

Changing Business Attitudes

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Eco-efficiency is the way forward for corporations who want to achieve success in business whilst taking account of environmental and development issues. This term describes the production of goods and services whilst reducing resource consumption and pollution. It is a vital component in linking business, the environment and the needs of this and future generations.

In mid-1990, Maurice Strong, Secretary-General of UNCED, asked Stephan Schmidheiny to be his principal adviser for business and industry. He was given a double mandate by Mr Strong: to prepare a report which reflected a business view on environmental and development issues, and one which encouraged the private sector to become more knowledgeable about and enthusiastic over the Earth Summit's main theme of sustainable development.

In order to accomplish both mandates, Mr Schmidheiny set up the Business Council for Sustainable Development (BCSD) which he invited chief executive officers to join. Almost all who were asked accepted. These included the leaders of chemical companies such as Dow, duPont and Ceiba-Geigy, heads of energy companies such as Shell, Chevron, Norsk Hydro and TransAlta Utilities, metal companies including Nippon Steel and

ALCOA and car companies such as Volkswagen and Nissan. The BCSD included representatives from Europe, North and South America, Asia, Africa and Australia.

The members all believed in the efficiency of the marketplace and decided to target fellow business leaders, politicians, environmental leaders and the concerned public through a commercially published book. This would fulfil the first part of the original mandate, to produce a report reflecting the business view of environmental and development issues, and reach a wide audience at a low cost.

Changing Course: a Global Business Perspective on Development and the Environment was published in seven languages prior to the Earth Summit. It combines convictions and examples with case studies of business success.

Although the book is accredited to Stephan Schmidheiny with the BCSD, each member signed his or her name to a three page declaration. Reviews worldwide have praised its combination of vision and practicality.

But what of the second mandate, to raise business awareness of the concept of sustainable development? To address this issue the BCSD organised over 50 meetings in 20 countries, particularly in the developing world. There are now national or regional business groups examining issues of sustainable development in Asia, Africa and Latin America.

Difficult though it is to precis the themes of such a complex work, this was the task undertaken by Mr Schmidheiny and US Council members when presenting a copy of the publication to US President George Bush shortly before the Earth Summit. President Bush had expressed concern that environmental treaties reached at Rio might hurt the competitiveness of US business. Council members urged him to take a different view of business and the environment, emphasising that their report was not of gloom and doom but good news. Good news both for business and for the political leaders attempting to establish a framework in which business can prosper.

The good news is that business excellence and environmental concern can be combined.



In fact, in the near future it will be impossible to separate the two.

The BCSD came to this conclusion after searching for a link between the two ideals of business and environmental excellence. It found that link in the concept of efficiency, which connects business, the environment, and the increasing human needs of this generation and the larger generations to come. Efficiency keeps companies competitive; it adds most value with the least use of natural resources; and it is crucial in the fight against mass poverty in the world.

The Council thus coined the term eco-efficiency to describe the method of production of those corporations that produce ever more useful goods and services while continuously reducing resource consumption and pollution. The members all agreed, after studying world-wide business trends, that tomorrow's winners will be those who make the most and the fastest progress

in improving their eco-efficiency. Why? Because:

- customers are demanding cleaner products, as well as products and services which support the development goals of poorer countries. This customer concern comes in rising and falling waves, but there is an overall upwards movement;
- insurance companies are more amenable to covering clean companies;
- employees, particularly the best and the brightest, prefer to work for environmentally responsible corporations;
- environmental regulations are getting tougher, and will continue to get tougher;
- new economic instruments – taxes, charges and trade permits – are rewarding clean companies. Business in general, and the BCSD in particular, is calling for the increased use of such instruments;
- banks are more willing to lend to companies which prevent pollution rather

than having to pay for expensive clean-ups, for two main reasons. First, there is growing concern among bankers regarding their liability for the environmental misdeeds of borrowers. Second, a company which is unlikely to become entangled in an environmental lawsuit or unlikely to be liable for large clean-up bills, is a company more likely to be able to repay its loans on schedule.

All these trends, which will accelerate as science offers more evidence of environmental damage, mean that investments in eco-efficiency will help, rather than hurt, profitability. It is the eco-efficient companies – and the eco-efficient nations – which will emerge as the most competitive as these trends take hold.

The BCSD wrote that business has had the advantage of already coping with the quality revolution. As long as it focused only on the end of the assembly line, then improving

quality meant discarding or fixing rejects – and thus it meant increased costs. But once it examined the total system from design on through, it found it could design quality in at the beginning, minimise rejects and actually save money. Having done the unthinkable in one area – improving quality while cutting costs – business can now at least begin to think the unthinkable in another area: decreasing resource use and improving environmental management, while cutting costs.

Taking advantage of the trends discussed above will require changes by both business and governments. Businesses will have to seek close and open cooperation with all of their stakeholders in introducing policies aimed at sustainable progress. Stakeholders include not only the obvious ones such as customers, employers, investors, suppliers and clients, but also pressure groups, neighbours and governments.

Business must actively participate in the legislative process so that the most efficient mix of government regulation, market instruments and self-regulation may be developed. Command-and-control regulation has its place, especially where health is endangered or where damage might be serious and permanent. But self-regulation and market instruments are usually more cost-effective for both business and society, and the BCSD encourages the greater use of both.

In order for markets to give the right signals, prices of resources and products should increasingly reflect both the cost of their production and the cost of their environmental impact. Over the longer term, the basis for charges, taxes and incentives should be shifted to discourage environmental damage while encouraging the process of saving, investing, and adding value. National and all other accounts must be redesigned to reflect both damages to and improvements in stocks of natural resources and in ecosystems.

Economic growth in all parts of the world is an essential prerequisite both for sustainable development in the developing world and the continuing prosperity of the more industrialised nations. Both open, competitive international trade and

international cooperation are essential for growth and for the efficient distribution of environmentally sound technologies. It is in the long-term interest of industrialised countries to trade with and invest in poorer countries, seeking forms of trade and investment mutually beneficial to both sides and providing equitable access to markets for all.

During their debates, the BCSD members often confronted the huge uncertainty of these sustainability issues. How much more aid do developing countries need to reach this level of sustainable development? How much must the price of carbon-based energy increase in order to prevent disastrous global warming and to encourage the development of new technologies? These are unknown quantities but when an important trend in business is identified, it is at the least short-sighted and certainly uneconomic not to take advantage of it. In business there are never any final destinations, but continuous processes and constant adjustment. So too in sustainable development. The detailed route may be indistinct but the direction of travel is obvious.

The book *Changing Course*, is divided largely into tasks for business and tasks for governments. By the time the BCSD took its message to Rio, many of the tasks were well known. What was less well known is how business can take a leadership role in working with governments to establish new economic instruments, new terms of international trade and new international treaties which reflect both economic and environmental realities.

This was why, in plenary session at Rio, Mr Schmidheiny called for a bold new partnership between business and governments. As he put it, business must move beyond the traditional approach of back door lobbying: governments must move beyond traditional over-reliance on command-and-control regulations.

Such a partnership is needed in developing countries to establish the enabling conditions for progress and investment, to open markets and opportunities to all. Open negotiations between business and governments are also essential to achieve the optimal mix of economic instruments, regulations and self-

regulation required to make markets reflect environmental as well as economic truth.

The BCSD has paid a great deal of attention to the businesses of farming and forestry, because they sustain the livelihoods of almost half this planet's people and because of their obvious environmental impact. Both are often influenced by market signals working against efficient resource use – and thus against the environment. As a first step, distorting subsidies should be removed, to reflect the full costs of environmental resources. New partnerships are needed here as well, to create the right market signals and regulations to enable business to be a more effective manager of forests, including the genetic resource and the environmental and social services of forests.

And a new, effective business/government partnership will be crucial for technological cooperation – moving and using technology so as to integrate economic development and environmental protection in developing countries. Technology must be moved from those who developed it and have the know-how to train others in its use, to those who see a need for it and are committed to its effective use. This means business, company-to-company transactions, and of course increased investment.

Governments in both industrial and developing countries must work together to establish the required legal, social and economic frameworks to facilitate this process of technical cooperation. It requires of both business and government a long-term commitment to business development, training of the people involved, upgrading the technology to remain competitive, and the introduction of new management systems.

The BCSD's participation in Rio was well received. Thus in the space of only two years, Mr Schmidheiny and his fellow BCSD members established their organisation and guided its efforts to produce a report for a major UN conference and to interest business leaders everywhere in sustainable development. In years to come the Summit may be regarded as a success not least because it represented the first time business and industry played a thoughtful and organised role in deliberating environment and development issues.