

Annaliza Jackson and Associates

Breakfast Forum: Advancing People Advancing Leaders.

Sustainability & Business – A Question of Values

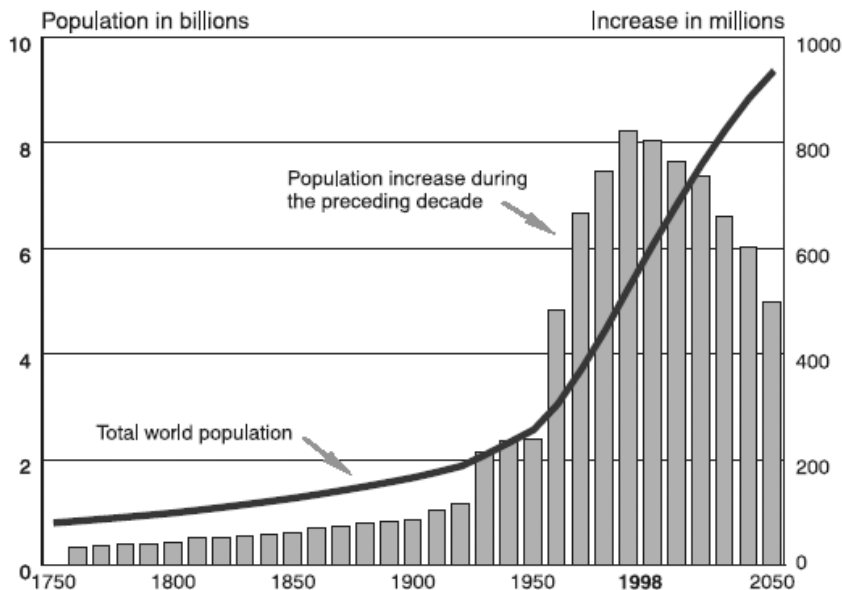
An address by William Grace¹

WA Club 6th April 2005

I want to speak today about the linkages between sustainability and corporate responsibility, why they matter to us as individuals and business people, and how we respond.

Let's start by putting some context around the sustainability debate. Where is the world up to in the early part of the 21st century (from the UN Population, Environment and Development Report 2001)

Population



Source: United Nations (1995:97) and U.S. Bureau of the Census, International Data Base.

- From 1900 to 2000, world population grew from 1.6 billion to 6.1 billion,
- Although population growth rates are slowing, United Nations projections show that the world population is likely to exceed 8 billion people by 2030 before perhaps stabilising at around 9 billion in the middle of the century.
- By 2030, over three fifths of the world will be living in cities. In fact virtually all the population growth expected during 2000-2030 will be concentrated in the urban areas of the world.

Standards of Living

- The enormous expansion in the global production of goods and services driven by technological, social and economic change has allowed the world to sustain much larger total and urban populations, and vastly higher standards of living, than ever before.
- For example, from 1900 to 2000, world real GDP increased by 20 to 40 times, while world population increased close to 4 times.
- World food production has increased at a faster rate than population and more food per capita is available now than ever before in world history;
- The increasing scarcity and degradation of agricultural and other environmental resources cast serious doubts as to how long food production can surpass population growth.

¹ Bill Grace is Deputy Chairman of the WA Sustainability Roundtable and GHD's Manager of Sustainability Services.

Environment

- ❑ The twentieth century experienced topsoil loss equal to that of the previous 1,000 years.
- ❑ Total energy use during the 100 years of the twentieth century was 10 times that of the previous 1,000 years.
- ❑ Throughout the world many fragile, biologically unique ecosystems, and the many species of plants and animals they contain, are threatened.
- ❑ Forest areas are diminishing, especially in tropical areas.
- ❑ Industrial pollution and harmful run-offs from agricultural production threaten the quality of water and air.
- ❑ Fresh water is already in short supply in some regions—approximately one third of the world's population lives in countries classified as experiencing moderate to severe water stress or scarcity—and future population growth will only increase the pressure on this renewable, but limited, resource.
- ❑ Emissions of CO₂ and other greenhouse gasses continue to mount (an issue I will return to)

In Australia (according to Professor Tim Flannery):

- ❑ Already one of every 10 of Australia's unique mammals is extinct, and almost everywhere – even in our national parks – biodiversity is declining.
- ❑ Australia's soils are still being mined
- ❑ salination will destroy the majority of Western Australia's wheat belt in our lifetime if nothing is done
- ❑ our rivers are (including the Swan / Canning system) are in great peril and
- ❑ sustainable fisheries everywhere have collapsed.

Climate Change

(excerpt from a presentation by Professor Graeme Pearman to the High Level Stakeholder Group on Greenhouse at Parliament House, Perth on 8th December 2004).

The call for deep cuts grows

- UK White paper
60% reductions by 2050
- Australian Chief Scientist, Robin Batterham
“80% by the end of the century. 50% by 2050, I think is realistic”
- Australian Climate Group
“60% by 2050”
- Other countries –institutions with similar targets
France, Germany, etc, etc.
- BP Chief Executive John Browne
Called on governments and industry to undertake a drastic shift to boost the use of natural gas, clean-coal technology, nuclear energy and fuel-efficient hybrid cars
- Sir David King, UK Chief Scientific Adviser
“Climate change ... far greater threat ... than ... terrorism”

Society

One measure of the health of our society is social capital. The Harvard academic Robert Putnam draws on evidence including nearly 500,000 interviews over the last quarter century to show that our stock of social capital - the very fabric of our connections with each other, has plummeted, impoverishing our lives and communities.

- we sign fewer petitions,
- belong to fewer organizations that meet,
- know our neighbours less,
- meet with friends less frequently,
- and even socialize with our families less often.

Putnam argues that changes in work, family structure, age, suburban life, television, computers, women's roles and other factors have contributed to this decline.

So despite our material gains, and success as a species (at least in evolutionary terms) human society faces increasing challenges. So is our civilisation collapsing? There are certainly plenty of examples in human history of failed societies. The scientist and author Jared Diamond has described these examples in his book "COLLAPSE: How Societies Choose to Fail or Succeed" which describes the factors that determined success and failure in ancient societies, including the Anasazi of the American Southwest and the Viking colonies of Greenland, as well as modern ones such as Rwanda.

"Four of those sets of factors -- environmental damage, climate change, hostile neighbours, and friendly trade partners -- may or may not prove significant for a particular society," Diamond concludes. "The fifth set of factors -- a society's response to its environmental problems -- always proves significant."

Diamond's central thesis is that societies make choices about their fate. At its heart this is what the sustainability agenda is really about – mobilising society to respond to the environmental and social problems that threaten the quality of life of our children and grand-children, if not ourselves.

I hope that most business people are aware that WA has a Sustainability Strategy, launched with almost no fanfare in September 2003. This strategy defines sustainability as:

Meeting the needs of current and future generations through an integration of environmental protection, social advancement, and economic prosperity.

An alternative definition is offered by The Natural Step which offers a little more clarity.

"Sustainable development is a dynamic process which enables all people to realise their potential and to improve their quality of life in ways which simultaneously protect and enhance our Earth's life support systems."

So what is Corporate Social Responsibility and what has it got to do with any of this? Definitions of CSR abound but the version of the World Business Council for Sustainable Development is as good as any.

The continuing commitment by business to behave ethically and contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve their quality of life.

CSR generally

- **a collection of policies and practices linked to relationship with key stakeholders, values, compliance with legal requirements, and respect for people, communities and the environment; and**
- **the commitment of business to contribute to sustainable development.**

“Corporate Citizenship” which is based on the concept of the corporation as a citizen, is also frequently used while referring to CSR, and is sometimes interchangeably used.

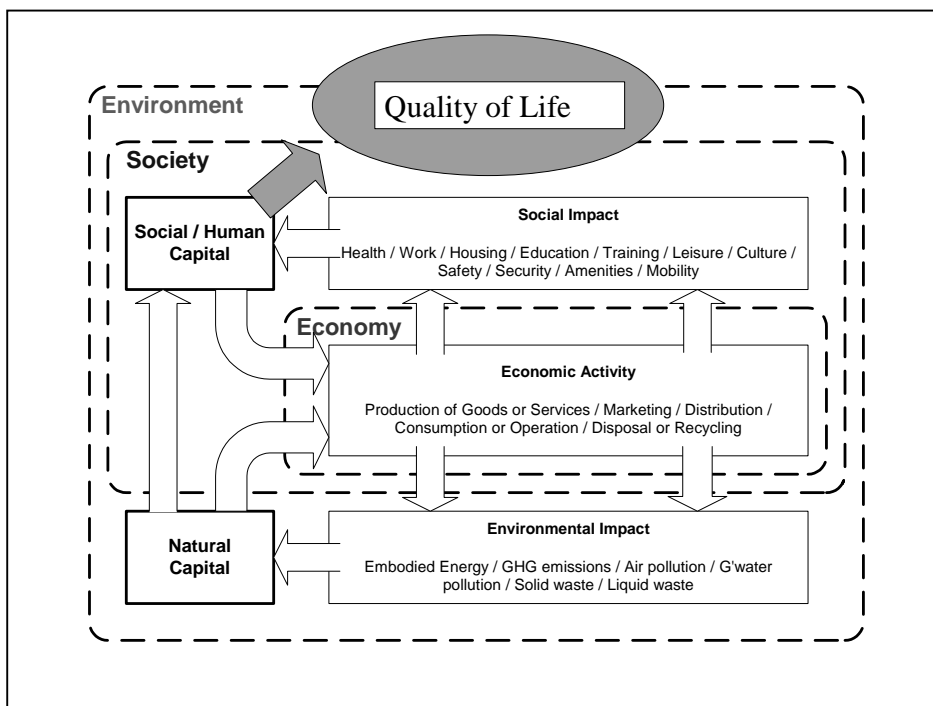
Essentially sustainability is about how our society should organise itself to achieve – well just that, sustainability. CSR is increasingly being seen as about business’ contribution to that objective.

If we are to organise ourselves better as a society at a local, regional, national and global level, we have to first recognise the key interdependencies in the world, and secondly the interactions between the key players in the relevant spheres of influence.

Since the industrial revolution and before, private sector trade and commerce has determined our place as individuals in the world, and our view of it. The extraordinary explosion in human population and standards of living (generally speaking) I have already referred to result directly from this economic activity. The defining struggle of the 20th century between capitalism and communism was a direct result of the social impacts (positive and negative) of this economic development.

It is only much more recently we have started to understand the environmental impacts that this economic activity has wrought. This understanding has brought with it a growing realisation that modern societies are part of, and not separate to nature, despite our increasingly virtual existence. Environmental legislation is now a fact of life that is accepted by business and industry, if not always welcomed.

An even more holistic view of our world identifies that these economic, social and environmental domains are inextricably connected to each other, and to our quality of life.

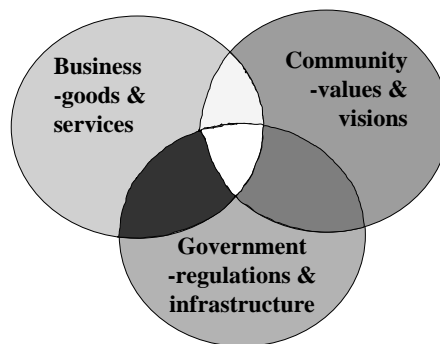


The economy, as dominant as it is, is just a subset of our society. It is what we replaced hunting and gathering with – to great effect. And in turn our human society, as dominant as it is, is just a subset of nature and life on earth.

This interdependence is a pretty simple concept, but our behaviour doesn't reflect its realities. Why is this? I would argue that it's because we tend to see the world through the roles that we play, rather than as citizens.

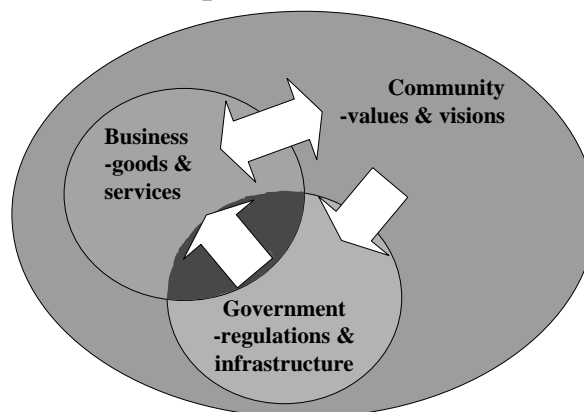
This graphic describes the often-quoted sectoral dimensions of sustainability. It is important and I will return to it in this form, but it can also tell us something about the way we see the world.

Sectoral Dimensions



People who work for themselves, for companies in the private sector, in the public sector, for NGO's, for unions, are all members of the community. People who represent us in local, state and federal governments are all members of the community. There are no separate workers that fly in from Mars every morning to run our governments and businesses. Regardless of our day time roles, we are all citizens and all have generally the same aspirations for improving our quality of life, and that of our children, and (hopefully) their children. Our worklife, irrespective of how it might dominate our lives and determine our material wealth, is both transient and peripheral to our lives. So the real relationship is really more like this.

People Dimensions



As I said earlier, sustainability is a world view about how our society should organise itself to pursue harmony between our economic, environmental and social worlds. Our first challenge is to bring this world view to bear on our daytime roles, and thus to link our lives as citizens and employees (even employers are employees).

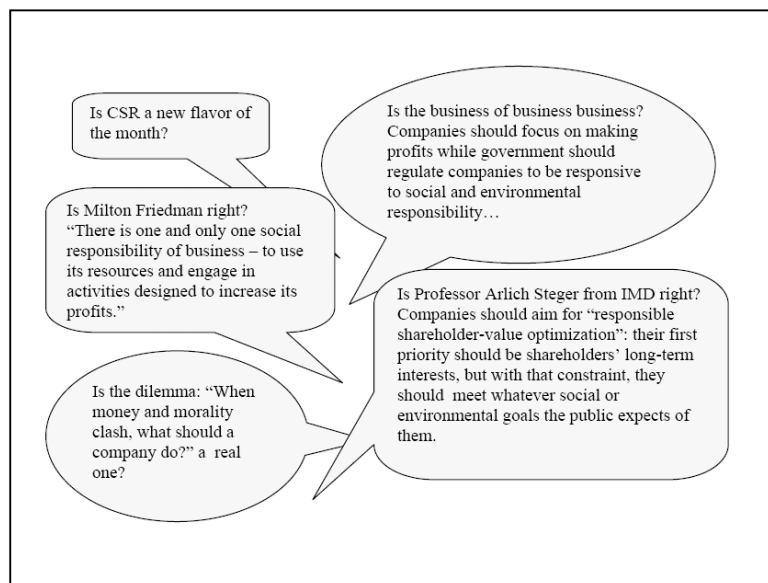
You might pause here to consider the business benefits associated with having staff whose personal values align closely with the company they work for.

Our second challenge is mobilise government and business to work cooperatively with the community in general as a force for progressing sustainability.

Now to go back to the “Sectoral Dimensions” image, that as I said, represents us in our day jobs. Sustainability cannot be delivered by any of these sectors acting alone. Government has a responsibility to show leadership in responding to the sustainability challenge, both by acting responsibly itself and also by promoting corporate responsibility to the private sector and awareness of the issues to the public. After all if sustainability is about quality of life, now and in the future, it is hard not to see this as core business for government.

But governments can’t deliver a sustainable future acting alone, or by regulation. The meaningful engagement and commitment of the private sector will be crucial to aligning our economy to better serve the real needs of the community.

But does business buy in to this worldview?



There are no doubt plenty of sceptics. But there is also some strong leadership. The World Business Council for Sustainable Development is one of the leading actors on the world stage.

World Business Council for Sustainable Development

WBCSD is a coalition of 175 international companies united by a shared commitment to sustainable development via the three pillars of economic growth, ecological balance and social progress.

Our mission

To provide business leadership as a catalyst for change toward sustainable development, and to promote the role of eco-efficiency, innovation and corporate social responsibility.

There are also plenty of other big companies on song with this message.

Selected Quotations by Business

“CSR is not a cosmetic; it must be rooted in our values. It must make a difference to the way we do our business.”

-- Phil Watts, Group Managing Director Royal Dutch/Shell Group

“Corporate citizenship is our global commitment, Our knowledge and our solutions create a better world.”

-- Siemens AG, HQ in Germany

“AT&T understands the need for a global alliance of business, society and the environment. In the 21st century, the world won’t tolerate business that don’t take partnership seriously, but it will eventually reward companies that do.”

-- C. Michael Armstrong, Chairman & CEO, AT&T

In fact, according to a recent US survey on corporate citizenship, most companies accept their role as corporate citizen. How they operationalise it is probably a different matter.

The State of Corporate Citizenship in the United States 2003

More than 500 businesses returned the 41-multipart-question survey, which sought to explore primarily how businesses define corporate citizenship, what they are doing in their communities and why.

The study found that companies believe corporate citizenship should be a priority (82 percent), good corporate citizenship helps the bottom line (82 percent) and the public has a right to expect good citizenship (74 percent).

But many in business still feel the need to justify corporate responsibility as “good for the bottom line”. Even the World Business Council says that its activities “reflect our belief that the pursuit of sustainable development is good for business and business is good for sustainable development”. While from an overall perspective this is true, personally I am not so sure that sustainable development will be good for ALL businesses, or that ALL businesses are good for sustainable development. Is it corporately responsible to produce harmful or useless products, but in a socially and environmentally benign fashion? I think not. Even many of those that in the vanguard of CSR in the private sector, would still hold that the first priority of a company is to provide returns to shareholders. If this remains the first priority we will not get far. If we are to improve the organisation of our society we need to align the motives of government and business with the needs of the community, ie all of us when we get home from work. What the community needs from business is two key things:

- the provision of socially beneficial products and services (noting that this may or may not be the same thing as the products and services that can be sold at a profit);
- products and services delivered in a manner that protects key ecological functions, and by companies that behave in an ethical and transparent manner.

This is what business really does for our society – provide goods and services. Producing a return for investors is a necessary precondition of this activity – but not the sole focus.

And another interesting thing. A return for investors increasingly means a return to us – that is us as members of the community. That's because superannuation funds are now major players in the stock market, investing on our behalf. Providing socially beneficial goods and services in an ethical and environmentally sensitive manner should be of real interest to such funds. Why? Because this aligns our interests as shareholders with our interests as citizens, those interests being a sustainable future.

We are seeing the tentative beginnings of SRI (Socially Responsible Investment) in Australia with several funds offering investment products based on sustainability. The Swiss company, SAM Sustainable Asset Management describes itself as *“an independent asset management company with international operations, specialising in the successful implementation of sustainability-driven investment strategies for private and institutional investors. SAM expects continued strong growth in demand for Sustainability investments as more superannuation funds expand their investment options to include sustainability and as more members become interested in sustainability investing.”*

In conjunction with Dow Jones Indexes and STOXX Limited, SAM Group publishes and licenses the Dow Jones Sustainability World Indexes (DJSI), a series of global sustainability benchmarks first launched in September 1999. According to SAM


“Sustainability at the corporate level is defined as the delivering social, economic and environmental value added hence increasing shareholder value. Anything else is unsustainable so sustainability is profitable by definition. Sustainability recognises the limitations to corporate performance, not just in the effectiveness of waste reduction, but, also, in the level of employee satisfaction and many other areas of corporate life. As a result, sustainability seeks to increase corporate capacity, as a means of delivering on the triple bottom line – environmental, economic and social

Sustainability Reporting is another element of the Corporate sustainability picture. So as you can see there is considerable momentum building in the corporate sector.

The screenshot shows the GRI website interface. At the top, there are navigation buttons for 'Home', 'Text version', and 'Print version', along with a search box. Below this is a horizontal menu with links for 'About GRI', 'News & Events', 'Guidelines', 'GRI Reports Database', 'Products & Services', 'Get Involved', and 'Help'. The GRI logo and 'Global Reporting Initiative' text are on the right. The main content area features a section titled 'GRI at a glance' with a paragraph describing GRI as a multi-stakeholder process. To the right of this section are two columns of links: 'Related Links' (including GRI 2002 Guidelines, Governance structure, Companies using the guidelines, What Others Say, Business Plan 2003-05, Vision and Mission Statement, and Annual Review 2003) and 'See also' (including CERES, UNEP, and Global Compact). At the bottom of the main content area, there is a link for 'Are you a GRI Whiz? Take the Quiz!'.

Australian Organisations reporting against the GRI

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|---|---|
| AMCOR | MIM Holdings |
| Anglo Coal Australia (Anglo American) | National Australia Bank |
| Argyle Diamonds | Newcrest Mining |
| Australia Commonwealth Department of Family & Community Services (FaCS) | Origin Energy |
| Australian Ethical Investment | Port of Brisbane Corporation |
| Australian Gas Light Company (AGL) | Ports Corporation of Queensland |
| BHP Billiton | OCL Group |
| British American Tobacco Australia | Singtel Optus |
| City West Water | Sydney Water |
| Department of the Environment and Heritage (DEH) | Tarong Energy |
| Energex Limited | Telstra |
| Ford Australia - Broadmeadows Assembly Plant | The Water Corporation |
| Ford Geelong Assembly Plant | Thiess |
| Grampians Wimmera Mallee Water | VicSuper Pty Ltd |
| Insurance Australia Group | Visy Industries |
| Integral Energy | Western Mining Corporation Resource Ltd (WMC) |
| Landcare Australia | Westpac Banking Corporation |
| Loy Yang Power | Yallourn Energy |



Executive Summary

Major Achievements in 2003

- Received approval from all stakeholders for an Underground Feasibility Study.
- Achieved significant progress in renewing the relationship between Traditional Owners and Argyle Diamonds.
- Achieved earnings of A\$179 million in a difficult economic climate.
- Increased local and Aboriginal employment.
- Reduced greenhouse gas emissions by 18%.
- Implemented business planning methodologies incorporating sustainable development principles.

Major Issues in 2003

- Fatal accident at the mine site.
- Reduction in operational efficiencies.
- Limited improvement in health and safety performance.

Even the banks are in on the game. Westpac's Social Charter says:

Put simply, we see real links between:

- ***delivering on our corporate social responsibilities; and***
- ***delivering for our customers and staff and creating sustainable value for our shareholders. In the marketplace, we see a strong link between those companies delivering economic value and those that have strong positive reputations.***

When it all boils down...

Our business case for sustainable and socially responsible practices is that it enhances our longevity and ultimately helps ensure our social licence to operate stays firmly in place.

This is what is required to progress towards a sustainable future – just a little more alignment between business and the public interest. If we are to overcome the challenges that come with population growth, environmental degradation and declining social capital, leaders of government, business and the community need to work as a team, with common objectives and common language.

So what are the things that a company should be doing if it wants to adopt corporate responsibility as a focus?

1. Think about the net social benefit of your products and services. How do they maintain or enhance the quality of life of the community? Where do your products end up?
2. Think about the way you produce your products and services. What are the environmental and social impacts caused by your operations and throughout your supply chain – positive and negative. **(Noting that your contribution to Climate Change is the most urgent priority of all.)** Can these processes be improved?
3. If you haven't seen the State Sustainability Strategy, have a look and see where you fit into the vision of a sustainable WA (and world) that it aspires to.
4. Add the two together, and you have taken the first steps towards Corporate Responsibility

Why do I say this? Because adopting CSR is not a question of business strategy. It's not a question of getting on board a toolkit of policies, procedures and processes like QA. It's really just a question of values.

You can't secure the future by managing the present.