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SUSTAINABLE DEVELOPMENT

BY PRATIMA BANSAL

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Building competitive advantage
and managing risk through

SUSTAINABLE DEVELOPMENT

BY PRATIMA BANSAL

Significant environmental, economic and social issues threaten the stability and welfare of society today. In 1999, according to the World Watch Institute, 52,000 people died from weather-related events associated with global warming. In sub-Saharan Africa, average life expectancy plummeted from a high of 59 years in the early 1990s to 45 years by the end of the decade, primarily because of AIDS-related deaths. Today, and each day, approximately 37,000 infants die from poverty-related causes. Yet in the United States, 61 percent of the adult population is overweight (27 percent are obese). ▶



Some of you who read these statistics will be distressed and believe that something needs to be done to resolve these issues.

Others will question the accuracy of these numbers and the validity of the science on which they are based. Corporate executives, however, cannot ignore these issues, as a growing segment of the population strongly believes that they are of significant and increasing importance. For example, people opposed to the negative social, economic and environmental impacts of globalization protested at the World Trade Organization meeting in Seattle in late 1999. The G8 Summit in Genoa in 2001 drew similar high-profile protests that ended in one death and hundreds of injuries. The United Nations Conference on Environment and Development is ramping up for the World Summit on Sustainable Development, also known as Rio+10, in Johannesburg. Scheduled to run from September 2-11, 2002, this event will see the continuation of the dialogue begun at the June 1992 world summit that put sustainable development on the global agenda.

This publicity and social commitment inevitably filters down to local governments and organizations. Whether or not you believe the statistics on sustainable development are based on good science is becoming increasingly irrelevant. Public opinion is coalescing around the view that industrial development must be sustainable. Those organizations that do not respond will come to be seen as dinosaurs and almost certainly face extinction.

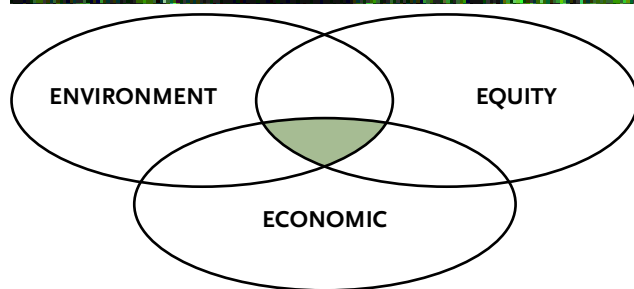
Given that the environment and equity issues are often part of the public sector's social agenda, organizations often look to government for direction. They argue that government owns the natural resources and is responsible for the distribution of wealth. However, this is not entirely the case. These same organizations produce goods and services that use natural resources and generate economic growth; they also choose how much profit they will distribute and to whom. These organizations are therefore an integral part of the sustainable-development issue.

Choosing how to respond is not easy. While the issues that underlie sustainable development are becoming better defined, the solutions that the business community is developing are still in their infancy. In this article, I map out the domain of sustainable development for businesses, identify the nature of the issue, how organizations can respond and the benefits they will derive by responding.

WHAT IS SUSTAINABLE DEVELOPMENT?

In 1987, the World Commission on Economic Development defined sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs." Sustainable development, then, occurs at the intersection of three general principles: environmental integrity, social equity and economic development (see Exhibit 1). These principles are mutually dependent, in that the success of any one of them is contingent on the success of the other two. Without environmental integrity, the natural resources needed to produce goods and provide services will be depleted. If the environment is compromised, the quality of our food supply will be at risk; there will also be a greater risk of disease. Fresh water is becoming increasingly scarce, soil erosion is threatening rich agricultural land, and the world's ocean fisheries have begun to collapse. Without social equity, people will abuse land and water resources in order to secure a reasonable

EXHIBIT 1



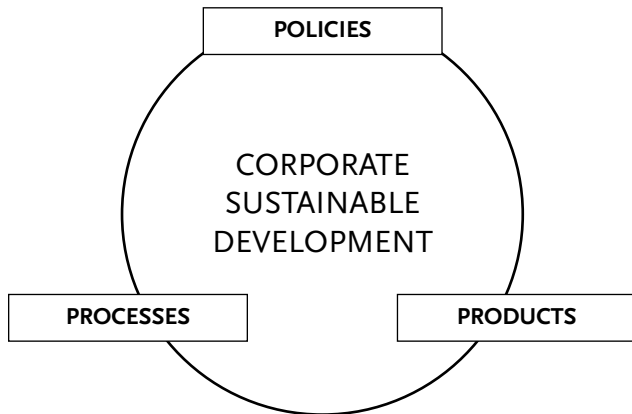
quality of life. Millions of hectares of forest are burned down each year in order to provide fuel, housing and food in developing countries. Without economic development, the cycle of poverty will be perpetuated.

Organizations have never had difficulty subscribing to economic principles: Market share and profits are the cornerstone of success for businesses worldwide. Environmental and social equity principles, on the other hand, are often considered to be only adjuncts of the organization's core activities. There are good reasons, however, why managers need to care about and make sustainable development a central part of their operations.

WHY IS SUSTAINABLE DEVELOPMENT IMPORTANT TO A BUSINESS ORGANIZATION?

In 1998, Calgary-based Talisman Energy Inc. invested in Sudan, an oil-rich, economically poor country engaged in

EXHIBIT 2



civil war that broke out over the inequitable distribution of wealth. While others had been drilling for oil for a few years prior to Talisman's entry, the company found itself at the centre of considerable public criticism. Critics argued that Talisman should withdraw from the country, as the oil revenues provided the government with royalties to escalate the conflict. By early October 2000, the negative publicity resulted in a \$700-million reduction in Talisman's market capitalization. Soon after this rash of bad publicity, the Ontario Teachers Pension Fund sold its holdings.

To identify initiatives that would satisfy all parties, Talisman initiated a dialogue with various stakeholders in Sudan, the company's employees, and proponents of sustainable development. The company now argues that it has a responsibility to push forward with ethical practices and human rights. It has also expanded its view of stakeholders to include not only traditional ones such as employees, customers and shareholders, but also the media, competitors, governments and non-government agencies. Talisman now attempts to give a fair share of profits to all affected stakeholders and to refrain from committing human rights abuses. These efforts have had tangible results, including the development of five medical clinics, three schools, new roads, electrical power, vaccines and serums, water and medical treatments. Talisman's market capitalization is up, employees take greater pride in their work and the Sudanese government is more hospitable to the company.

Any way that you look at it, it makes good business sense to be pro sustainable development. Organizations can build competitive advantage and stakeholder loyalty, and lower risk. I discuss how they can do that in detail below.

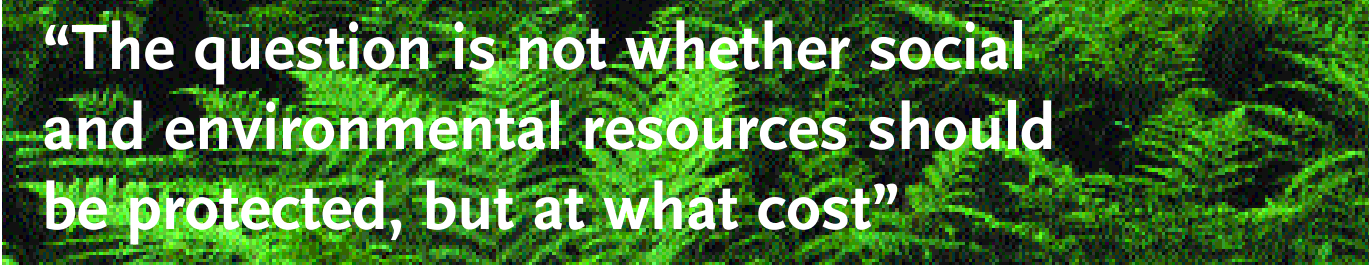
Building a competitive advantage

Organizations have the potential to lower cost and maintain a commitment to sustainable development. Producing the same output with fewer inputs, all things remaining equal, will have a positive environmental and economic impact. Fewer resources will be used and fewer wastes will be generated, which will have a direct positive impact on a firm's cost structure. Likely the most cited success story has been 3M's Pollution Prevention Pays program. Since 1975, 3M has initiated 4,700 projects that reduce pollution. From 1990 to 1999, the company reduced air emissions by 95 percent, volatile organic compounds by 85 percent; releases to water by 80 percent; the production of solid waste by 33 percent; and energy consumption by 25 percent. 3M no longer touts how much it has saved. Pollution prevention and cost minimization have become so central to its business strategy that the company can no longer calculate the financial impact had these reductions not been made.

Looking at a firm's operations through the lens of sustainable development not only reduces costs but also increases revenues. Firms may develop products that offer new solutions to old problems, and in so doing secure a larger market share or be able to charge a higher price. Winnipeg's Isobord Enterprises Inc., for example, developed a particleboard product made of straw, not wood. The straw is a byproduct of the grain that is harvested annually in the region. Wood, on the other hand, cannot be harvested for 50 years. Furthermore, the straw board is stronger and lighter than wood-based particleboard, qualities that allow it to be used for many different purposes and so make it more desirable. Isobord now exports a product with a unique niche worldwide.

Lowering risk

Firms can also reduce risk by subscribing to sustainable development. "Subscribing" means that firms are proactive with respect to social and environmental issues, which are inevitably codified in laws and regulations. Given the increasing number of relevant statutes at all levels of government, there is a risk in not complying with statutes, and the commensurate risk of facing government fines and penalties, the costs of remediation and cleanup. Being proactive can significantly lessen these risks. Furthermore, in the event of an environmental accident, a firm that is perceived as moving in the direction of sustainable development is likely to be shown more leniency by govern- ▶



“The question is not whether social and environmental resources should be protected, but at what cost”

and Rosie Lombardi). Firms that report their triple bottom line include their environmental infractions, environmental performance, R&D efforts, and contributions to the social well-being of employees and the local community through funding for schools, and food and water treatment programs. While reporting the triple bottom line increases administrative requirements, the potential impact on the organization is significant.

Process improvements

There are three types of process improvements:

- Improvements to manufacturing processes and service delivery
 - Management systems
 - Stakeholder management.
1. In terms of manufacturing and service delivery, process improvements can involve simple adjustments for greater ecological efficiency, such as reduced use of raw materials and energy and greater recycling. A more significant investment that is likely to reap long-term returns is closed-loop energy and waste-management systems where waste products and energy are used as inputs in other production processes. The use of more sustainable raw materials may or may not require significant changes to equipment and production processes. Starbucks, for example, now sources its coffee according to fair trade practices, something that required no changes in its machinery or equipment. Fair trade involves an equitable partnership between coffee producers and the sourcing company. Farmers get a fair price for their harvest, and a long-term relationship is developed so that the economic livelihood of the community is secured. The money that goes to the farmer co-operatives is spent on food, housing, health care and education. Starbucks' commitment to fair trade has received considerable support and created a ripple effect in the coffee community, so that competitors are being pressured into adopting similar practices.
 2. An increasing number of firms are adopting environmental management systems. These systems ensure that sustainable development is addressed systematically rather than on an ad hoc basis. If the environmental man-

agement system meets a certain set of standards, it can be certified for ISO 14001 or EMAS (Eco-Management and Audit Scheme, a standard used by companies in the European Union). Social Accountability International, previously known as the Council of Economic Priorities, has also introduced a standard for social accountability, SA8000. Not only does certification help to build the firm's credibility among outsiders, it also ensures that the principles of sustainable development are institutionalized among insiders. The CERES principles, the Natural Step, and Total Quality Environmental Management (TQEM) are additional systems or frameworks that can help direct the firm towards sustainable development. Common elements in these systems include measurement, control and continuous improvement.

3. Stakeholder management is another important element of sound sustainable development processes. Stakeholders include not only the most powerful groups, but also people who are disenfranchised, who do not necessarily have a voice, but whose livelihood is influenced by the firm. These stakeholders may include indigenous people that live on or near the land on which the firm operates, employees who are being paid a wage that keeps them below the poverty line, or suppliers who are not being paid a fair price because of the relative power of the firm. Once these stakeholders are identified, the firm must engage in an active dialogue with them, identifying key spokespersons who not only assist in identifying the issues, but who can also assist in developing viable solutions. Engaging in constructive dialogue can help find innovative solutions for old problems. More often than not, this dialogue results in win-win solutions for the company and those who felt exploited.

Product stewardship

Organizations can also manage the environmental and social impacts of their products through product stewardship, which requires mitigating the cradle-to-grave impact of the firm's products. Ultimately, this means that products have a longer life and are sold on their soundness, not on marketing hype, and that their environmental impact will be min- ▶

imal. Stewardship also means that the products may be disassembled quickly and their parts reused or recycled. Some firms are starting to conduct life-cycle analyses of their products. In this case, the firm must determine the environmental, social and economic impacts of each stage in the production, distribution and consumption of its products. While the analysis can be arduous, it can be instrumental in identifying design features and process improvements that are more sustainable.

Xerox has been committed to designing products so that they can be completely reused, remanufactured and recycled. This effort entailed a complete redesign of the company's product-delivery system, including the initial designs, materials acquisition, manufacturing, marketing and after-sales service. Xerox aimed to extend product life, utilize materials that could be recycled at the end of the product's life, and design products for easy disassembly and multiple use. In the program's first year, Xerox saved \$50 million in logistics, inventory and the cost of raw materials. These savings are expected to increase even further over time.

THE THREAT AND OPPORTUNITY OF SUSTAINABLE DEVELOPMENT

Failing to respond to sustainable development issues exposes the firm to significant risks and forfeits an opportunity to build stakeholder commitment and competitive advantage. While managers may resist the short-term financial and time-related costs of adopting some of these measures, there are potential significant long-term benefits. Society is increasingly concerned about sustainable development, and as the quality of social education and scientific information improves, pressures will inevitably mount. By responding now, firms can make choices that are the most financially viable, rather than being forced into responding to stakeholder pressure or merely following standards set by others. ■

PRATIMA (TIMA) BANSAL IS A PROFESSOR OF STRATEGY AND INTERNATIONAL BUSINESS AT THE RICHARD IVEY SCHOOL OF BUSINESS, AND THE CO-AUTHOR OF *BUSINESS AND THE NATURAL ENVIRONMENT* (BUTTERWORTH-HEINEMANN, 1997). REPRINT #9Bo1TFo8