

# 'In Search of a Robust Sector-Specific Business Case for Sustainability'

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# Research objectives

- To examine
  - The economic reasoning for corporate sustainability
  - Mismatch of perceptions, attitudes and behavior between sustainability officers and their counterparts
  - Country- and industry-specific differences in values and restrictions
  - Pressures undergone by companies to respond to internal and external demands
- To develop
  - Strategic toolset allowing companies to build and implement their individual business case for sustainability → Focus on applicability!



# Methodology

1. Review of existing research
2. Pilot survey in reference companies
3. Extensive survey on 9 different industries in 8 different countries (US, Japan and Europe) using
  - More than 400 face-to-face interviews and
  - 1068 returned mail/fax/online questionnaires (945 general managers, 123 sustainability officers)
4. Rollout and testing of the diagnostic tool



# What is the bottom line?

- *'A BUSINESS CASE IS NOT FOUND - IT HAS TO BE BUILT'*

Member of CSM Advisory Council

- Corporate sustainability is not the next 'big thing' - but it is here to stay



# Sustainability Issues

- are many, diverse, fragmented, lack definition, occur in various parts of corporate value chain, are often controversial

...and also.....

- what is regarded as a sustainability issue differs widely between managers (different languages used)

*The example of environmental issues is revealing....*

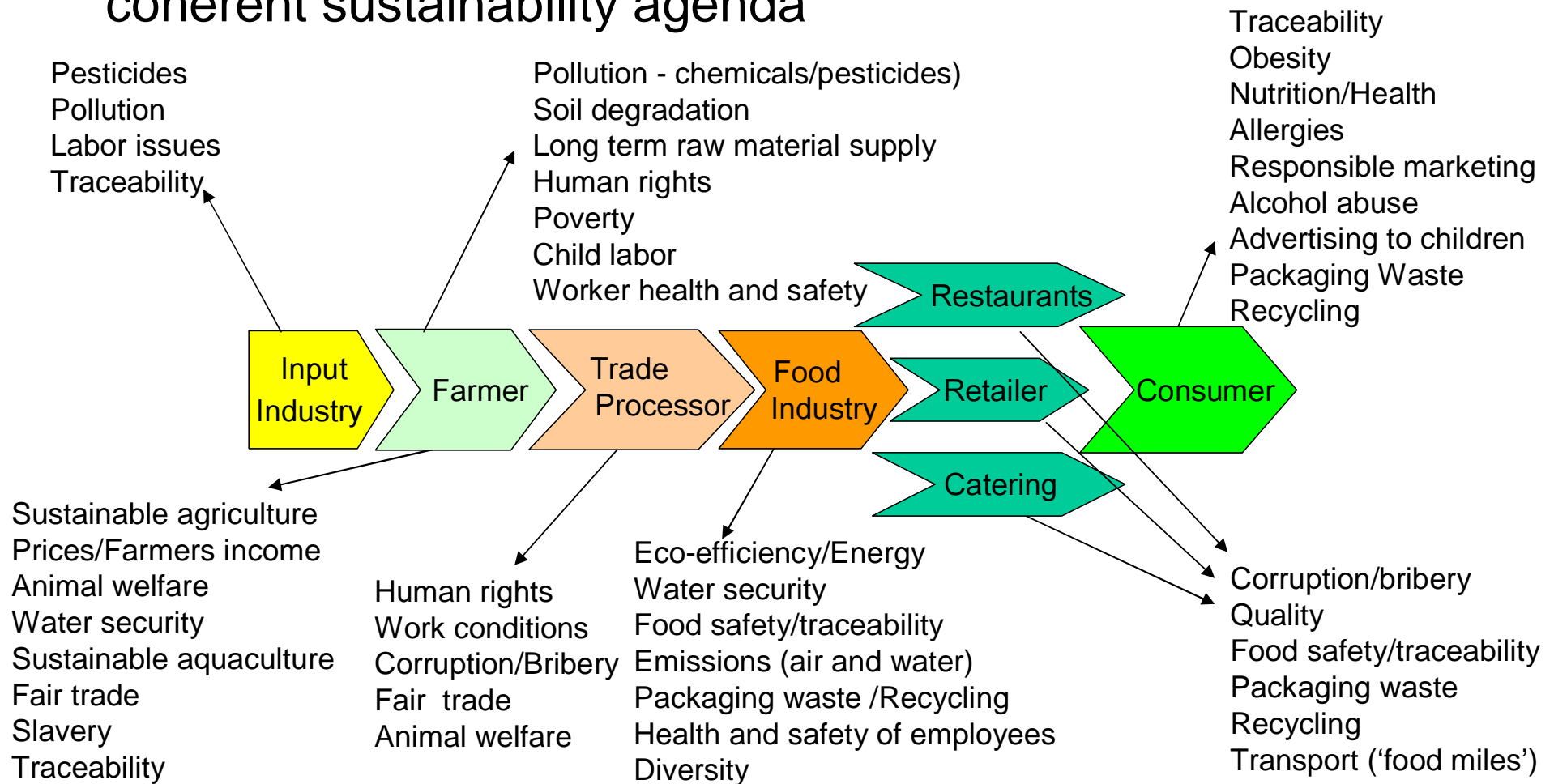


## Environmental issues

<b>Environment in general</b>	<b>10</b>	Environment	5 Environmental footprint	3			Environmental performance of products	1
							*Environm. Conservation	1
<b>Impact on biological environment</b>	<b>10</b>	Biotechnology	1 Biodiversity	3 Pesticides	2		Natural pest control	1
		Agricultural practices	1 Biodegradation of products	1			Organic farming/ Sustainable agriculture	1
<b>Soil</b>	<b>3</b>	Erosion	1 Degradation	1 Contamination	1			
<b>Water</b>	<b>8</b>	Water (pollution)	4 Water effluent	1 Ground water pollution	1 Waste water	1	Waste water reduction/ water treating	1
<b>Air/ atmosphere</b>	<b>46</b>	Climate change/ Global warming	27CO2	4 Hazardous air pollutants	1 Emissions	2	*(Local) Air quality	2
		GHG emissions	3 Odors	2 Ozone depletion	1 Air/ atmosphere	1	Reduce emissions	2
							Climate change strategy	1
<b>Noise</b>	<b>3</b>	Noise	3					
<b>Waste</b>	<b>12</b>	Co-firing of waste	1 Packaging	1 Waste disposal	1		Recycling/ Waste management	8
							Minimizing landfill	1
<b>Long-term impact of discharges into the environment</b>	<b>7</b>	Chemical discharge	2 Antibiotics	1 Use of toxic substances	1 Pharmaceuticals	1		
		Toxic substances	1 Drugs	1				
<b>Radiation</b>	<b>5</b>	Radio frequency issues	1 Nuclear waste	2 Nuclear power	1 Radioactive discharges	1		
<b>Resources</b>	<b>20</b>	Energy usage/ consumption/supply	7 Raw materials	1 Long-term supply	1 Paper use	1	Energy management	1
		Water use/ scarcity/ resource availability	3				Wood procurement	1
							*Renewable/green energy	3
							Energy efficiency	2
<b>Transportation/ spatial development</b>	<b>5</b>	Transportation pollution	1 Access (remote sites service delivery and prices)	1 Congestion	2 Development of rural areas	1		
<b>Total</b>	<b>129</b>						* = positive goals. Others = management/ measures	

# Issues in the food and beverage industry

- extremely fragmented and diverse → difficult to establish a coherent sustainability agenda



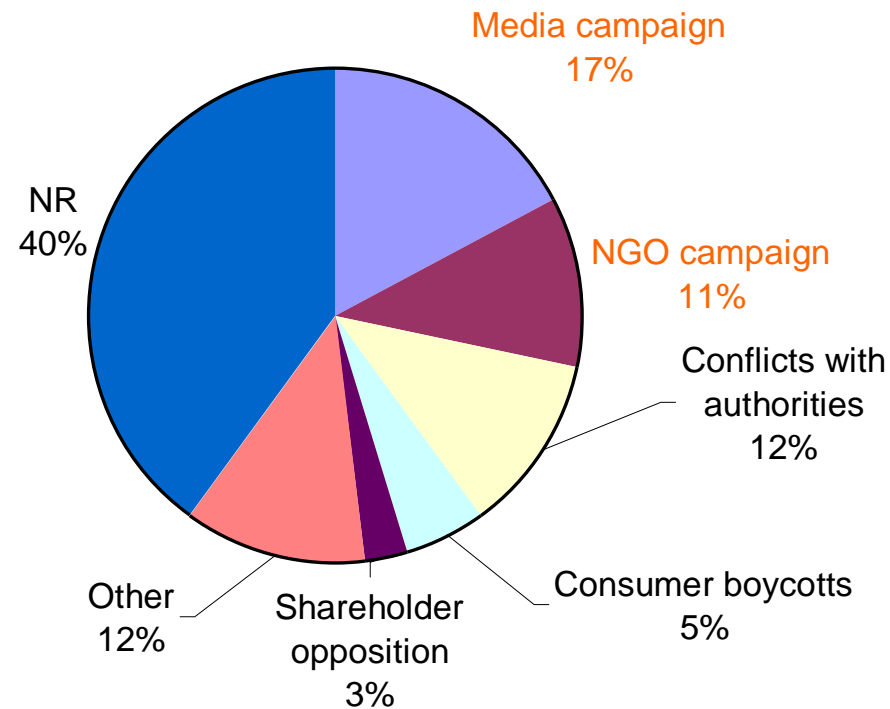
## "Transmission Belts" vary, but in general

- **Regulators** remain important promoters of sustainability, especially for industry 'laggards'. The leaders are opting for the first mover advantages of 'beyond compliance'
- **NGOs** have a key '*early awareness*' function but their overall impact is not all that significant in terms of the 'big picture'
- **Customers**
  - are not pushing for more sustainable products/companies and
  - are not willing to pay for more sustainable products unless they perceive direct benefits for themselves
- **Capital markets** have not yet made significant demands and managers do not expect this to change quickly

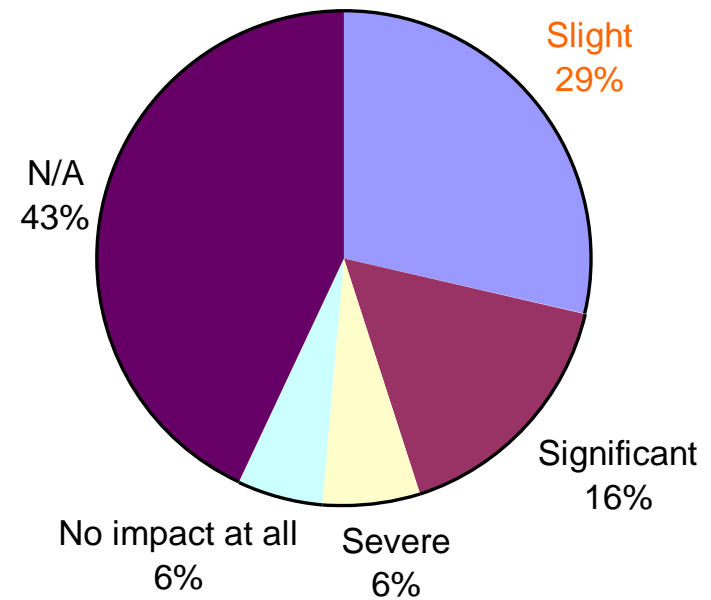


# Incidents and reputation – impact of NGOs

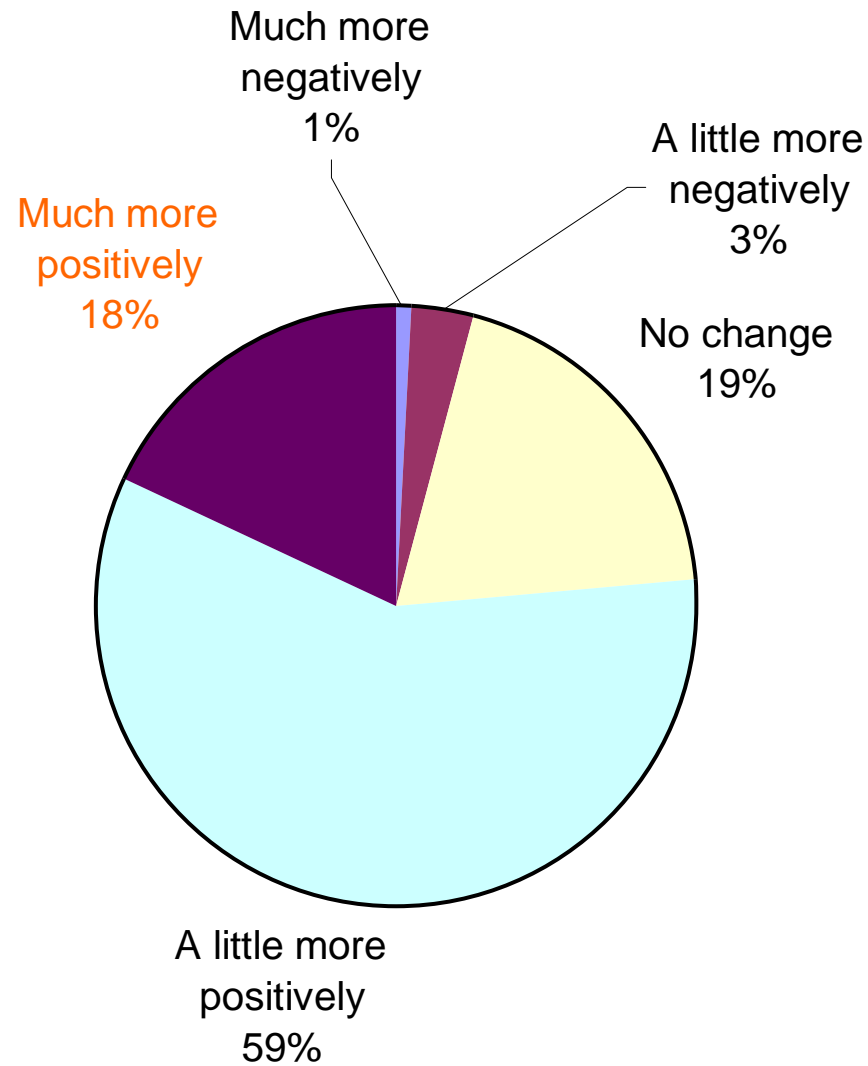
## Cause of incidents over the last three years that damaged reputation in your company



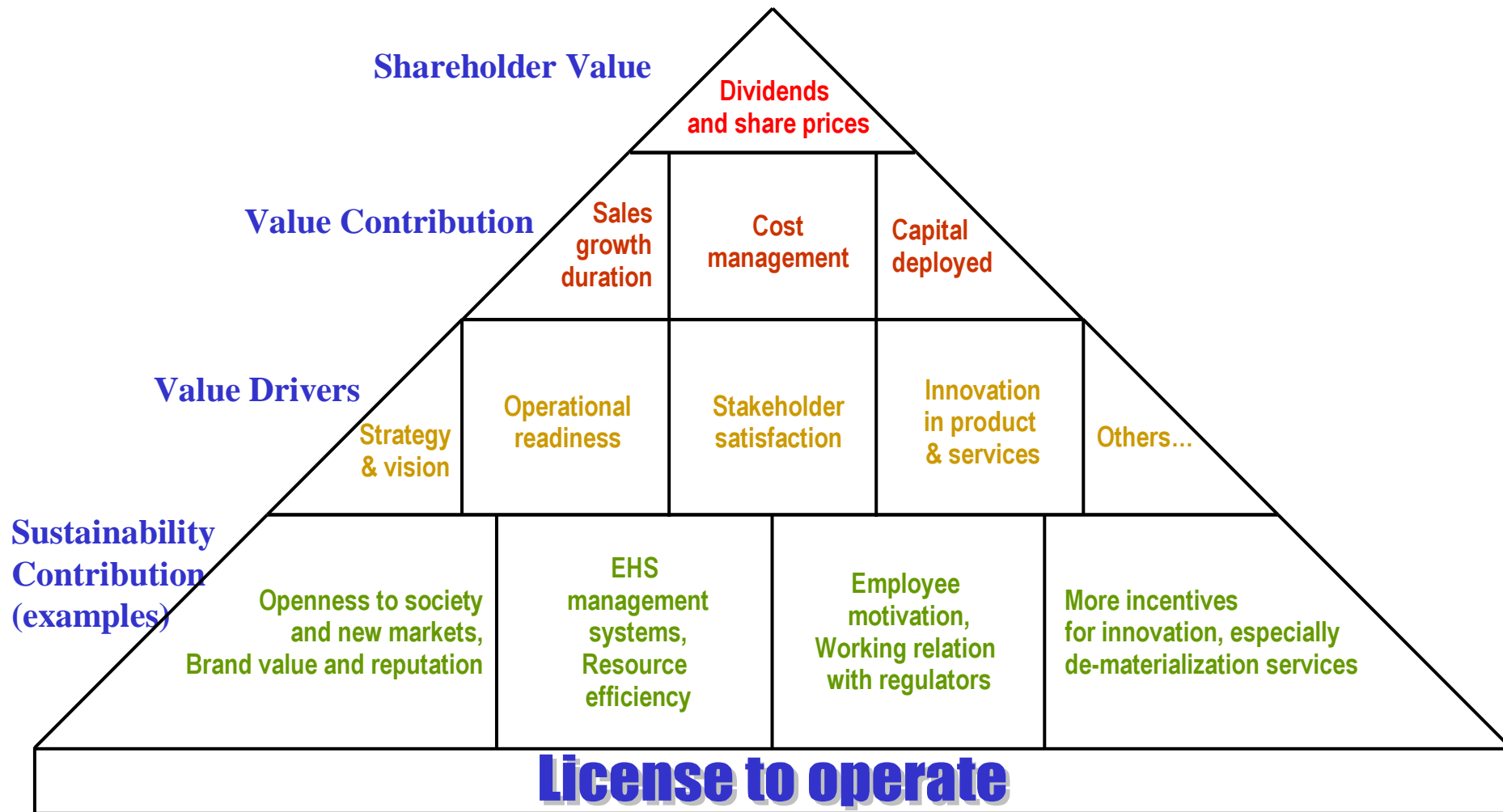
## Impact of these incidents



# Capital markets – reaction in next five years to improved social and environmental performance



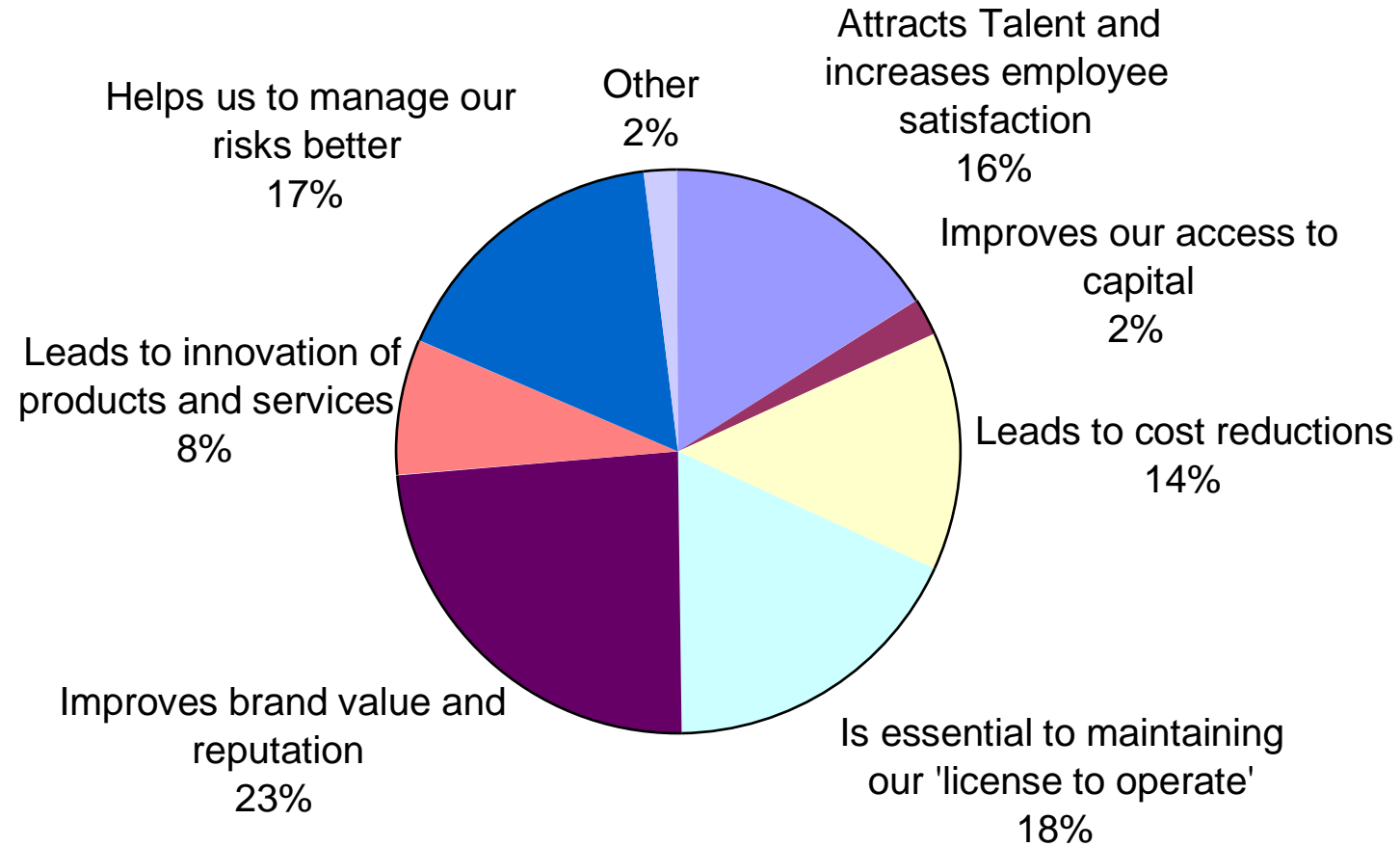
# Value drivers - New shareholder value pyramid



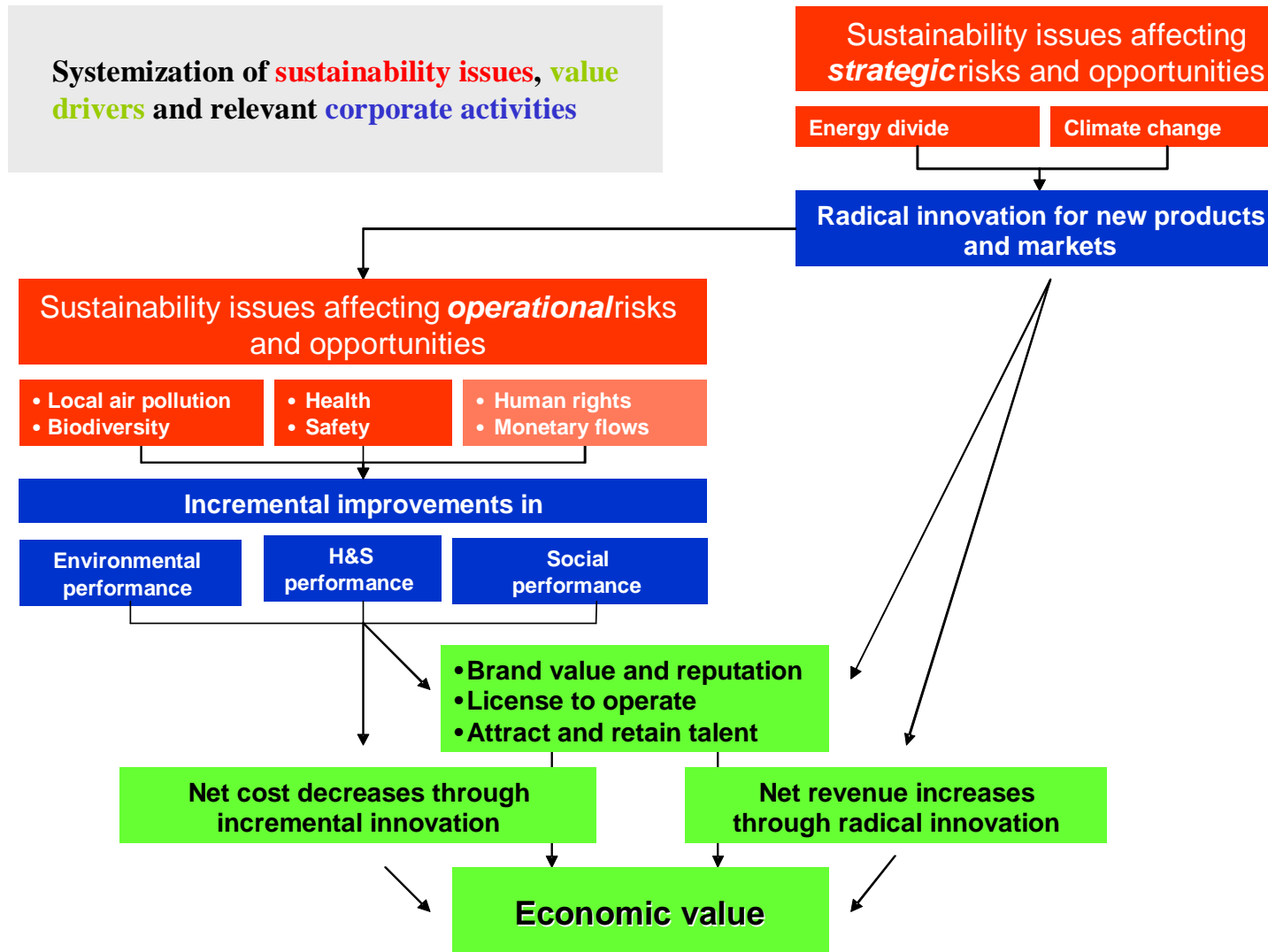
\* Adapted from Rappaport (1986)



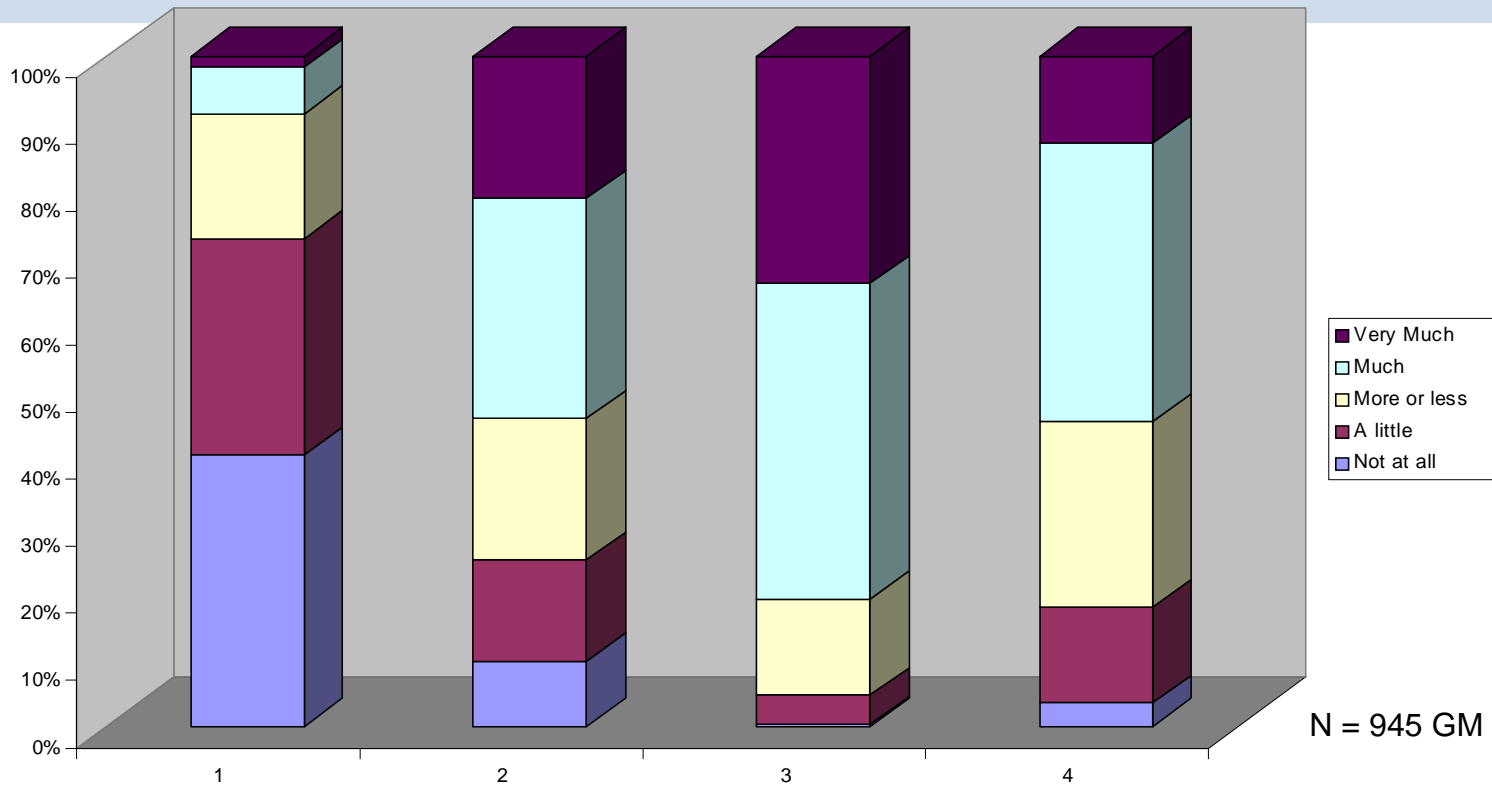
# Value drivers



# SD-induced strategic vs. incremental change



# Attitudes towards corporate sustainability



1. "The business of business is business. So companies should comply with the law, but going beyond the law would only sacrifice profits."

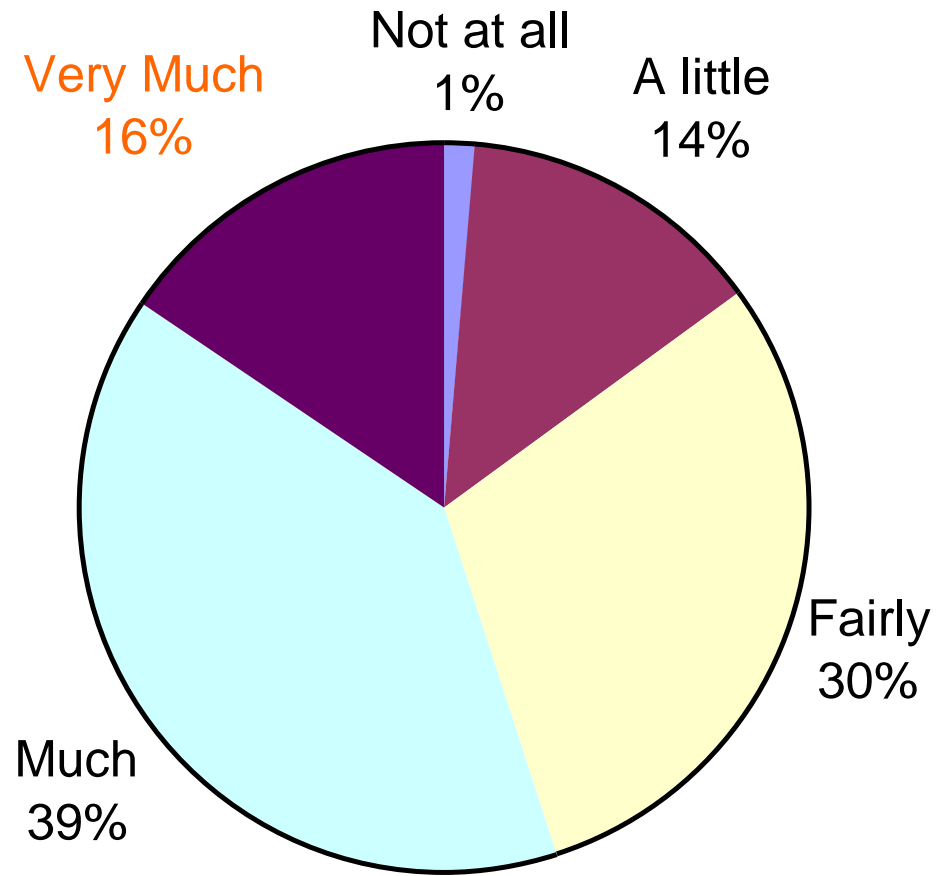
2. "Profit always comes first for companies. There are win-win situations in which companies can achieve financial, environmental and social goals at the same time. In these situations, it makes sense for companies to go beyond what the law requires."

3. "Companies should consider social and environmental issues/expectations, and try to actively integrate them into their strategies because, by doing so, they gain long-term competitive advantage."

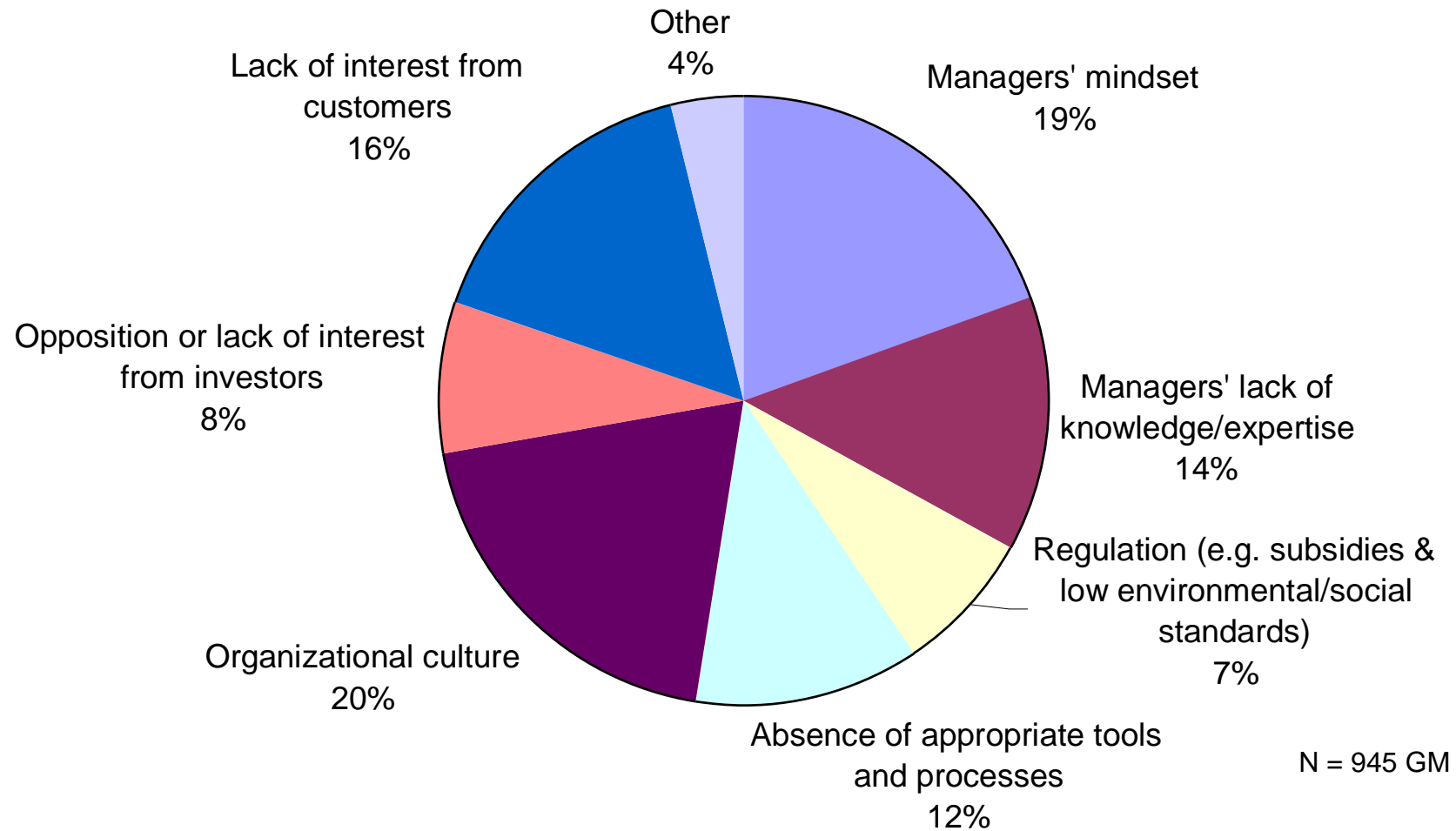
4. "As part of their role in "global society," companies should engage in social and environmental initiatives, even if long-term competitive advantage cannot be proven."



# Level of integration of sustainability into corporate strategy



# Barriers to corporate sustainability



# The Quantification Conundrum

- No attempts to quantify the business case beyond single project-based estimates were convincing
- Strategic decisions not based on figures alone
- The more strategic a decision, the more unreliable the quantification basis is



# The Quantification Conundrum

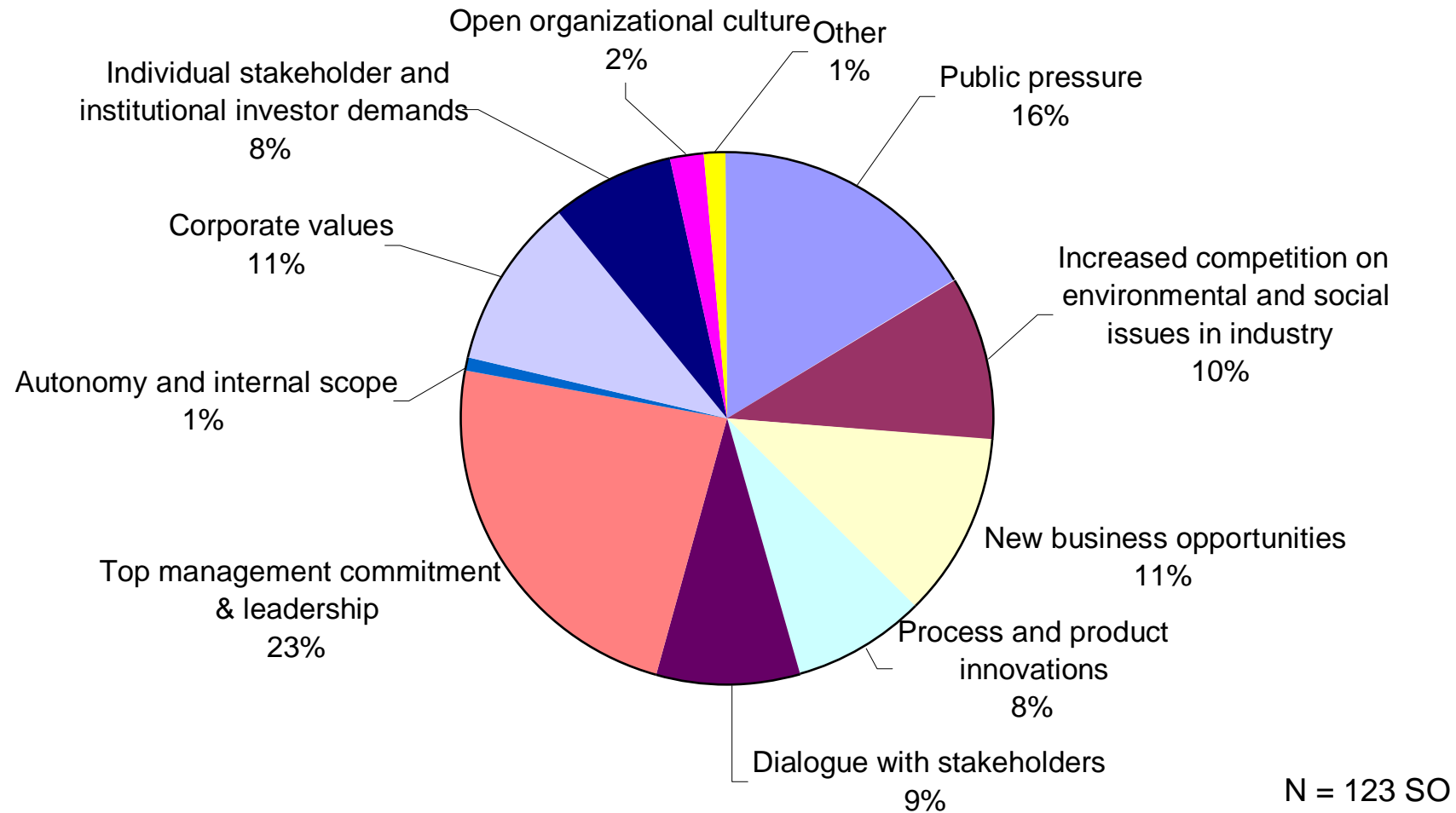
- Share prices do not depend on physical assets, but on intangible items
- Relevance of a value driver is whether it supports the core business strategy

However:

- Laggards still want to see 'hard numbers'

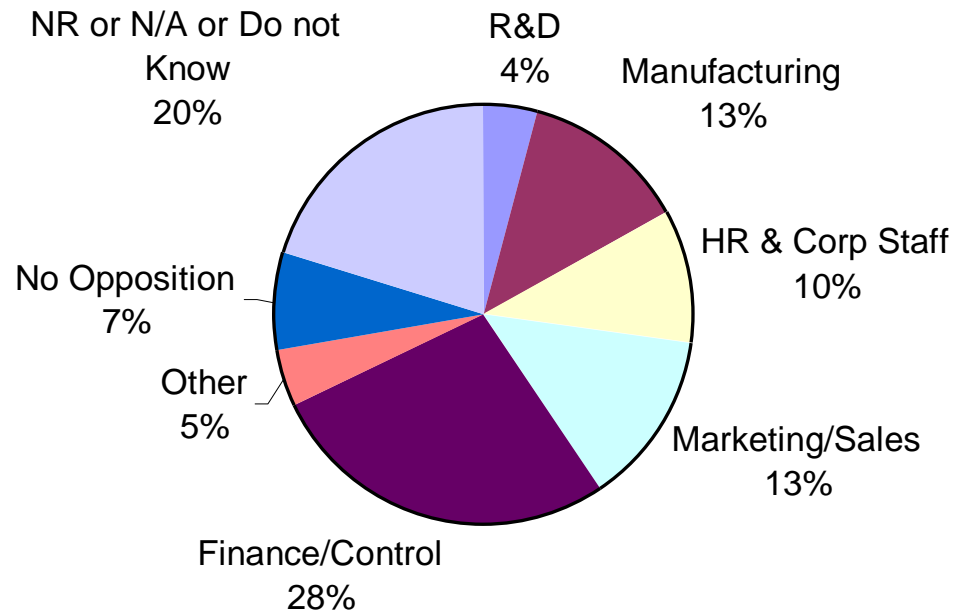


# Promoting factors of corporate sustainability

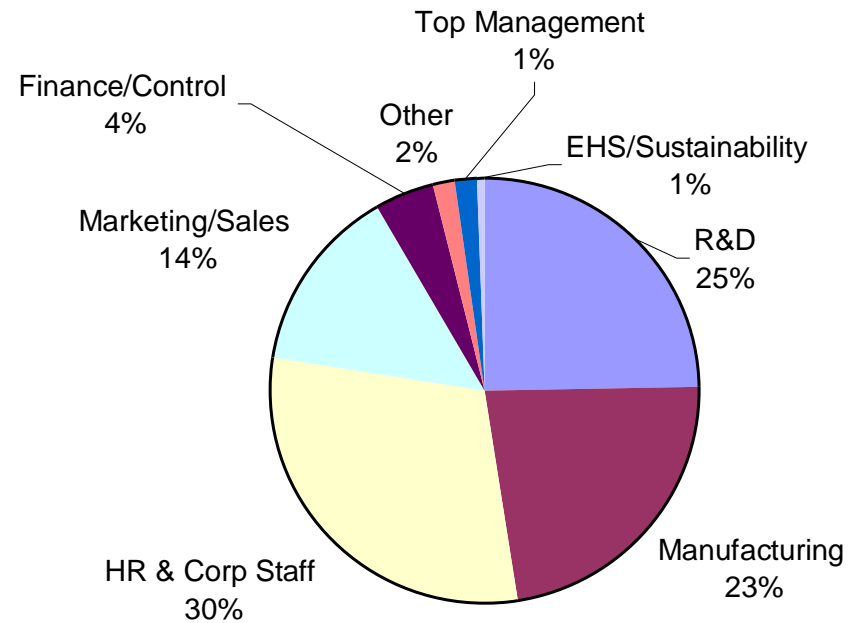


# Business functions

## Primary deterring role

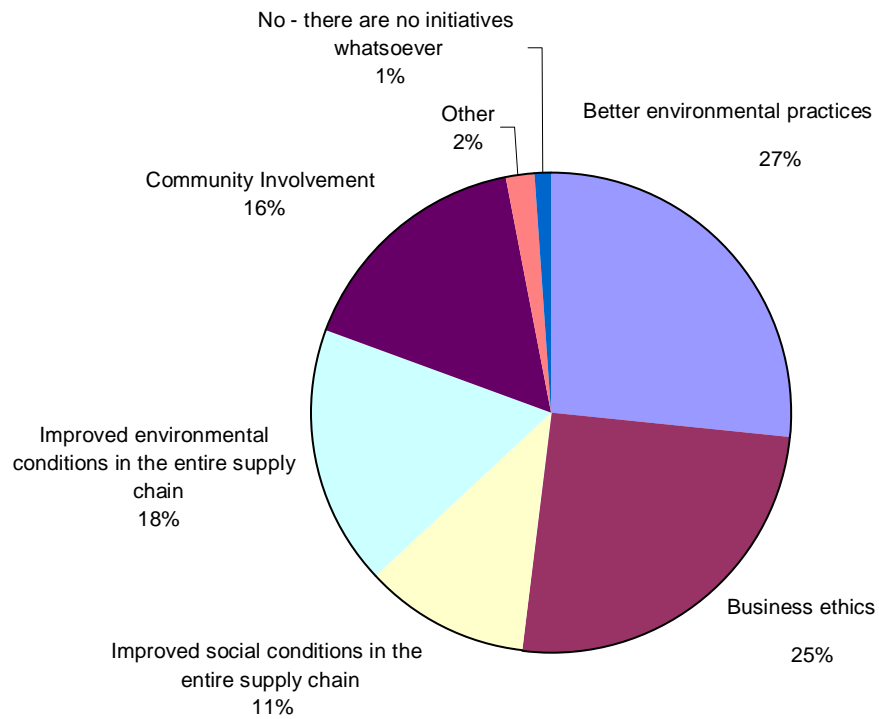


## Potential promoting role

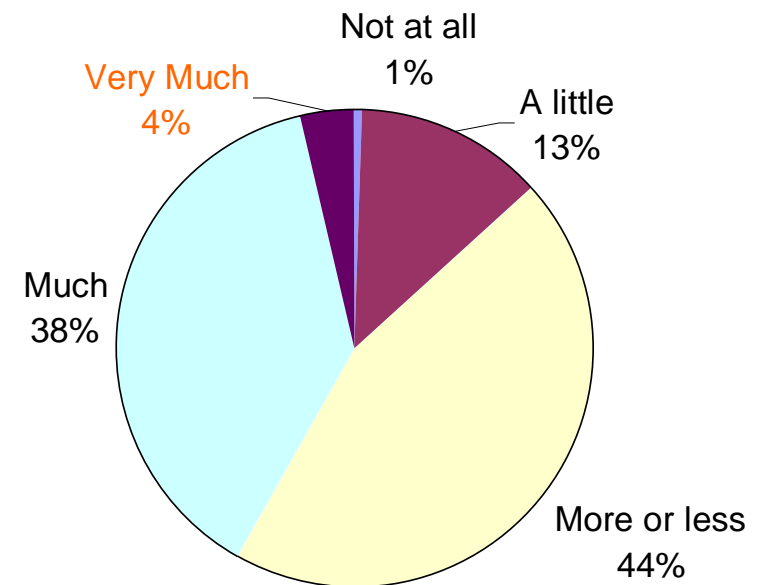


# Corporate sustainability initiatives and their effectiveness

## Initiatives carried out

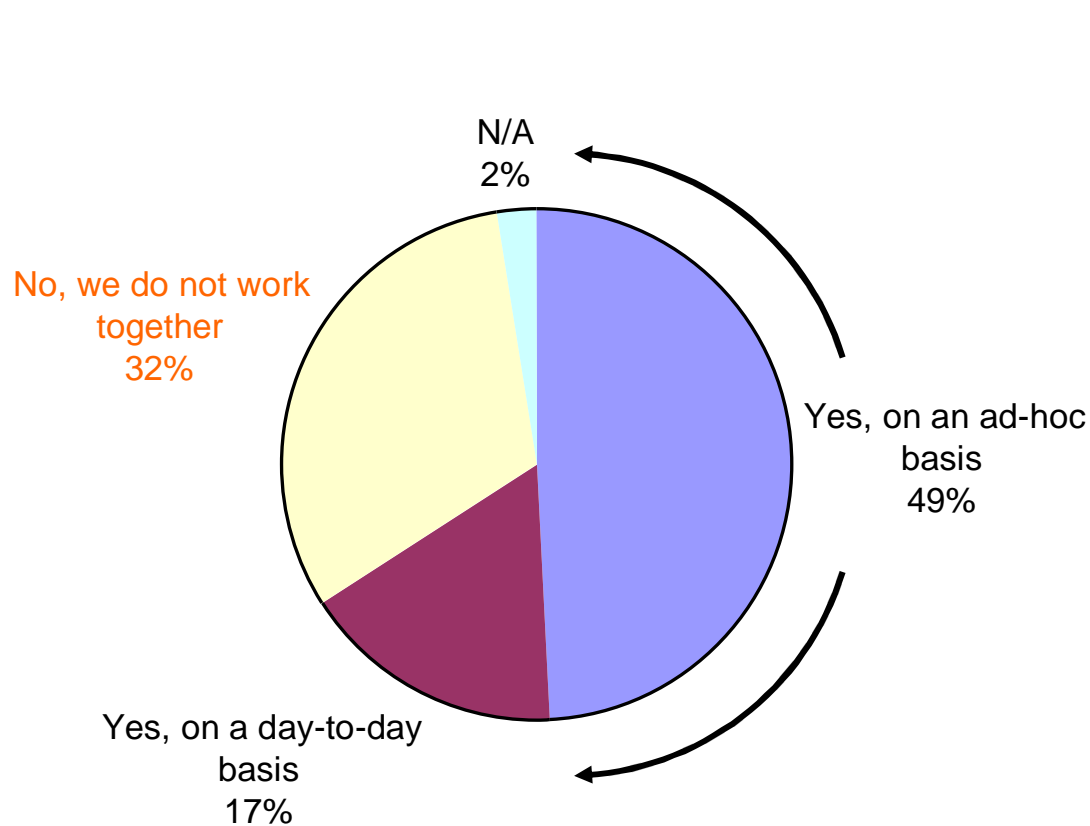


## How effective?

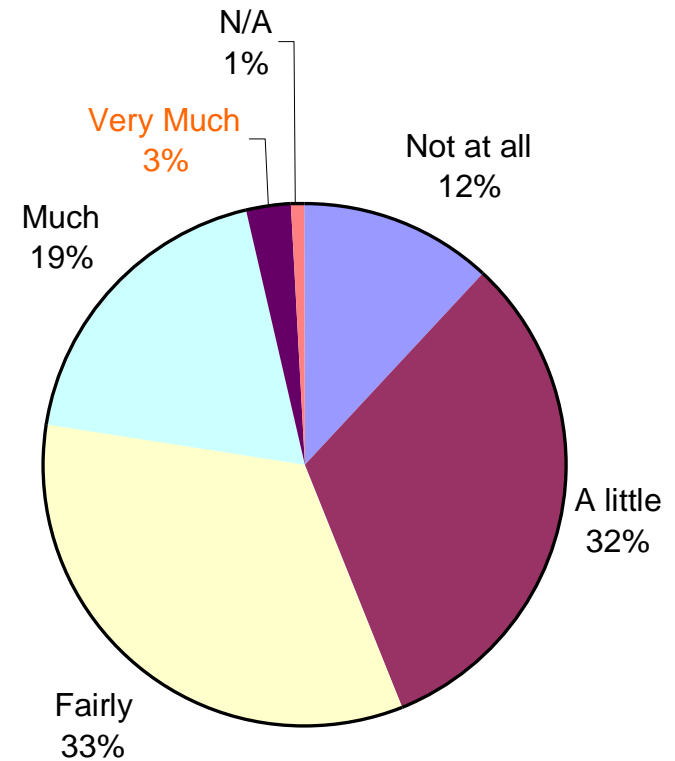


# Collaboration between sustainability and business management functions

## Do you work together?



## To what extent would sustainability performance improve through more intensive collaboration?



# So what? What's new?

- **Need for a diagnostic tool  $\implies$  business case is not well defined in most companies**
- **Relevance of "soft" value drivers and their importance**
- **Key barriers + promoting factors are identified ...**

..... but how can they be overcome .....?



# Thank you!

For more details:

