

EXPLORING LINKS BETWEEN BUSINESS AND THE ENVIRONMENT

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I am delighted to be asked to discuss a subject which is close to my heart and so critical in today's society; the growing recognition of the need to be green. The essential link is that human beings, in their quest for economic development and improvement of the quality of life, must come to terms with the reality of resource limitation and the carrying capacity of ecosystems, and must take into account the needs of future generations. This is the central message of the World Conservation Strategy and, in one form or another, the concept which is central to most subsequent considerations of the environment and development.

The principle that development and environment are inseparable is being increasingly recognised. The 1987 World Commission on Environment and Development (WCED) Report emphasises that "Failures to manage the environment and to sustain development threaten to overwhelm all countries. Environment and development are not separate challenges; they are inexorably linked. Development cannot subsist upon a deteriorating environmental resource base; the environment cannot be protected when growth does not take into account the cost of environmental destruction. These problems cannot be treated separately by fragmented institutions and policies. They are linked in a complex system of cause and effect."

Therefore, adequate attention to environmental factors is an essential basis for development - if that development is to achieve and sustain its intended contribution to human welfare. This basis, however, has to be adopted and applied at all levels of activity, be it individual, business, public sector, national or international, bilateral and multilateral entities. This thesis also makes economic sense: it is profitable to adopt environmentally friendly strategies and measures.

A wide-ranging debate continues, however, about the interface between business - taken to include the entire range of production and delivery of goods and services, both commercial and industrial - and the environment - taken to include the Earth's natural resources in addition to its supporting ecosystems. On the one hand, supporters of business contend that the business of business is business, and nothing else. On the other, environmentalists argue that since business and industry constitute the largest users of the Earth's natural resources, concern for the environment and responsible stewardship of the finite resource base should be a priority in the conduct of business.

The debate is taking place at a time of profound environmental and social change. Global concern for the environment has emerged as the pre-eminent issue on the public's agenda, while the blight of poverty continues to grow, adversely affecting the lives of millions in poor countries. The former requires that we act decisively to halt degradation. The latter requires concerted action at varying levels - local, national, regional, and international - to reduce population growth, accelerate economic growth and improve the quality of life of the world's poor. Few doubt the inherent urgency of both situations.

Fortunately, protection of the environment and economic development do not have to be in opposition to each other. Governments, acting in partnership with businesses and taking a judicious "market-friendly" approach to environmental protection and development, can meet the challenges discussed above and thereby promote sustainable development.

A very loud word of caution, however, when talking about a market-friendly approach to environmental problems, because it is the market mechanism itself, as applied today, that greatly contributes to the trend toward environmental degradation. This is so because the market price mechanism, in effect, and the accounting systems used, do not include in the cost of production the depletion of non-renewable natural resources. The market mechanism does not automatically attach a price tag to the use of our most valuable resources and thus does not provide an incentive for their economical use. It is government interventions, with environmental regulatory policies and measures, which impose an environmental cost, but only to correct environmental damage already done.

The concept of sustainability, as applied to business or development, is primarily concerned with the viability of development decisions or strategies, both current and those of the future, and contains two key elements; that of needs, particularly those of the world's poor which has overriding priority, and, limitations, imposed by the state of technology, knowledge and social organisation about the environment's ability to meet present needs.

About two years ago, at the United Nations Conference on Environment and Development (UNCED) held in Rio de Janeiro, an action plan was conceived to tackle the problems of underdevelopment and ecological destruction. Called Agenda 21, and endorsed by nations representing 98% of the Earth's population, it charted strategies to couple the development imperative with environmental protection.

Emphasising commonality of purpose and the pressing need for a unified response by the community of nations, Agenda 21 presents businesses with the challenge of new responsibilities as well as new opportunities.

From an environmentally sustainable development perspective, this requires businesses to act in a number of ways:

- produce differently, not less. Facts show that additional growth does not have to cause more pollution; judicious conservation, recycling, waste reduction, demand management, and better production techniques can have major beneficial effects and offer great business opportunities by opening new markets.
- meet today's needs. There are millions of people whose basic needs are not being met. Despite remarkable economic growth in the developed world, the number of the world's poor has exceeded one billion, with a majority of this population living in developing countries. It is estimated that in the next 40 years the world's population is likely to grow by 3.7 billion and 90 percent of population growth will occur in developing countries. Such rapid rates of population growth exacerbate the mutually reinforcing effects of poverty and environmental damage, because the poor are both victims and agents of environmental damage. Thus, attacking poverty is not only a moral imperative, it is also essential for better environmental stewardship.
- protect tomorrow's prospects. Critical for a lasting solution to the diverse problems caused by rapid population growth and the concomitant worsening of poverty are policies that improve human skills, increase productivity, and raise incomes. But other factors also determine environmental quality, including the structure of the economy; the efficiency with which inputs are used; the capacity to substitute resources that are becoming scarce and the ability of clean technologies and management practices to reduce environmental damage per unit of input or output. Balancing economic development and environmental protection, therefore, requires a re-focusing of economic activity - not necessarily toward producing less, but producing differently.

Building Partnerships Between Governments and Business

In order to meet the needs of today as well as those of tomorrow, it is essential that economic growth should be accelerated. The private sector must play a primary role because private business not only provides the engine of growth, it possesses the combination of technology, technical expertise and resources to effectively meet the major environmental challenges that lie ahead.

However, the competitive markets, that are essential for private business to thrive in, cannot operate in a vacuum and require legal and regulatory frameworks. Investment in infrastructure and the provision of essential services for the poor are activities best undertaken by governments, because markets have proved to be inadequate in supporting this vital activity. The movement towards environmentally sustainable development, therefore, will only be achieved by a partnership between the private sector and government. When the two are brought together, evidence suggests that the whole is greater than the sum of the parts. For businesses, this represents a major opportunity.

The Role of the Government

To promote partnerships, governments must create the conditions in which markets can work well and thrive, and governments must intervene when markets fail. Two sets of policies - one that enhances the positive links between economic development and efficiency, and one which emphasises environmental improvement - can create the conditions for sustainable development. Governments, in partnership with businesses, should seek to achieve the following measures:

- foster policies that conserve resources. Subsidies on inputs, for example, result in price distortions which in turn encourage excessive use of the resource; in addition, subsidies are often exploited by wealthier consumers, thus exacerbating problems for the poor.
- price natural resources. Full cost pricing will direct private investment towards the resolution of environmental problems, and will make practices and products that are environmentally-damaging less profitable to producers and less attractive to consumers.
- set standards. In situations where market-based instruments fail, direct regulation is needed.
- clarify property rights. There is growing evidence that private investment in environmental protection increases with secure land tenancy rights.
- invest in the well-being of citizens.
- address global issues. Beyond the issue of domestic markets, the agreement at UNCED on a Framework Convention on Climate Change sets the stage for an innovative extension into the concept of "global commons."

The Role of Business

If businesses are to take an active role in building public/private partnerships, they must develop new forms of collaboration with the much broader and more diverse groups which have a stake in corporate actions. These groups include not only customers, employees, and shareholders, but also suppliers, governments, and the public.

In addition, to ensure that development is environmentally sustainable, businesses must create environmental principles and guidelines. Businesses have already taken up this challenge at the international, national, and sectoral levels. For example, the International Chamber of Commerce, France, launched a Business Charter for Sustainable Development, in April 1991 at the Second World Industry Conference on Environmental Management. By 1992, the Charter, endorsed by 600 businesses world-wide, encouraged companies to commit themselves to:

- improving their environmental performance in accordance with Charter 16 principles
- having in place management practices to effect such improvement
- measuring their progress
- reporting this progress as appropriate, internally and externally

Senior business groups in India, Japan, and Malaysia have adopted similar codes of behaviour towards the environment. Chemical industry associations in Australia, Canada, and the United States, including many European countries, have agreed to a Responsible Care Programme to promote continuous improvement in environmental health and safety, and to do the following:

- shape better policies and self-regulate. Business can be instrumental in helping to shape responsible policies and implementing them through self-regulation. In Canada, a National Task Force on Environment and Economy has provided a model for co-operation in policy-making between business, government, academia, and environmental and citizens' groups. The Netherlands' National Environmental Policy Plan and the United States' 33/50 Programme, on the other hand, provide examples of self-regulatory schemes. Such arrangements are of mutual benefit to governments and businesses: for government, a voluntary agreement can be introduced faster than legislation; for business, voluntary agreements allow greater control over the implementation of agreed environmental targets.
- lead in environmental education. Businesses can play an important role in helping to educate their employees, suppliers, retailers and the general public. Retailers, in particular, can act as go-betweens, providing the consumer with the data and analysis to make better choices, and communicating to suppliers the consumer demand for cleaner products.
- transfer technology. New technology that is "clean" (i.e. conserves resources and energy) is critical if we are to meet the goal of economic growth and environmental protection. There is an enormous task in retro-fitting existing industrial stock in order to improve environmental protection and energy efficiency. Indeed, it is likely that the companies which will lead in the next few decades will be those that are pursuing innovative and sustainable technologies now, and helping to solve local, national, and global environmental problems. For example, the private-sector market for pollution-control equipment in Thailand is estimated at about US \$210 million per year. During the next decade, demand is likely to grow at a rate of 20-25%, and is expected to reach US \$1.5 billion by the year 2000.
- prevent pollution. Prevention comes a good deal cheaper than curing problems that already exist. Many types of opportunities open up for the flexible, market-oriented entrepreneur to save money; make money; develop cleaner, cheaper technologies and products; get into new markets early; develop a competitive edge; and save the planet.

Environmentally friendly strategies not only demand more efficiency and innovation from entrepreneurs but also provide them with a good deal of opportunity for entrepreneurial efficiency and innovation. Just how far and how quickly this market potential is utilised depends solely on the efficiency and creativity of individual entrepreneurs.

It is an issue of the social and environmental responsibility of the business community, combined with profit potential. To quote from S. Schmidheiny, the most successful Swiss businessman and Chairman of the Business Council for Sustainable Development: "There is growing evidence that we are beginning to reach the limits of traditional patterns of growth, in terms of disposing of waste from the production and consumption process.... The increasing quantity of waste, particularly toxic substances, makes it imperative to minimise the amount of waste produced, to recycle, and reuse discarded materials where possible; and finally, in the last resort, to find safe methods of disposal of the residue. What has been considered waste in the past we will have to save as raw material, tomorrow."

There are a number of examples in the USA, for example, where companies have initiated waste-disposal-saving programmes and have registered considerable benefits in monetary terms and in the short run. There is the case of the 3M Company which in 1975 began an ambitious programme to prevent pollution and eliminate the costs associated with "end-of-the-pipe" pollution controls. Employees were encouraged to contribute ideas on product reformulating, processes modification, equipment design and resource recovery. From 1975 to 1990, 3M estimates that the programme saved the company US \$537 million by dramatically reducing all forms of waste, and thus eliminating the cost of handling that waste. In addition, sequential surveys of 29 companies, contacted by INFORM in 1985 and 1990 on behalf of the Environmental Protection Agency in the USA, provided a number of examples of companies which in the span of five years had accomplished considerable reduction in their monetary cost, and increase in their productivity, by adopting environmentally-friendly methods.

During the last few years, the emphasis has changed from mitigating the effects of pollution to preventing it. Prevention can be achieved by better housekeeping, substitution of materials, modifying manufacturing procedure, and recycling. Moreover, as businesses have become better at preventing pollution and marshalling resources, attention has been shifting away from the problems caused by production, to those caused by the product itself. Recycling materials from products that have reached the end of their useful life can result in considerable savings.

Additionally, each step in the life of a product has implications for the environment. One tool to evaluate the "cradle-to-grave" implications of different product options is life-cycle analysis, which many businesses, research institutions and governments are currently working to develop, and life-cycle responsibility. For example, some chemical companies are providing information for customers about the best way to dispose of the product after it has been used. In Germany and France, shortage of landfills has prompted several car manufacturers to use discarded car parts as much as possible in the production of new vehicles. Indeed, advertisements for new cars now emphasise the fact that the latest models are 90% recyclable. In general, businesses can better service the environment by:

- financing sustainable development. Investments that lead to reduction of waste, reduced consumption of raw materials and that enhance technological innovations bring good economic returns. Indeed, one indication of this is the growth, over the last five years, of commercial investment funds devoted exclusively to investments that promote environmental improvements.
- providing environmental goods and services. Opportunities for the private sector to provide environmental goods and services are expected to increase significantly over all segments of the market - water and waste-water, solid and hazardous-waste, air, and renewable resources. During the next decade, this market will double, from roughly US \$300 billion to US \$600 billion. Annual growth rates of markets for environmental goods and services in these countries already range from 5 to 25%. In addition to the example of Thailand mentioned above, demand for environmental goods and services in Malaysia is estimated at roughly US \$210 million per year, and in Poland a new ecological policy that aims to provide clean drinking-water in all cities, reduce dust emissions, and implement a healthy food programme, will cost an estimated US \$7 billion between 1991 and 1995.

Framework for Corporate Reporting

An enabling factor for entrepreneurial environmentally-friendly behaviour is the existence of a framework for corporate reporting which will generate the information needed by business executives, investors, governments and other stakeholders in order to assess the progress made in implementing environmentally-friendly development policies and strategies. It would provide a tool by which entrepreneurs can understand how institutions and behaviour are changing and how corporations should respond in their own ways. To accomplish this, each enterprise would have to:

- assess its own situation and strategies
- develop an appropriate corporate culture to support the strategy adopted
- develop meaningful measures of performance
- issue credible stakeholder reports that track success

The current corporate reporting process does not present a complete and realistic interaction between business enterprises and the environment. Natural resources consumed in business activities are treated as "free goods," unless the enterprise has to pay for them. Therefore, at present it is difficult for stakeholders to assess whether business enterprises are operating in an environmentally friendly, so-called sustainable, manner. To generate the information needed by business executives, investors, governments and other stakeholders to assess the progress in implementing environmentally-friendly development policies and strategies, a six-part framework for addressing the issue of reporting has been proposed, composed of:

- performing a stakeholder analysis
- setting sustainable development policies and objectives
- developing a supporting corporate culture
- developing measures of performance - internally and externally
- preparing reports - internally and externally
- instituting a monitoring system

Stakeholder Analysis

The stakeholder analysis begins by identifying the various groups which are effected by the enterprise's business activities, such as shareholders, creditors, regulators, employees, customers and suppliers, and the community as a whole in which the enterprise operates. More generally, it must include people who are affected, or who consider themselves affected by, the firm's impact on the biosphere or on the social capital. Next, management should prepare a description of the needs and expectations that these groups have for the performance of the enterprise. Conflicting sets of expectations may be identified at this stage.

Sustainable Development Policies and Strategies

The objective here is to articulate the basic values that the enterprise expects its people to adhere to and to set targets for operating performance. According to a DRT international survey of European companies: "The amount of time spent on environmental issues at board level varies greatly between countries and sectors. The greatest involvement is shown by the chemical and pharmaceutical industries and in

utilities. These sectors devote significant resources to planning green strategies and establishing sophisticated environmental management systems. The lowest involvement is in tourism and financial services, where none of the companies surveyed had board level appointments."

Supportive Corporate Culture and Attitudes

The objective is to ensure that the culture of the enterprise supports the implementation of environmentally friendly policies and objectives. This is likely to require significant retraining for, and changing the attitudes of, many managers.

Measures of Performance

It is necessary to develop measures of performance, information systems and control procedures to support the new strategy and the preparation of meaningful performance reports. With reference to external measures, there is a significant opportunity for businesses to work with governments in establishing performance measures and standards, and to help develop reporting and monitoring systems that will be cost effective and meet the needs of both the public and business.

While external standards, measures and reporting systems are needed, they take time to develop, test and implement, especially if an effective consultative approach is adopted. The business community should not wait for such standards to be developed before individual enterprises experiment with setting sustainable development objectives and measuring and reporting on their operation themselves. Management will also have to develop internal measures, such as:

- additional techniques for measuring operations, conditions, and events to generate performance data
- new information systems to capture, classify and summarise performance data related to environmentally-friendly objectives
- new control procedures to ensure the reliability of these information systems and the process established to implement (environmentally-friendly) objectives

Preparing Reports and Instituting a Monitoring System

The objective is to develop relevant, reliable and meaningful reports, for both internal management and stakeholder groups, which outline a business's environmentally-friendly objectives and compare performance against objectives.

Monitoring can take many forms, such as reviewing reports, touring operating locations and observing employees performing their duties, holding regular meetings with subordinates, and implementing an environmental auditing programme. (In Europe the Commission of European Communities is preparing a directory of environmental auditing of industrial activities). With an increasing awareness, however, of the urgency to stop environmental degradation, and the influence of the preparation for UNCED, the international business community started to get involved in environmental issues.

Conclusions

Local, national, regional, and international responses to the twin challenges of accelerating development and protecting the environment require new partnerships, especially those that incorporate the vision and energies of private and public sectors in a symbiotic manner. There is an urgent need for strategies in which governments support, rather than supplant, competitive markets. The private sector's repository of innovative talent, financial muscle and technical expertise needs to be tapped. How governments and the private sector react to the imperatives outlined above will be critical for ensuring environmentally sustainable development. Ample opportunities exist and all that is needed is a forceful desire on the part of governments and the private sector to exploit the opportunities available, for the benefit of all humanity.

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