
Introduction

Managers should look at environmental problems as business issues. They should make environmental investments for the same reasons they make other investments: because they expect them to deliver positive returns or reduce risks.

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PICTURE THIS. It's three years from today. You've just been interviewed by a writer from *Harvard Business Review*, who is doing an article on your company's remarkable success in an economy that has wiped out some of your toughest competitors and ruthlessly downsized others. You are the senior executive who is reputed to have led the three-year turnaround of your company, SD Inc., and the writer has come to you for the straight goods on this magic "sustainable development" thing—is it really the silver bullet that other articles in the business press are claiming it to be?

The interview was fun—once you got the writer past the usual business press desire to find the one secret to SD Inc.'s success and the one leader-hero who made it happen. It's never that simple. At first it sounded like a cliché when you explained it had been a team effort involving everyone in the company and that many little things were instrumental in SD Inc.'s profit growth. When the writer asked for details and examples, though, the story came alive.

- You described how three years earlier you and the CEO had invited all employees to help revitalize the company's vision so that it compelled and inspired everyone to pursue sustainable business goals energetically, creatively, relentlessly.
- You explained the company's commitment to a five-year investment in company-wide education on what sustainability means to the planet, society, the business community, and especially to SD Inc. In the first sessions, senior executives led discussions on what the company was already doing on the "triple bottom line" (an expression that you needed to explain to the writer), what it planned to improve next, and how the

company needed everyone's creative ideas to make it all happen. The status reports by executives in the last two annual education sessions had reinforced that this was not just another management fad. These training sessions were also turning out to be wonderful opportunities to celebrate progress on the sustainability journey.

- You admitted that you thought some employees would be energized by the move to sustainability, but you had been amazed by how the individual and team efforts of passionate folks had raised the overall productivity of the company. Employees were voluntarily working harder and smarter to ensure the company did well and continued to address environmental and social issues that they cared about. The chance to contribute to “saving the world” had unleashed their potential beyond anything you had heard about in the business literature.

When the writer probed further, asking what this had to do with SD Inc.'s success, it had been satisfying to pull numbers from the latest annual report, which now included the environmental, health and safety, and corporate community relations reports that used to be produced separately each year. You showed how, over the past three years:

- profits had improved by 25%, as revenues increased by 5% and expenses were reduced by 20% in a variety of creative ways throughout the business;
- productivity had risen by 5 to 10% across the company and was still improving;
- customer satisfaction had reached new highs;
- markets once viewed as unprofitable were now returning margins that were better than traditional markets;
- the service and consulting arms of the business were generating over half the revenue, and the volume of products that were leased had surpassed the volume of outright sales; and
- new products designed to appeal to “green customers” were helping to change SD Inc.'s image in the market and were, surprisingly, more profitable than most products in its traditional product line.

There was so much more to tell and so little time to tell it. After the writer leaves, congratulating you on your recent appointment to senior vice-president of SD Inc.'s Sustainable Development Profit Center,

you realize that you forgot to mention how helpful it had been to have a business case template that you initially used to demonstrate to the CEO and your executive colleagues how compelling the business benefits of sustainable development could be for SD Inc. Oh, well. You'll make sure to start the interview with that story when you meet with the *Wall Street Journal* reporter who is coming tomorrow.

Back to the present.

This story does not need to be fiction. Today's companies are squandering bottom-line benefits that could easily be achieved by adapting sustainable development strategies. The business benefits are quantifiable and real—the return on investment from aggressively improving company-wide sustainable development knowledge and initiatives can make other traditional investment opportunities seem trivial. Whichever company captures these benefits soonest will have a significant competitive edge. Sustainable development gives companies a sustainable advantage. It's a race to the top.

Businesspeople do not have to be transformed into tree-hugging environmental activists to reap these benefits. They can remain just what their shareholders expect them to be—hard-nosed executives who evaluate proposals on their bottom-line merits. Saving the world and making a profit is not an either/or proposition; it is a both/and proposition. Good environmental and social programs make good business sense. Benefits from more aggressive and creative attention to environmental and social projects throughout a company create a win/win approach for both the corporate bottom-line and the restoration of the health of the planet. As George Molenkamp, chairman of KPMG Environmental Consulting, reported after a 1999 KPMG study of the Fortune 250 companies and the top 100 firms in 11 countries:

More big multinational firms are seeing the benefits of improving their environmental performances.... Firms are saving money and boosting share performance by taking a close look at how their operations impact the environment.... Companies see that they can make money as well [as improve the environment].²

Addressing environmental and sustainability issues in a systematic way provides new opportunities to focus on core business objectives such as reducing hiring and retention costs, improving productivity, reducing expenses at manufacturing and commercial sites, increasing revenue and market share, reducing risk, increasing shareholder value, and increasing profit.

External Pressures

More and more, business leaders influence world decisions. Without their support, environmental restoration will take longer—and time is running out. It is vital that companies become leaders in corporate social and environmental responsibility. Companies experience a variety of external pressures to improve their sustainable development performance: lobbying by non-governmental organizations;³ government environmental policies and regulations;⁴ insurance company encouragement to reduce the risk of environmental liability;⁵ pressure from large investors like pension funds, insurance companies, and banks that are seeking ethical investments;⁶ trade association image-building efforts;⁷ labor groups' and consumers' health and safety concerns;⁸ and local community concerns about the impact of company operations on long-term air, water, and land quality.⁹ The World Business Council for Sustainable Development sums up the pressures on the environmental attributes of a business (*italics in original*).

The environment is not going to disappear as an issue for business. Companies are, and will continue to remain, under pressure from *customers, investors, employees, legislators* and increasingly, from *banks and insurance companies* to be eco-efficient.¹⁰

Most firms would prefer to pursue their environmental strategies voluntarily, rather than be legislated or externally pressured into doing so.¹¹ Frequently, external pressures are seen as being at odds with the internal desire of the firm to generate strong bottom-line results for another group of external constituents—shareholders. However, if a compelling internal business case could be made for quantum leaps in environmental and social performance that result in improvements in the bottom line, companies would voluntarily want to capitalize on this business opportunity.

Do companies already care about corporate social responsibility? Most would claim that they do. How they interpret the phrase, why they care, and the degree to which they display an active interest in environmental and social issues will differ. Some get it, some don't. Some are voluntary leaders, some are unwilling followers driven by regulations. Unfortunately, some also attempt to co-opt and dilute the terminology, so it is helpful to clarify commonly used labels.

Clarifying the Terminology

Are “sustainable development,” “corporate social responsibility,” and “eco-efficiency” all the same? Not quite.

“Sustainable development” was the theme of *Our Common Future*, the 1987 report prepared by the World Commission on Environment and Development, led by then Norwegian prime minister Gro Harlem Brundtland. Commonly known as the Brundtland report, it described sustainable development as “meeting the needs of the present without compromising the ability of future generations to meet their own needs.”¹² In economic language, it means we should live off the Earth’s interest, not its capital. For a business, it means sustaining nature’s resources as well as sustaining the company. Sustainable development is like a three-legged stool. Its legs are economic prosperity, environmental stewardship, and social responsibility.¹³ If one of the legs is missing, the stool is not going to work, so we need to be sure all three legs are in good shape (see Figure 1.1).

The *economic prosperity* element is easily understood and accepted by companies—it is about the long-term economic health of global, local, and corporate economies. It’s not just about individual corporations being profitable over the short term. It’s also about multilevel, interdependent economies being healthy and sustainable for the long term.

The *environmental stewardship* dimension of sustainable development not only requires companies to “do no harm” to the environment with their operations and products, but also stretches them to help restore the environment from harm already done. This requires reducing the amount of energy, water, and material consumed in the manufacture of products, reducing waste, and remediating contaminated sites.

“Eco-efficiency” marries these first two economic and environmental elements of sustainable development. The term is a contraction of *ecological* and *economic efficiency*—doing more with less over the full life cycle of a product. Stephan Schmidheiny, with 50 business leaders in the Business Council for Sustainable Development, elaborated in *Changing Course* on what eco-efficient companies would look like.

Corporations that achieve ever more efficiency while preventing pollution through good housekeeping, materials substitution, cleaner technologies, and cleaner products and that strive for more efficient use and recovery of resources can be called “eco-efficient.”¹⁴

“Eco-efficiency” is a more palatable term to business leaders than “sustainable development,” which may seem abstract and unwieldy at first. The seven guidelines of eco-efficiency proposed by Livio DeSimone and Frank Popoff in *Eco-efficiency: The Business Link to Sustainable Development* are refreshingly explicit.¹⁵

Sustainable Development



a.k.a. Corporate Social Responsibility,
Good Corporate Citizenship,
Conscientious Commerce, Sustainable Capitalism

The Triple Bottom Line... 3 Es, 3 Ps

Economy/Profit *Sustainable Business*

- Profits
- Taxes/Expenditures
- Jobs, R&D
- Compensation/Benefits
- Training/Productivity
- Fair trade
- Ethical Behaviour
- Core values

Environment/Planet *Eco-Efficient Business*

- Manufacturing eco-efficiency
- Supplier eco-inspections
- Operations eco-efficiency
- Product eco-characteristics
- Cradle-to-cradle product responsibility/take-back
- Beyond compliance
- Restorative to nature

Equity/People *Ethical Business*

INTERNAL EMPLOYEES

- Respect for diversity
- Respect for human rights
- Health & safety protection
- Empowerment & caring

REST OF THE WORLD

- Charitable contributions
- Corporate relations
- Closing the gap between rich and poor

Figure 1.1 Sustainable Development

- Reduce the material intensity of goods and services
- Reduce the energy intensity of goods and services
- Reduce toxic dispersion
- Enhance material recyclability
- Maximize sustainable use of renewable resources
- Extend product durability
- Increase the service intensity of products

Eco-efficiency is a significant element of sustainable development, but it is not synonymous, as it excludes the third element, social responsibility. *Social responsibility* calls for a global view of society and seeks to ensure that resources and wealth are more equitably shared among citizens of the world. For a corporation, social responsibility includes observing human rights, improving working conditions and labor relations, adhering to business ethics, making charitable contributions, reducing aesthetic impacts of factory and commercial sites on the local community, helping employees develop transferable job skills, supporting public health, and fostering community relations. Although some observers debate whether all these are a legitimate responsibility of corporations,¹⁶ social responsibility is a powerful attractor for some employees who are deeply committed to sustainable development, and there are clear indications that social responsibility is gaining importance in the civil society movement.¹⁷

The Natural Step, an international educational organization working to accelerate the movement toward a sustainable society, espouses four systems conditions that echo the components of sustainable development.¹⁸

1. Nature's functions and diversity must not be subject to increasing concentrations of substances extracted from the earth's crust.
2. Nature's functions and diversity must not be subject to increasing concentrations of substances produced by society.
3. Nature's functions and diversity must not be impoverished by overharvesting or other forms of ecosystem manipulation.
4. Resources are used fairly and efficiently in order to meet basic human needs worldwide.

Eco-efficiency addresses the efficiency aspect of this fourth condition, but not the fairness aspect of meeting basic human needs worldwide.

There is concern that if companies fail to address corporate social responsibility and its underlying issue of trust, social unrest will boil over and undermine progress in the environmental and economic areas. As the authors of *Mapping the Journey* contend, to overlook the social aspect is to overlook an important “sleeper discontinuity” of sustainable development.

There is mounting evidence that our “old-world” “trade-off” paradigm, pitting economic success against environmental and social goals, is seriously flawed. Both research studies and practical experience have demonstrated that improved environmental and social responsibility increase value to shareholders, customers, employees, and society (rather than adding costs). Improving environmental and social performance in fact leads to enhanced profitability and value: cost reductions from eco-efficiencies, waste reductions and process improvements; price premiums, especially for those first to market; enhanced brand equity and customer loyalty; lowered cost of capital due to reduced liability and risk; increased revenue from new products, markets, and even new businesses; and enhanced asset management.... Superior environmental and social performance has also been found to lead to intangible benefits: higher employee job satisfaction and commitment, increased innovation and creativity, and motivation from a higher sense of purpose.¹⁹

We will explore all these benefits as we examine how integrating the three elements of sustainable development is smarter than trading them off against each other. They are all part of the same whole, not separate from each other. When people talk about “trading off” or “balancing” economic progress against environmental and social impacts versus “integrating” these three dimensions, it betrays a lack of understanding of sustainable development.²⁰

Several mnemonic devices have been developed to make it easier to remember the triple bottom line of sustainable development. For example, there is the acronym SEE. The letters stand for society, environment, and economics.²¹ A second memory trigger for sustainable development is the 3 Es: economics, environment, and equity. A more targeted version of the 3 Es was coined by a group of telecom CEOs in 1999: e-business (as a component of economics), environment, and education (as a component of equity).²² Some people prefer to think of the 3 Ps: profits, planet, and people. The nuances of meaning are different for each of these terminology triplets, but the basic ingredients are the same.

More recently, corporate social responsibility has been embraced by the business community as another synonym for sustainable development. It has

even been given the acronym CSR, ²³ increasing its aura of legitimacy. The elements of CSR do align nicely with the three elements of sustainable development: financial sustainability in CSR aligns with economics/profits of sustainable development; environmental responsibility in CSR aligns with environment/planet in sustainable development; and community investment, employee relations, and human rights in CSR align with the society/equity/people element of sustainable development.²⁴ The only drawback is that the environmental dimension is not explicit in the term “corporate social responsibility,” which may require coining the longer phrase “corporate social and environmental responsibility” for those who do not realize CSR includes environmental dimensions. In this book, corporate social responsibility and sustainable development will be used synonymously, and I will focus on the economic and environmental aspects much more than the social.

To wrap up our terminology discussion, and to suggest a state of sustainable development to which companies might aspire, here are nine principles of corporate social responsibility that have been defined by the Social Venture Network.²⁵

- **Ethics.** The company deals with all stakeholders ethically.
- **Accountability.** Stakeholder “need to know” takes precedence over inconvenience and cost to the company.
- **Governance.** The company balances conscientious management of resources with the interests of all stakeholders.
- **Financial Returns.** Profits sustain long-term growth and shareholder value.
- **Employment Practices.** The company fosters employee development, diversity, empowerment, fair labor practices, competitive wages and benefits, and a safe, harassment-free, family-friendly work environment.
- **Business Relationships.** The company is fair and honest with all business partners and monitors the CSR of business partners.
- **Products and Services.** The company offers the highest level of service and quality.
- **Community Involvement.** The company has an open, honest, transparent, proactive relationship with the community.

- **Environmental Protection.** The company protects and restores the environment by minimizing use of resources and energy, decreasing waste and harmful emissions, and embedding these considerations into day-to-day management decisions.

Happily, the idea of sustainable development is not new to CEOs. The consulting firm Arthur D. Little recently surveyed a group of North American and European business leaders and found that 95% of them viewed sustainable development as genuinely important, while 83% of them believed they could derive business value from sustainable development initiatives.

Companies are finding that the benefits of pursuing a sustainable development approach range from opening new avenues to innovation in products, processes, and stakeholder relationships to accelerating learning organization skills throughout the company.²⁶

Chances are, when you hear the term “socially responsible business” a handful of companies (and their founders) leap to mind: Ben & Jerry’s Homemade Ice Cream (Ben Cohen and Jerry Greenfield); the Body Shop International (Anita and Gordon Roddick); Smith & Hawken (Paul Hawken); Patagonia (Yvon Chouinard). They set up shop, espousing “principles before profits” and a commitment to making the world—from the New York City subways to the Pentagon to the Amazon rain forest—a better place, back in the late 1970s or the 1980s, and most of them grew fast and furiously to become the paragons of companies that care about more than just making profits.

CEOs of larger corporations already know about sustainable development and agree that a commitment to sustainable development is good for business. As Trevor Eyton, senior chairman of Canada’s Edper Brascan conglomerate of businesses in the natural resources, commercial properties, energy, and financial services industries, says:

Our corporate group—including the directors and senior officers of Noranda [mining company]—have concluded that sustainable development is an inevitability. We have no choice but to develop a sustainable economy, and the ecological imperative can no longer be ignored. The sooner a corporation reaches that conclusion and begins to work toward true sustainable development, the greater its advantage in the future.²⁷

It is worth noting that Eyton is referring to sustainable companies within a sustainable economy. A sustainable economy is a larger topic than the

corporate sustainable development addressed in this book, although it is touched on later when we discuss the need for more supportive public policies.

The Need For a Business Case

Business people pursue sustainable development for three reasons: morality, compliance, or opportunity.²⁸ The morality motivation is based on the assumption that business owes it to society to improve people's lives and the environment in exchange for the privilege to operate. It is usually an outgrowth of the personal values of key senior executives. The compliance motivation is driven by the threat of current or anticipated environmental and social regulations that could affect the company's right to operate. The opportunity motivation is the result of companies seeing a chance for increased revenues and profits. Smart businesses respond better to opportunities than to threats. We will focus on the opportunity side of sustainable development more than on the morality and compliance sides. Companies that voluntarily show social and environmental leadership enhance their reputations, build trust and meaningful connections with their communities, and prosper.

Though some companies have recognized the opportunity and adopted some eco-efficiency initiatives, these are seldom fully exploited to drive innovation, new market development, new services, and new technologies. One of the reasons that businesses have been slow in getting off the ground with sustainable development is that there is no appropriate business case to quantify the opportunities. A study by The Alliance for Environmental Innovation reinforces the need for a sound business case that would encourage the business community to effectively address sustainability issues. The Alliance was founded as a joint project of the Environmental Defense Fund (EDF) and the Pew Charitable Trusts in 1994. It works cooperatively with companies to create aggressive environmental initiatives that yield substantial, direct, and measurable business benefits such as increased revenues or reduced costs.²⁹ In February 1999 the Alliance released a report, *Catalyzing Environmental Results: Lessons in Advocacy Organization-Business Partnerships*, which distills the lessons of almost a decade of work with individual companies, starting with the EDF-McDonald's Waste Reduction Task Force established in 1991, and continuing through the Alliance's current portfolio of projects with such companies as SC Johnson, Starbucks, United Parcel Service, and Dell. They found that, in most cases, environmental initiatives will only sustain themselves and grow within a company when they deliver specific, measurable business benefits, particularly

with regard to a company's core business functions.³⁰ No business benefits, no momentum.

Business leaders need proof of quantifiable financial benefits from an increased focus on environmental and social factors. Saving the world is a daunting agenda for any business—it is challenging enough to find business initiatives that reduce costs, improve profit, and increase shareholder value. Corporations are scrambling for market share in an increasingly competitive business environment. Going out of business to save the world would be a tough strategy to propose in a boardroom. Sometimes senior corporate managers recognize the value their company can give to environmental and social issues, but their suggestions are rebuffed by colleagues who are focused solely on the next quarter's bottom-line results.

What the socially responsible managers have been overlooking is the beauty of the “If you can't fix it, feature it” strategy. They shouldn't fight the profit orientation of their colleagues; they should appeal to it. They can show their colleagues new ways to make money for their shareholders by adopting sustainable development business practices. To be effective when lobbying their hard-nosed colleagues, enlightened managers must use business language so that it is obvious how the cause relates to day-to-day business priorities. If it doesn't help the business, it's not on business leaders' radar screens. The trick is to focus on the “selfish” bottom-line benefits, not the seemingly altruistic societal and environmental results. Environmental benefits can be a happy by-product, not necessarily the initial motivating rationale.

Money is the language of business. Most environmentalists know less about accounting than accountants know about the environment.³¹ Wall Street demands quarterly results, a stringent return on investment, and a short payback period. Mandatory pollution prevention projects can save the companies big money in fines, so their costs are readily justified. However, the business case for more proactive environmental initiatives, such as energy efficiencies and use of renewable energy, may be less evident. Executives need to be shown that environmental projects outside the pollution prevention realm will lead to quick, positive business results as well as longer term benefits. That is, the business benefits of sustainability initiatives not only need to be identified; they also need to be quantified and expressed in business language as bottom-line benefits relevant to the short- and long-term priorities of senior executives.

This book will show how big those benefits can be. It will present quantifiable evidence that investing in sustainable development pays off with real bottom-line benefits. Sustainable development is a profit driver, and at

the same time it adds value to local economies, society, and the environment. We will explore simple, manageable, and economical measures to reap these bottom-line, social, and environmental benefits.

The Intent of This Book

There are many books about how humanity, led by transnational corporations, cannot continue destroying our own habitat at an ever-accelerating rate in the name of progress.³² They make a powerful case for change. Other books despair of corporations ever practicing conscientious commerce sincerely. In fact, some authors claim that corporations are deliberately or ignorantly colluding against sustainability.³³ More hopefully, a body of literature identifies the benefits of corporate sustainability—especially environmental initiatives—and cites encouraging case studies.³⁴ The authors generalize about approaches that work and cite specific cases that help quantify the savings, increased revenue, or increased productivity from eco-efficiency efforts, though none provide comprehensive formulae for calculating the benefits.

This book fits in the last, more optimistic category. It will assess seven areas of business benefit associated with corporate environmental and social initiatives, including three often overlooked human resource benefit areas. The intent is to quantify the benefits of sustainability leadership and to offer a persuasive argument for companies to be genuinely responsible corporate citizens. Using frameworks and success stories, it breaks sustainable development down into ideas small enough to grasp and powerful enough to lead to new, important business opportunities. The real power of the book is in the Appendix, which contains generic Sustainability Advantage worksheets. Executives can insert their own data and assumptions into these worksheets so they can see for themselves whether the business case for aggressively supporting sustainable development is a compelling one for their company.

Finally, a word about the book's intended audience. The primary audience is senior executives and shareholders. It is also useful for consultants working with these executives and for environmental affairs department directors or corporate community relations department directors who are struggling with the business case for more pervasive corporate social responsibility initiatives—that is, initiatives which touch all employees and permeate all aspects of the company's operations. It is for human resources directors and staff looking for ways to attract and retain top talent, and looking for ways to increase the productivity of all employees. It is for talented prospective employees choosing which company they want to work for, and for

employees who want to engage their companies in proactive social and environmental initiatives. It is for academics in business and environmental faculties at universities. It is for government agencies, non-governmental organizations, and environmental lobby groups seeking a credible rationale for their proposed environmental recommendations. It is for shareholders who seek less “emotional” reasons for the companies that they invest in to be more socially responsible. In fact, it is for all citizens who wish to be better informed about criteria by which they can assess the social responsibility of companies when considering purchasing their goods or services. I hope this audience includes you.