countries than others. NGOs can also exert influence by lobbying governments for more effective regulation or the elimination of perverse subsidies.

NGOs have also begun to realize that collaboration with responsible companies can be effective in enhancing their mutual sustainability objectives – especially in relation to community development. In the Philippines, for example, mistrust between NGOs and business has historically been high – based on NGOs' view of business as having been tied to the patronage of the Marcos regime. But at a recent tri-sector conference both NGO and business organizations vowed to try harder to move beyond their comfort zones and identify areas of collaboration.

International collaboration and new governance forms involving NGOs, business, governments and other players is emerging as a promising area in disseminating knowledge, sharing good practice and building new coalitions. One major initiative has been Business Partners for Development, which has highlighted strategic examples of tri-sector partnerships between NGOs, government and business.⁶⁴

NGOs can also weaken the business case by targeting companies which are starting to make efforts towards sustainability, rather than the real laggards. Failing to recognize honest efforts, even if the companies concerned still have a long way to go, discourages companies from being more transparent and from making efforts towards sustainability.

Others

There are several other groups which have not been considered here in detail, but which nevertheless have an important influence over companies, and have the potential to strengthen the business case in future.

Employees are a key group. Individually, they can enhance sustainability at the company they work for by bringing their personal convictions and experiences to bear, and contributing to change and innovation. They strengthen the business case when they choose to work for companies with a strong sustainability reputation. Through trade unions, workers can also apply pressure on companies, especially in relation to labor standards – although unions do not always have the necessary legal framework to support action, and they are often less supportive of environmental objectives.

Local business associations can help their members reach the standards that will give them a competitive edge, by providing expertise or helping businesses achieve economies of scale in purchasing environmental technologies, for example.

The **media** could be another significant player in driving the business case forward, by providing information on sustainability, and highlighting the good – and bad – that companies are doing. Nevertheless, with some notable exceptions, the media is falling well short of its potential role.

Finally, **international agencies** can play a catalytic role in stimulating awareness of opportunities. For example, the United Nations Environment Programme (UNEP) organized the Financial Institutions Initiative, which promotes the integration of environmental considerations by financial institutions into all aspects of their operations. As of May 2002, the initiative had 195 signatories, over a quarter of which are banks from emerging markets.⁶⁵ Another example is the Round Table on Corporate Social Responsibility – a joint initiative by the UK's Department for International Development (DFID) and the Canadian International Development Agency (CIDA) to help disseminate information on the links between business and poverty alleviation.

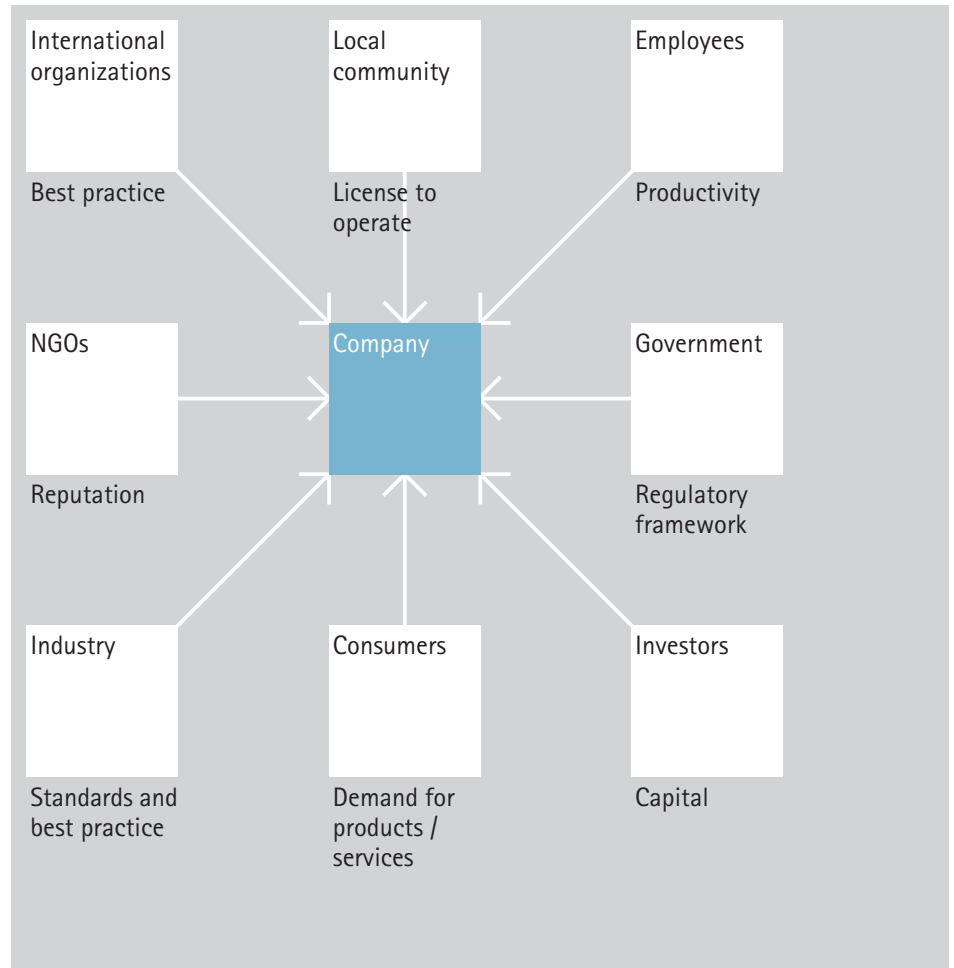


Figure 14 Stakeholder impact on the business case

Conclusion

New coalitions and new forms of governance will be important in achieving societal goals, while the actions of the 'other players' described above will drive the evolution of the business case. Over time we expect to see our business case matrix change – and strengthen – reflecting more and more companies that successfully build and measure sustainability and the benefits they gain from it.⁶⁶

We have shown in this chapter that important trends in this direction can be seen in the financial community and civil society. More action is needed from governments, which have the responsibility to create and maintain framework conditions for business that offer maximum stability and create the right incentives. However, capacity limitations will be an ongoing constraint, while the social, economic and political context in a given country will also continue to influence the business case.

'Inclusive globalization must be built on the great enabling force of the market, but market forces alone will not achieve it. It requires a broader effort to create a shared future based upon our common humanity in all its diversity.'
Kofi Annan, secretary general
United Nations
Report to the Millennium Assembly, 2000⁶⁷

Chapter 6 Six themes

We started this project with an open mind — we were not certain that we would find sufficient evidence of a convincing business case for sustainability in emerging markets. We had heard often enough that businesses in these markets were focused on business gains to the exclusion of other considerations. And that if we did find anything it would be around philanthropy, or would be primarily related to companies which export to the developed world, where sustainability demands were higher.

We were therefore pleased to find such a large number of examples in emerging markets of corporate sustainability across the governance, environmental and social dimensions, and to find that these were indeed linked to business benefits for companies focused on both domestic and export markets.

Through these case studies, as well as discussions with businesses and stakeholders in emerging markets, six main themes arose time and again. This chapter presents our six key conclusions, as well as some ideas about what they mean at a practical level.

This report aims to encourage companies which have not previously recognized the links to find business value even as they participate in social and environmental development. It also helps identify new areas of focus for companies which may already be addressing sustainability, and provides ideas for new business models that put environmental and social concerns at the core of the business. These themes will help in all those areas.

Theme 1 New data and evidence

This report presents an important new analysis based on the experience of companies operating in emerging markets. While the cases do not necessarily represent model companies, the activities they undertook do reflect business benefits from specific sustainability efforts. We have combined this evidence with existing studies to develop a picture of the business case for sustainability for companies operating in emerging markets.

However more work is required to better understand the value gained by companies. This report has focused on the areas in which the greatest business case evidence exists. Yet for many areas the evidence was still weak — and in a few cases we were unable to find any link between particular aspects of sustainability and financial performance.

Some of these linkages may not exist — at least in present circumstances. But in many cases the linkages may not have been adequately recognized quantitatively even though a lot of qualitative, anecdotal evidence may exist. And undoubtedly there are many business case examples that have not come to our attention.

Creating the right methods to evaluate financial returns from sustainability factors will be important to understanding the business case better. It will also become important to identify key performance indicators against which performance will be measured.

Action

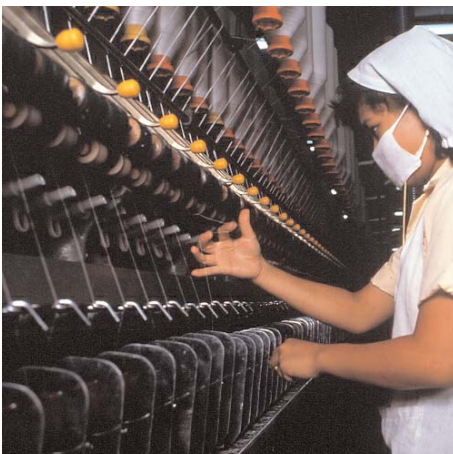
Companies should strive to understand and measure sustainability performance better, as well as the impact it has on their business. They need to ask themselves the right questions and create and use the tools necessary to evaluate results.

Theme 2 There is a business case in emerging markets

Our findings refute the argument that the business case holds only in developed markets. A comparison with the business case in developed markets shows that opportunities and priorities differ, but benefits apply in both markets. The strongest business case in developed markets came from reputational gains and brand value, whereas in the emerging markets the majority of the evidence focuses more on cost reduction and higher sales.

There are also risks. As with any business initiative, too much money can be spent, too little benefit gained. Companies must assess risks, and analyze the costs and benefits of sustainability action as they would for other company activities.

Also, as sustainability implies some form of interaction with stakeholders, it can raise the company profile above the rest of the competition. A higher profile can result in enhanced reputation, but also greater scrutiny and potentially criticism. The more that sustainability is developed and integrated into core business management and processes, risks and opportunities will be better understood and better managed.



Textile factory, Indonesia

Action

Emerging market companies can learn from the experiences of those in developed markets, but the opportunities and risks experienced by similar companies in their own region can suggest action appropriate to their particular circumstances. Equally, companies based in developed markets can learn from emerging markets. This is especially true of foreign multinationals with global operations. These MNCs need to beware of imposing their own value systems, instead of adapting in a locally meaningful way.

Theme 3

The greatest evidence of benefits were of cost savings & productivity and revenue growth & market access

This report has identified the areas of the business case which were supported by the strongest evidence. We found that in emerging markets cost saving, productivity improvement, revenue growth and access to markets were the most important business benefits of sustainability activities. Environmental process improvements and human resource management were the most significant areas of sustainability action.

The importance of good human resource management may be largely intuitive for many managers – reflected in the high number of companies focusing on this factor. But the strong evidence we found of the business case for human resource management provides a factual basis to back up those instincts, and to persuade others who have not taken it seriously.

While the cost savings from good environmental management may also have been expected, the strength of the evidence and the number of companies engaged in these process improvements was a surprise.

Action

The strength of these key links can help to convince skeptics of the business benefits available, and may suggest new ways to enhance business performance.

Theme 4

Every company can find benefits but specific business cases vary

Every kind of company can find benefits but the best opportunities will depend on the particular drivers, circumstances and priorities of a business. Although we found that certain gains were consistent across sectors, regions and types of companies, the business case plays out in ways which are company-specific. The information we have gathered in this report cannot provide a blueprint for how to implement sustainability in a financially beneficial way. But it does demonstrate the many potential aspects of the business case.

Action

Companies can use the practical examples, the business case matrix, the online database www.sustainability.com/developing-value as well as the suggestions in Chapter 4 to analyze their risks and opportunities and develop their own individual business case. Others may also be able to use these tools to analyze the business case in emerging markets further, including developing specific business cases for different local contexts or for individual sectors.

Theme 5

The business case is dynamic

The business case is constantly evolving, reflecting changing expectations and relevance, just as with other business parameters. As stakeholder communities develop and access to information increases, expectations will rise. They will require greater accountability and transparency and will increasingly expect businesses to contribute towards sustainable development. It is likely that the more intangible business factors, such as brand value & reputation, will gain greater importance in emerging markets as they have in developed countries.

For many companies, meeting minimal requirements may be all that is possible in the short term. But the most successful companies will anticipate these growing expectations and derive value from them. Developing proactive sustainability strategies and being ahead of societal demands can bring greater opportunities – although these are accompanied by new risks.

Action

Companies will need to be flexible in their approach to sustainability, monitoring changes, understanding new demands and changing values. As societal expectations develop and competitive pressures increase, the links summarized in the business case matrix may change. The cases and matrix at www.sustainability.com/developing-value will be updated as new information becomes available.

Theme 6

Other players are key

Government, NGOs, business customers and other players often have their own sustainability objectives. By putting pressure on companies with poor performance, as well as rewarding those which make improvements in their sustainability activities, these players can strengthen the business case while moving their own agendas forward. But if their expectations require changes beyond what is practical for companies to achieve in the expected time frame, they can also act as roadblocks to sustainability.

Action

Sustainable development is a long-term goal which cannot be achieved without the involvement of all sections of society. Non-business players need to adopt partnership approaches which can help all the parties involved better realize their individual short-term objectives, while furthering the aims of sustainable development – at the local, national and global levels.

'Ten years ago [the drive for sustainability] would have been too early because we didn't have a real economy. Ten years from now it would be too late because we would have done too many of the wrong things. Right now is exactly the moment for these ideas to take root and transform Brazil's development path.'

José Luiz Alquéres, former chairman
Electrobras, Brazil⁶⁸

Centers of
excellence

International

International Business Leaders Forum
www.iblf.org

International Finance Corporation
www.ifc.org/sustainability

International Institute for Sustainable Development
www.iisd.org/business

SustainAbility
www.sustainability.com

United Nations Environment Programme – Department of Technology, Industry and Economics
www.uneptie.org

World Business Council for Sustainable Development
www.wbcsd.ch

World Resources Institute
www.wri.org

Africa

African Institute for Corporate Citizenship
137 Daisy Street, Sandton
PO Box 37357 Birnam Park 2015
South Africa
T +27 11 432 5364
F +27 11 432 1530
www.corporatecitizenship-africa.com

Common Ground Consulting
PO Box 1828
Cape Town 8000
South Africa
T +27 21 424 5052
F +27 21 424 2495
www.commonground.co.za

Ethics Institute of South Africa
1209 Schoeman Street, Sanlam Gables
Hatfield, Pretoria 0083
South Africa
T +27 12 342 2799
F +27 12 342 2790
www.ethicsa.org

National Business Initiative
PO Box 294
Auckland Park 2006
Johannesburg
South Africa
T +27 11 482 5100
F +27 11 482 5507
www.nbi.org.za

Private Sector Corporate Governance Trust
Kenya
www.corporategovernance.co.ke

Asia

All-China Federation of Industry and Commerce
93 Beiheyuan Street
Beijing
China
T +86 10 6513 6677
F +86 10 6513 1769
www.acfic.org.cn

Asian Institute for Corporate Governance
Business School
Korea University
Korea
T +82 2 3290 1657
F +82 2 3290 2552
www.aicg.org

Association for Sustainable & Responsible Investment in Asia
Hoseinee House/Rm 601
69 Wyndham Street
Hong Kong, China
T +852 3105 3701
F +852 3105 9707
www.asria.org

Bangladesh Centre for Advanced Studies
House 23, Road 10A,
Dhanmondi R/A
Dhaka 1209
Bangladesh
T +880 2 811 3977
F +880 2 811 1344
www.bcas.net

Business Group for Thai Society
10 Soonthornkosa Road
Klongtoey, Bangkok 10110
Thailand
T +66 2 262 6606
F +66 2 249 3700

Centre for Science and Environment
41 Tuglakabad Institutional Area
New Delhi 110062
India
T +91 11 698 1110
F +91 11 698 5879
www.cseindia.org

Centre for Social Markets
15 Stephen Court
18A Park Street
Calcutta 71
India
T +91 33 229 4537
F +91 33 229 0647
www.csmworld.org

China Enterprise Confederation

17 Zizhuyuan Nanlu
Beijing 100044
China
T +86 10 6872 5437
F +86 10 6841 4280
www.cec-ceda.org.cn

Confederation of Indian Industry

India Habitat Centre
4th Floor, Zone IV, Lodhi Road
New Delhi 110003, India
T +91 11 464 5228
F +91 11 460 2524
www.ciionline.org

Development Alternatives

B-32, Tara Crescent
Outab Institutional Area
New Delhi 110016
India
T +91 11 685 1158
F +91 11 686 6031
www.devalt.org

Federation of Thai Industries

Queen Sirikit National Convention Centre
Zone C / 4th Floor
60 New Rachadapisek Road
Klongtoey, Bangkok 10110
Thailand
T +66 2 229 4255
F +66 2 229 4941/2
www.fti.or.th

Institute of Environment and Development

34 Fu-wai-da-jie Street
Cai-yin Building / Rm 441
Beijing 100832
China
T +86 10 6857 7249
F +86 10 6851 9950
www.lead.org.cn

Partners in Change

S 385 Greater Kailash II
New Delhi 110048
India
T +91 11 641 8885
F +91 11 623 3525
www.caringcompanies.org

Philippine Business for Social Progress

3rd Floor Lower Level
DAP Building
San Miguel Avenue, Pasig
Manila 1601
Philippines
T +63 2 635 3670
F +63 2 631 5714
www.pbsp.org.ph

Responsible Business Initiative

52-B New Muslim Town
Lahore 54612
Pakistan
T +92 42 586 6398
F +92 42 586 7341
www.rbi.org.pk

Tata Energy Research Institute

2002 Darbari Seth Block
Habitat Place, Lodhi Road
New Delhi 110003
India
T +91 11 468 2100
F +91 11 468 2144
www.teriin.org

Europe

Department of Environmental Sciences & Policy

Central European University
Nador u. 9, H-1051
Budapest, Hungary
T +36 1 327 3021
F +36 1 327 3031
www.ceu.hu/envsci

Ecoline

PO Box 7, G-47, 125047
Moscow
Russia
T +7 095 978 90 61
F +7 095 978 90 61
<http://cci.glasnet.ru>

EcoPravo-Kharkiv

PO Box 10479
Kharkiv 61002
Ukraine
T +380 572 19 10 21
F +380 572 19 10 21
www.ecopravo.kharkov.ua

Institute of Corporate Law and Corporate Governance

5, Building 2
Zvonarsky Pereulok
Moscow 103031
Russia
T +7 095 258 3569
F +7 095 258 3568
www.iclg.ru

Slovak Cleaner Production Centre

Pionierska 15
83102 Bratislava
Slovak Republic
T +421 2 4445 4328
F +421 2 4425 9015
www.fns.uniba.sk/zp/sccp

Latin America

Acción Empresarial

Encomenderos 231/of. 601
Santiago
Chile
T +56 2 234 5141
F +56 2 234 5088
www.accionempresarial.cl

Earth Council

Apartado 2323-1002
San José
Costa Rica
T +506 256 1611
F +506 255 2197
www.ecouncil.ac.cr

Ethos Institute – Business and Social Responsibility

Rua Francisco Leitao, 469
Conj. 1407-CEP
São Paulo, SP 05414-020
Brazil
T +55 11 3068 8539
F +55 11 3068 8539
www.ethos.org.br

Fundamas

Edificio FUSADES, Blvd Sta. Elena
Urb. Santa Elena, San Salvador
El Salvador
T +503 244 0538
F +503 244 0539

Fundes

www.fundes.org
www.mypyme.com
throughout Latin America

Institute for the Development of Social Investment

Rua São Tomé, 119
Conj. 42-Vila Funchal
São Paulo, SP 04551-080
Brazil
T +55 11 3044 4686
F +55 11 3044 4685
www.idis.org.br

Instituto Brasileiro de Governança Corporativa

World Trade Center,
Av. das Nações Unidas, 12551
Conj. 25º andar-Sala 2508
São Paulo, SP 04578-903
Brazil
T +55 11 3043 7008
F +55 11 3043 7005
www.ibgc.org.br

Peru 2021

Lord Nelson N 218
Miraflores, Lima 18
Peru
T +51 1 421 3795
F +51 1 440 2151
www.peru2021.org

Glossary

Brand value & reputation

Public perception of a company, its products and brands. This would include the reputation of the company, the personal reputation of the company manager/owner and the brand value of the company.

Business case

The extent to which sustainability improves business value, as conventionally defined.

Civil society

The set of institutions, organizations and behavior situated between the state, the business world and the family. Specifically, this includes voluntary and non-profit organizations of many different kinds, philanthropic institutions, social and political movements, other forms of social participation and engagement, and the values and cultural patterns associated with them.⁶⁹

Corporate governance

Improving board structures and procedures to make a company more accountable to shareholders, covering issues such as financial reporting, transparency and audit, remuneration of directors, separation of powers and minority shareholder rights. At its broadest it is the full set of relationships between a company's management, its board and stakeholders.

Digital divide

Refers to the growing exclusion from social and economic opportunities of people without access to the internet and communication technologies.⁷⁰

Digital dividend

Projects that bridge the digital divide through business solutions that bring connectivity and digital services to un-served populations in developing regions.

Eco-efficiency

Involves the delivery of competitively priced goods and services that satisfy human needs and bring quality of life, while progressively reducing ecological impacts and resource intensity throughout the life cycle.

Eco-tourism

Responsible travel to natural areas that conserves the environment and sustains the well-being of local people.⁷¹

Emerging markets

Developing countries recognized as having access to international capital markets, thereby creating opportunities for attracting private capital flows.

Engagement

The process of seeking stakeholder views on their expectations of an organization, in a way that may realistically be expected to elicit those views.⁷²

Human capital

The accumulated knowledge and skill set of a company's employees, which affects its ability to learn, innovate and compete.

License to operate

Traditionally refers to compliance with local, national and international legislation and regulation. Increasingly, however, retaining or enhancing license to operate refers to earning the trust and respect of diverse groups of stakeholders. To be commercially viable over the long term, a company must retain its license to operate with stakeholders.

Multinational corporation (MNC)

A company that has production operations in more than one country.

Product stewardship

Product stewardship is a product-centered approach to environmental protection. It involves reducing the environmental impacts of products throughout their life cycle, from the raw materials through manufacturing, use and disposal.

Small and medium sized enterprise (SME)

An independent small business managed by its owner or part-owner.⁷³ SMEs are usually classified by numbers of employees, total sales and assets. IFC classifies an SME as having up to 300 employees, total assets of up to \$15 million, and total annual sales of up to \$15 million. This classification is broadly consistent with those used by most other international financial institutions.

Socially responsible investment (SRI)

Investment decisions that incorporate environmental and social criteria as well as traditional financial considerations in measuring a company's performance or its attractiveness as an investment. Also known as ethical investment.

Stakeholder

Any individual or group which can affect or is affected by an organization's activities. 'Stakeholders' are increasingly self-legitimizing – in other words, those who judge themselves to have an interest in an organization's operations, value and performance are de facto 'stakeholders'.

Sustainability

There are over 100 definitions of sustainability and sustainable development, but the best known is that of the World Commission on Environment and Development. This suggests that development is sustainable where 'it meets the needs of the present without compromising the ability of future generations to meet their own needs'.

Transparency

An organization's openness and honesty with its stakeholders about its activities.

Triple bottom line

The basis of integrated measurement and management systems focusing on economic, social and environmental value added – or destroyed.



Eucalyptus plantation, Kenya

Endnotes

The sources for all case studies which appear in this report can be found on the website www.sustainability.com/developing-value

- ¹ International Finance Corporation, *IFC – The Partner of Choice*, Washington, 2002, page 5.
- ² SustainAbility/UNEP, *Buried Treasure: Uncovering the business case for corporate sustainability*, London, 2001.
- ³ The cases are recorded in our online database, which can be accessed at www.sustainability.com/developing-value. The numbers of cases and companies are different because several companies produced more than one example, resulting in a total of 247 cases.
- ⁴ World Resources Institute/UNEP/WBCSD, *Tomorrow's Markets: Global Trends and Their Implications for Business*, 2002 www.wri.org/business/tomorrows_markets.html
- ⁵ SustainAbility/Ketchum/UNEP, *Good News & Bad: The Media, Corporate Social Responsibility and Sustainable Development*, London, 2002.
- ⁶ International Finance Corporation, *IFC – The Partner of Choice*, Washington, 2002, page 5.
- ⁷ Throughout this report we use the \$ sign to refer to US dollars.
- ⁸ Institute of International Finance press release, *Net Private Capital Flows to Emerging Markets Fall \$54 billion in 2001 to \$115 billion*, New York and Washington, 30 January 2002.
- ⁹ World Bank, *Global Economic Prospects and the Developing Countries: Making Trade Work for the World's Poor 2002*, Washington, page 2.
- ¹⁰ In terms of Purchasing Power Parity – World Bank, *Global Economic Prospects and the Developing Countries: Making Trade Work for the World's Poor 2002*, Washington, page 30.
- ¹¹ World Resources Institute/UNEP/WBCSD, *Tomorrow's Markets: Global Trends and Their Implications for Business*, 2002 www.wri.org/business/tomorrows_markets.html
- ¹² 'Once-communist world marches to its own rhythm', *Financial Times Survey – Investing in Central and Eastern Europe*, 17 May 2002.
- ¹³ Institute of International Finance press release, *Moderate Recovery Seen in Private Capital Flows to Emerging Markets*, New York and Washington, 22 April 2002. www.developmentgoals.org/achieving_the_goals.htm
- ¹⁴ As defined by the Brundtland Commission.
- ¹⁵ Refer to website for full list: www.sustainability.com/developing-value
- ¹⁶ The World Bank classifies economies as low-income (GNI \$755 or less), middle-income (GNI \$756–9,265) and high-income (GNI \$9,266 or more). Low-income and middle-income economies are sometimes referred to as developing countries. World Bank, *Global Economic Prospects and the Developing Countries, Making Trade Work for the World's Poor 2002*, Washington.
- ¹⁷ SustainAbility/UNEP, *Buried Treasure: Uncovering the business case for corporate sustainability*, 2001.
- ¹⁸ Wayne Visser, 'Greening the corporates: The transition, local business and sustainable development', *Development Update, Special Edition: Election 1999: Where have we come from? A balance sheet of the political transition*, Volume 3, Issue 1. Wayne Visser and Clem Sunter, *Beyond Reasonable Greed: Why Companies Need to Shapeshift*, Human & Rousseau Tafelberg, Cape Town, 2002.
- ¹⁹ International Network for Environmental Management, *The ISO 14001 Speedometer*, January 2001 www.inem.org/htdocs/iso/speedometer/speedo-4_01.html 14 February 2002.
- ²⁰ As of May 2002. Social Accountability International, *SA8000 Certified Facilities*, www.cepa.org/certification.htm (29 May 2002).
- ²¹ International Finance Corporation, *Paths out of Poverty: The Role of Private Enterprise in Developing Countries*, Washington DC, 2000.
- ²² C.K. Prahalad & Stuart Hart, 'The Fortune at the Bottom of the Pyramid', *Strategy + Business*, 26.
- ²³ From a speech at the Centre for Social Markets conference, December 2001
- ²⁴ Roper Reports Worldwide, *Cause Branding: Does Social Good = Market Share*, Spring 2000.
- ²⁵ New Ventures, *Jolyka* www.new-ventures.org/jolykanv.html 29 May 2002.
- ²⁶ Ritu Kumar, David F. Murphy & Viraal Balsari, *Altered Images: the 2001 state of corporate responsibility in India poll*, Tata Energy Research Institute, New Delhi, 2001.
- ²⁷ 'Good Job Infy, Says Employer Poll', *The Times of India*, 20 February 2002. www.bestemployersindia.com

- ²⁹ Hewitt Associates, The Best Employers in Asia, www.bestemployersasia.com 11 December 2001.
- ³⁰ Cheryl Dahle, 'The New Fabric of Success', *Fast Company*, Issue 35, June 2000.
- ³¹ We did not include the IFC-funded companies (a fifth of the total cases) under this heading, although they have to meet IFC requirements in relation to environment, social and governance performance, www.ifc.org/enviro
- ³² McKinsey, *The McKinsey Emerging Market Investor Opinion Survey 2001*, London, 2001.
- ³³ 'Samsung Turning Name into a Global Brand', *Taipei Times*, 20 February 2002.
- ³⁴ *LCV News*, March/April 2002, Year III - No. 21, page 2. Also see www.lcvco.com.br
- ³⁵ Global Corporate Governance Forum www.gcgf.org
- ³⁶ The Committee on the Financial Aspects of Corporate Governance, *Report of the Committee (The Cadbury Report)*, The London Stock Exchange, December 1992.
- ³⁷ Credit Lyonnais Securities Asia, *Saints and Sinners: Who's got religion?*, April 2001.
- ³⁸ Global Corporate Governance Forum www.gcgf.org
- ³⁹ King Committee on Corporate Governance, *King Report 2002*, Institute of Directors, South Africa, 2002.
- ⁴⁰ By 'philanthropy' we mean activity motivated solely by a desire to help, without any consideration of potential business benefits.
- ⁴¹ The International Ecotourism Society, *The Ecotourism Fact Sheet*, 2000 www.ecotourism.org/textfiles/statsfaq
- ⁴² International Finance Corporation, *Community Development Resource Guide*, Washington, 2000.
- ⁴³ The strength of the evidence has been measured according to how confident we can be that there is a connection between the two factors. This is based on the volume of evidence relevant to x on box, and the nature of the evidence. We have scored quantitative data more highly than qualitative material, and given the lowest score to anecdotal evidence. The measure therefore combines volume and weight of evidence.
- ⁴⁴ International Finance Corporation, *IFC – The Partner of Choice*, Washington, 2002, page 13.
- ⁴⁵ www.environmentfoundation.net/2001-geoffrey-chandler.htm
- ⁴⁶ Paper presented at Business and AIDS Symposium, 5th International Congress on AIDS in Asia and the Pacific, 1999, quoted in Anthony Pramualratana & Bill Rau, *HIV/AIDS Programs in Private Sector Businesses*, Thailand Business Coalition on Aids, Bangkok.
- ⁴⁷ The study also looked at Middle East & North Africa and South Europe & Central Asia, but there were insufficient cases in these regions to establish clear trends.
- ⁴⁸ Thailand Environment Institute, *How can it Benefit Business? A Survey of ISO 14001 Certified Companies in Thailand*, Bangkok, 1999.
- ⁴⁹ Environics International Ltd, *Corporate Social Responsibility Monitor*, Toronto, June 2001.
- ⁵⁰ Ritu Kumar, David F. Murphy & Viraal Balsari, *Altered Images: the 2001 State of Corporate Responsibility in India Poll*, Tata Energy Research Institute, New Delhi, 2001.
- ⁵¹ World Economic Forum / Environics International, *The World Economic Forum Poll: Global Public Opinion on Globalization*, February 2002.
- ⁵² Study by the Center for International Health at the Boston University School of Public Health on costing model that estimates the present value of new HIV infections in the formal business sector in Southern Africa.
- ⁵³ *Environment Business Journal*, Vol. XII, Number 9-10.
- ⁵⁴ WBCSD is a coalition of 150 international companies committed to sustainable development via economic growth, ecological balance and social progress. It also operates regional networks and partner organizations in many emerging markets. www.wbcsd.ch
- ⁵⁵ www.unglobalcompact.org
- ⁵⁶ World Bank, *World Development Report 2002: Building Institutions for Markets*, Oxford University Press, New York, 2001, p137.
- ⁵⁷ UNEP/IISD, *Environment and Trade: A Handbook*, Canada, 2000 www.iisd.org/trade/handbook
- ⁵⁸ Economic instruments are tools to create financial incentives for environmentally responsible behavior, while imposing costs for unsustainable behaviour, including taxes and other charges for resource use, new markets for trading resource usage rights and new property rights. A good list of examples from around the world of these and other innovative policy instruments can be found at www.iisd.org/susprod/compendium
- ⁵⁹ In addition to the Novo Mercado, BOVESPA has two intermediate listing segments, the Special Corporate Governance Level 1 and Level 2, which also require higher standards of corporate governance, but are not as strict as the requirements of the full Novo Mercado. These different levels encourage voluntary adherence to appropriate standards. See www.novomercadobovespa.com.br/english/index
- ⁶⁰ Social Investment Forum Industry Research Program, *2001 Report on Socially Responsible Investing Trends in the United States*, Social Investment Forum, 28 November 2001.
- ⁶¹ Cliff Feigenbaum, 'Socially Responsible Investing: Influencing the World by Investing with Your Values', *The Greenmoney Journal*, February/March 2002.
- ⁶² SustainAbility/Ketchum/UNEP, *Good News & Bad: The Media, Corporate Social Responsibility and Sustainable Development*, London, 2002.
- ⁶³ See for example Roper Reports Worldwide, *Cause Branding: Does Social Good = Market Share*, Spring 2000.
- ⁶⁴ www.bpdweb.org
- ⁶⁵ http://unepfi.net/fii/signatories_country.htm 16 May 2002.
- ⁶⁶ New cases will be added to the online database accompanying this report at www.sustainability.com/developing-value
- ⁶⁷ Kofi Annan, *'We the Peoples': The Role of the United Nations in the 21st Century*, United Nations www.un.org/millennium/sg/report/index.html 22 May 2002.
- ⁶⁸ David Sanders Payne, *Capitalismo Natural*, Rocky Mountain Institute www.rmi.org
- ⁶⁹ Centre for Civil Society, London School of Economics.
- ⁷⁰ Adapted from World Resources Institute's Digital Dividend program www.digitaldividend.org
- ⁷¹ As defined by The International Ecotourism Society www.ecotourism.org
- ⁷² Adapted from AA 1000.
- ⁷³ Ruth Hillary, *Small and Medium Sized Enterprises and the Environment*, Greenleaf Publishing, Sheffield, 2000.

Acknowledgements

This report would not have been possible without the contributions of many individuals, whom we gratefully acknowledge for the time and energy they brought to this project.

We thank Ireland Aid for supporting this project financially.

We are indebted to our Advisory Panel, which reviewed the methodology and report drafts, providing us with invaluable insights along the way:

- María Emilia Correa, Nueva Group, Costa Rica;
- Teoh Cheng Hai, Consultant, Total Quality & Environment Management, Malaysia;
- Alison Ramsden, South African Breweries, South Africa;
- Shankar Venkateshwaran, Partners in Change, India

The report has benefited tremendously from the contributions of Philippine Business for Social Progress (PBSP) and the National Business Initiative (NBI), South Africa.

We would like to thank Elvie (Bing) Ganchero and Grace Mandac from PBSP and Gillian Hutchings from NBI.

A special acknowledgement goes to Daniel Bubla, managing director, and Ivan Budil, CFO, Cembrit; Rodolfo Guttilla and Stefania Valle from Natura Cosmetics; Lia Vangelatos, senior business development manager, Anglo American; and Funing Hou, vice president, Bank of Shanghai.

We would also like to express our gratitude to the many experts from around the world whom we interviewed while researching this report, for helping to provide the background and context for the research:

Luiz Alberto Aziz Checa, SAI; Sebastián Bigorito, CEADS; Fran van Dijk; Gerald Fryxell, Hong Kong Polytechnic University; Stuart Hart, University of North Carolina; James Johnson, University of North Carolina; Yann Kermode, UBS; Ashok Khosla, Development Alternatives; Patricia Londono, World Resources Institute; Santiago Madriñán and Jaime Moncada, CECODES; Richard Ness, Newmont Nusa Tenggara; Javier Padilla, AISA; Lawrence Pratt, INCAE; Shan Shan Cheung, Center for Environmental Management, Education and Development; Michael Totten, Conservation International; Miguel Angel Valenzuela, Girsá; Wayne Visser, KPMG South Africa; and Stanley Yung, Ashoka.

We would particularly like to acknowledge the special inputs and support of Emilio Cano of Desarrollo Organizacional Sustentable and Jonathon Hanks of Common Ground Consulting.

From IFC, SustainAbility and Ethos, we would like to thank all our colleagues for their support and commitment.

Ethos Institute would like to thank Alejandra Meraz Velasco, Shannon Music and the team of the Knowledge Management Area for their commitment.

From IFC we thank Karin Strydom, Harry Pastuszek, Mark Eckstein, Margaret Wachenfeld, Peter Taylor, Joseph O’Keefe and Gavin Murray for their invaluable comments to improve the content of the report; William Todd, Adam Struve, Junfeng Shi, Carmen Genovese, Stephen Bailey and Jenifer Wishart for their continuous support on the case studies; and Athena Azarcon for her dedication and hard work on this project.

Thanks also to Seb Beloe, Oliver Dudok van Heel, John Elkington, Emily Foskett and Nick Robinson from SustainAbility for their help and guidance and to Jan Scherer for naming the report.

We would also like to thank Still Pictures for the free use of their photographs.

Finally, we are profoundly grateful to our researcher Stephanie Faure, now with Global Risk Management Services, for her work on the case studies, and our writer Roger Cowe, who put on paper the messages that were in our minds.

Photographers

- 1 Sorting cashews, Mozambique
Ron Giling / Still Pictures
- 4 Stock exchange, Brazil
Julio Etchart / Still Pictures
- 6 Kunda Nordic Cement before changes
IFC
- 7 Kunda Nordic Cement after changes
IFC
- 9 Board meeting, Bank of Shanghai
Bank of Shanghai
- 10 Stockbroker, Kenya
Hartmut Schwarzbach / Still Pictures
- 11 Fruit market, Bolivia
Ron Giling / Still Pictures
- 12 Flower exporter, Kenya
Richard Lord
- 17 Copper miners, Zambia
Ron Giling / Still Pictures
- 18 Textile printing, Bangladesh
Neil Copper / Panos Pictures
- 19 Recyclable adobe bricks, Cuzco, Peru
Edward Parker / Still Pictures
- 20 Stimela Rail, railway maintenance
company supported by Zimele
Anglo American
- 21 Cembrit factory
Cembrit
- 23 Clothing factory, India
Ron Giling / Still Pictures
- 26 Teapickers, Sri Lanka
Sean Sprague / Panos Pictures
- 28 Wind farm, India
Kirstine Damkjaer
- 29 Natura laboratory
Natura
- 30 Pharmaceutical factory, India
Hartmut Schwarzbach / Still Pictures
- 33 Bamboo transportation, Indonesia
Jen-Leo Dugast / Still Pictures
- 34 Car factory worker, Brazil
John Maier / Still Pictures
- 35 Smallholder, Hungary
Paul Harrison / Still Pictures
- 38 Zen car production, India
Paul Smith / Panos Pictures
- 39 Intercropping, Philippines
Ron Giling / Still Pictures
- 42 Tourists, South Africa
Tom Walmsley / Still Pictures
- 44 Construction site, Thailand
Nic Dunlop / Panos Pictures
- 47 Drying sarees, India
Jeremy Horner / Panos Pictures
- 48 Monetary exchange, Russia
Mark Fallander
- 52 Textile factory, Indonesia
Mark Edwards / Still Pictures
- 57 Eucalyptus plantation, Kenya
Adrian Arbib / Still Pictures

Writer

Roger Cowe
T +44 (0)20 8374 2145

Designer

Rupert Bassett
T +44 (0)7958 629 290

Paper

Paperback
T +44 (0)20 8980 2233
Printed on 100gsm Revive Silk
75% de-ink post-consumer waste
and 25% mill broke.

Printer

The Beacon Press
T +44 (0)1825 768611
www.beaconpress.co.uk

The Beacon Press is registered under both the EMAS and ISO 14001 schemes. Recent progress highlights include the following: vegetable-based inks are used; film and film processing chemicals have been eliminated; 'green' electricity is sourced from Ecotricity; 95% of all press cleaning solvents are now recycled; and waste recycling is now at 90%.

Publisher

SustainAbility Ltd
11–13 Knightsbridge
London SW1X 7LY
United Kingdom
T +44 (0)20 7245 1116
F +44 (0)20 7245 1117
www.sustainability.com

Developing Value

First Edition 2002
ISBN 1-903168-05-8 / 0-8213-5181-8
© 2002 SustainAbility and
International Finance Corporation (IFC)

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means: electronic, electrostatic, magnetic tape, photocopying, recording or otherwise, without permission of in writing from SustainAbility and IFC.

The findings, interpretations, and conclusions expressed in this work are entirely those of the authors and contributors and should not be attributed in any manner to IFC, the World Bank Group, affiliated organizations, or members of its Board of Executive Directors or the countries they represent. IFC and SustainAbility do not guarantee the accuracy of the data included in this publication and accept no responsibility whatsoever for any consequence of their use. The boundaries, colors, denominations, and other information shown on any map in this volume do not imply on the part of the World Bank Group any judgement on the legal status of any territory or the endorsement or acceptance of such boundaries.

The *Developing Value* report can be ordered direct from SustainAbility at www.sustainability.com/store or from World Bank publications at www.worldbank.org/publications

SustainAbility

Founded in 1987, SustainAbility is the longest established international consultancy specializing in business strategy and sustainable development – environmental improvement, social equity and economic development.

SustainAbility is a hybrid organization: part strategic management consultancy, part world-class think-tank and part energetic public interest group. Our strength is based on a thorough knowledge and understanding of current and emerging sustainability issues and of stakeholder perceptions – and on our ability to interpret and communicate these appropriately and effectively.

We work with businesses from a variety of industries and world regions, helping them understand and respond strategically to the evolving challenges of sustainable development.

In all our work we stress the need to create not just shareholder value but also wider economic, social and environmental value.

International Finance Corporation (IFC)

Since 1956, IFC has shown that good investment returns are compatible with creating employment, a healthy environment, and an improved quality of life in developing countries. IFC has committed more than \$31 billion of its own funds and has arranged \$20 billion in syndications for more than 2,600 companies in 140 developing countries.

Working with business partners and financial institutions, we invest in sustainable private enterprises in regions and sectors underserved by investment from private sources. We set high standards for corporate governance and social and environmental performance, bringing our expertise to project transactions to help our partners achieve the best overall performance. In addition to our primary role as a lender or direct investor, we use concessional financing to develop innovative business models and demonstration projects with broader environmental and social benefits.

We find new ways to develop promising opportunities in markets that commercial investors consider too risky or politically unstable to provide any measure of security, profitability or growth without IFC's participation. In those environments we see – and encourage – opportunity and profitability.

IFC is a member of the World Bank Group.

Ethos Institute – Business and Social Responsibility

The Ethos Institute of Business and Social Responsibility is an association of small and large Brazilian companies from a range of sectors that are keen on developing their activities in a socially responsible manner. This is achieved through a permanent process of evaluation and improvement.

Founded as a not-for-profit organization in 1998 by a group of business leaders, Ethos started with 11 company members. Today the Institute has more than 600 company members, with joint revenues corresponding to approximately 28% of Brazil's Gross Domestic Product (GDP).

The Institute also focuses on specific projects for the media and academic communities, and partners with many national and international institutions.



SustainAbility
11-13 Knightsbridge
London SW1X 7LY
UK
T +44 (0)20 7245 1116
F +44 (0)20 7245 1117
E info@sustainability.com
www.sustainability.com



International Finance Corporation
Corporate Relations Unit
2121 Pennsylvania Avenue NW
Washington DC 20433
USA
T +1 202 473 2258
F +1 202 974 4384
E cshanahan@ifc.org
www.ifc.org/sustainability



Ethos Institute – Business and Social Responsibility
Rua Francisco Leitao, 469
Conj. 1407-CEP
São Paulo, SP 05414-020
Brazil
T +55 11 3068 8539
F +55 11 3068 8539
E gestaodoconhecimento@ethos.org.br
www.ethos.org.br