



# Growing Business, Naturally

*Businesses pursuing sustainability have made major strides, but the movement needs a much broader base of support, if it is to achieve its promise of transforming the economy.*

BY GARY A. DAVIS

**A**lthough the term *sustainability* is barely more than a decade old, the concept has a distinguished heritage reaching back at least a couple of centuries to the work of the English economist Thomas Malthus. But during the last decade or so, the concept has taken on deeper, richer meaning, much of it under the banner of business sustainability.

Today, the rhetoric of business sustainability is being translated into concrete practices and measurable indicators. The environmental and social aspects of sustainability are also beginning to come together. The challenge for the decades ahead is to deliver on the promise of business sustainability. Businesses must make the changes necessary to achieve

sustainability while maintaining profitability and shareholder value. The movement must also extend far beyond the few major multinational corporations that currently embrace the concept.

Sustainability was first defined in *Our Common Future*, a 1987 report of the World Commission on Environment and Development,

commonly referred to as the Brundtland Report. The report defined sustainability as meeting “the needs of the present without compromising the ability of future generations to meet their own needs.”

The report focused on what nations and international organizations should do to ensure that economic development could continue to im-

prove the quality of life without destroying the environment upon which all life depends.

The Brundtland Report contained only general statements about what role, if any, individual businesses should have in achieving sustainability. Nonetheless, the groundbreaking report got some business and professional leaders thinking about sustainability and how businesses might help make it happen.

## **Natural Step**

**T**he new ideas about sustainability captured the attention of Karl-Henrik Robèrt, a Swedish oncologist. Robèrt was concerned that the economic-development and quality-of-life debate was focusing too much on environmental symptoms, without con-

sidering underlying causes. He believed that an understanding of causes could help chart a course for sustainability.

With the help of other Swedish scientists, Robèrt prepared a report describing the basic ways in which humans affect the health of the biosphere. The report also examined possibilities for creating a sustainable society. With the support of the Swedish government, Robèrt sent the report to every household and school in Sweden.

In 1989, Robèrt founded the Natural Step to promote his ideas about sustainability. The Natural Step defined a set of principles, based on laws of thermodynamics and natural cycles, that form a framework for understanding and communicating sustainability:

- Substances from the Earth's crust must not systematically increase in nature.
- Substances produced by society must not systematically increase in nature.
- The physical basis for the productivity and diversity of nature must not systematically be diminished.
- We must be fair and efficient in meeting basic human needs.

The Natural Step encourages businesses to apply these principles to all their activities and to train employees to truly understand sustainability instead of mindlessly applying corporate policies and procedures. The Natural Step recognizes, moreover, that businesses are the experts on their products, processes, and services. Therefore, instead of telling businesses how to apply these principles, the Natural Step encourages businesses to use the principles for problem solving and for creating business strategies in response to

corporate circumstances.

Major corporations around the world have adopted the framework and are using it to change the way they do business. The Natural Step now has offices in Sweden, the United Kingdom, Canada, Japan, Australia, New Zealand, South Africa, and the United States. (See "Walk This Way" in this issue of FORUM.)

Ben & Jerry's, Seventh Generation, and Aveda, which already had strong green reputations. Today, over 50 companies have endorsed the CERES Principles. Among the endorsers are 12 Fortune 500 firms, including Sunoco, American Airlines, Bethlehem Steel, Ford Motor Company, General Motors, and Polaroid.

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### CERES Principles

**L**ike the Natural Step, the Coalition for Environmentally Responsible Economies was formed in 1989. Several U.S. environmental groups, together with an array of socially responsible investors and public pension funds, formed the coalition to encourage businesses to lead the transition to a more ecologically sound economy. The cornerstone of the coalition's work is the CERES Principles, which encapsulate a company's commitment to environmental awareness, continued improvement, and accountability. (See sidebar: "The CERES Principles.")

Formerly known as the Valdez Principles, the CERES Principles were initially formulated in response to the Exxon Valdez oil spill in Prince William Sound, Alaska, in 1989.

During the early years—from 1989 to 1992—the CERES Principles were adopted mainly by such companies as the Body Shop,

### Agenda 21

**I**n 1992, the United Nations Conference on Environment and Development, in Rio de Janeiro—popularly known as the Earth Summit—stimulated world interest in applying sustainability principles to individual businesses. During the Earth Summit, the Business Council for Sustainable Development released *Changing Course: A Global Business Perspective on Development and the Environment*, the first major report presenting the business argument for sustainable development.

The Earth Summit itself produced Agenda 21, which contained a major chapter on the role of business and industry in sustainable development. In Chapter 30 of the report—"Strengthening the Role of Business and Industry"—the Earth Summit conferees agreed that cleaner production technologies throughout product life cycles, environmental management systems, and market-based economic instruments were the prin-

cial means by which business could contribute to sustainable development. (See sidebar “Agenda 21 Action Program for Industry.”)

While there was no process for implementing Agenda 21, the Earth Summit created interest for sustainability among national governments, international organizations, and business associations.

### Eco-efficiency

Following the Earth Summit, the Business Council for Sustainable Development committed itself to help implement Agenda 21

and to define key business strategies and practices that would contribute to sustainability.<sup>1</sup> The council’s principal contribution to implementing Agenda 21 has been the development of the concept of eco-efficiency, which the council defines as “the delivery of competitively priced goods and services that satisfy human needs and bring quality of life, while progressively reducing ecological impacts and resource intensity throughout the life cycle, to a level at least in line with the Earth’s estimated carrying capacity.”

To be eco-efficient, according to

the council, a company should:

- Reduce the material intensity of its goods and services.
- Reduce the energy intensity of its goods and services.
- Reduce the dispersion of any toxic or hazardous materials.
- Enhance the recyclability of its materials.
- Maximize the sustainable use of renewable resources.
- Extend the durability of its products.
- Increase the service intensity of its goods and services.

Moreover, eco-efficiency creates business opportunities through:

## THE CERES PRINCIPLES

■ **Protection of the Biosphere:** We will reduce and make continual progress toward eliminating the release of any substance that may cause environmental damage to the air, water, or the Earth or its inhabitants. We will safeguard all habitats affected by our operations and will protect open spaces and wilderness, while preserving biodiversity.

■ **Sustainable Use of Natural Resources:** We will make sustainable use of renewable natural resources, such as water, soils and forests. We will conserve nonrenewable natural resources through efficient use and careful planning.

■ **Reduction and Disposal of Wastes:** We will reduce and, where possible, eliminate waste through source reduction and recycling. All waste will be handled and disposed of through safe, responsible methods.

■ **Energy Conservation:** We will conserve energy and improve the energy efficiency of our internal operations and of the goods and services we sell. We will make every effort to use environmentally safe and sustainable energy sources.

■ **Risk Reduction:** We will strive to minimize the environmental, health, and safety risks to our employees and the communities in which we operate, by promoting safe technologies, facilities, and operating procedures and by being prepared for emergencies.

■ **Safe Products and Services:** We will reduce and, where possible, eliminate the use, manufacture, or sale of products and services that cause environmental damage or health or safety hazards. We will inform our cus-

tomers of the environmental impacts of our products or services and try to correct unsafe use.

■ **Environmental Restoration:** We will promptly and responsibly correct conditions we have caused that endanger health, safety, or the environment. To the extent feasible, we will redress injuries we have caused to persons or damage we have caused to the environment, and we will restore the environment.

■ **Informing the Public:** We will inform in a timely manner everyone who may be affected by conditions caused by our company that might endanger health, safety, or the environment. We will regularly seek advice and counsel through dialogue with persons in communities near our facilities. We will not take any action against employees for reporting dangerous incidents or conditions to management or to appropriate authorities.

■ **Management Commitment:** We will implement these principles and sustain a process that ensures that the board of directors and chief executive officer are fully informed about pertinent environmental issues and are fully responsible for environmental policy. In selecting our board of directors, we will consider demonstrated environmental commitment as a factor.

■ **Audits and Reports:** We will conduct an annual self-evaluation of our progress in implementing these principles. We will support the timely creation of generally accepted environmental audit procedures. We will annually complete the CERES Report, which will be made available to the public.

- Eco-efficient processes—making resource savings and reducing risk or impact in processes allows companies to diminish the costs of production and site operations.
- Reusing, recovering, and recycling by-products—cooperating with other companies can offer opportunities to use wastes and by-products as valuable feedstocks.
- Creating new and better products—following ecological design rules with new and enhanced functionality offers companies new and more profitable business opportunities and increased market shares, as well as cost savings.
- Eco-efficient markets—allowing more value and profit with less impact for the entire economy, for instance by promoting more efficient use of resources.

### Triple bottom line

**T**oday, the field of business sustainability is evolving from general principles and broad norms to specific indicators and consistent formats for reporting. As a result, objective measurements of progress toward sustainability are now being developed that provide customers and investors a basis for evaluating businesses. More difficult to measure, but more important to many stakeholders, are social indicators of business sustainability.

Until recently, businesses considered only the economic and environmental aspects of sustainability. Today, however, corporate sustainability reports are beginning to address social issues as well. For in-

stance, the 1998 Shell report *Profits and Principles: Does There Have to Be a Choice?* stands out as a particularly ambitious commitment to management systems, indicators, metrics, and targets across a spectrum of economic, environmental, and social dimensions of business performance.<sup>2</sup> One key feature of the report was the introduction of the concept of the triple bottom line of economic performance, environmental performance, and social performance.

Considerable work is under way on how to capture the social dimension in sustainability reporting. Many of the measures being developed are more qualitative or subjective, and achieving consensus around a set of social measures is likely to be more difficult than

## AGENDA 21 ACTION PROGRAM FOR INDUSTRY

- Develop economic instruments and laws, legislation, and standards, including voluntary private initiatives, for promoting cleaner production.
- Implement environmental accounting to internalize environmental costs into the price of goods and services.
- Conduct annual environmental audits.
- Adopt and implement codes of conduct promoting best environmental practices.
- Promote cooperation between businesses to identify, assess, and develop cleaner production alternatives.
- Adopt cleaner production policies, which also affect supply chains and customers.
- Cooperate with workers and trade unions to continuously improve knowledge and skills for implementing sustainable development operations.
- Encourage venture capital funds for sustainable development projects and programs.
- Establish worldwide corporate policies on sustainable development.
- Transfer environmentally sound technologies and share expertise with corporate affiliates and governments in developing countries.
- Promote partnerships of large business and industry with small and medium-sized enterprises to help facilitate the exchange of experience in managerial skills, market development, and technological know-how.
- Create national councils for sustainable development.
- Increase research and development of environmentally sound technologies and environmental management systems.
- Develop and implement responsible and ethical management of products and processes for health, safety, and environmental protection through codes, charters, and initiatives integrated into all elements of business planning and decision making, and foster openness and dialogue with employees and the public.
- Strengthen consideration of environmental aspects of foreign investment by United Nations organizations and agencies.
- Support research and development on improving the technological and managerial requirements for sustainable development, in particular for small and medium-sized enterprises in developing countries.

achieving consensus for environmental measures.

### Measuring and Reporting

**T**he underlying premise behind indicators of business sustainability is that in business, only what gets measured gets done. Therefore, businesses need consistent, reliable ways to measure their

consumption, for instance, a company might use the ratio of net sales divided by total energy consumed per year. By comparing the eco-efficiency ratio over a period of years, the company would have a valid indicator of whether its energy consumption was becoming more efficient. Similarly, an eco-efficiency ratio of the annual amount of material produced di-

study showed that the indicators are valid measures of eco-efficiency across a broad range of industries.<sup>3</sup>

■ **Global Reporting Initiative.** In 1997, the Coalition for Environmentally Responsible Economies, in partnership with the United Nations Environment Programme, established the Global Reporting Initiative.

The initiative's mission is to develop globally applicable guidelines for reporting on economic, environmental, and social performance, for corporations, governments, and nongovernmental organizations.

The GRI's goals are to:

- Elevate sustainability reporting practices worldwide to a level equivalent to financial reporting.
- Design, disseminate, and promote standardized reporting practices and customized measurements.
- Ensure a permanent and effective institutional host to support such reporting practices worldwide.

The GRI released its *Sustainability Reporting Guidelines* in June 2000.<sup>4</sup> These guidelines are the first global effort for sustainability reporting based on the triple bottom line.

■ **Global Responsibility.** Now that common indicators of business sustainability are being developed, we may eventually be able to compare companies, as well as their products and services, according to their triple bottom line performance. Companies could benchmark their performance with others in their sector; they may even be able to use superior performance as a competitive advantage.

A consistent format for reporting and an accessible repository for these reports will greatly facilitate stakeholder use of this information.

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There are at least three major initiatives in the measurement and reporting of sustainability on the firm level: the World Business Council for Sustainable Development's eco-efficiency indicators, the Global Reporting Initiative, and the Global Responsibility Platform to audit and publish sustainability reports.

■ **Eco-efficiency indicators.** The World Business Council for Sustainable Development has developed a set of ratios for measuring eco-efficiency, using the following equation:

$$E = \frac{V}{F}$$

where E = eco-efficiency, V = the value of a product or service, and F = an environmental factor.

This equation is based on the goal of maximizing product or service value while minimizing resource use and adverse environmental impacts.

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sumption, for instance, a company might use the ratio of net sales divided by total energy consumed per year. By comparing the eco-efficiency ratio over a period of years, the company would have a valid indicator of whether its energy consumption was becoming more efficient. Similarly, an eco-efficiency ratio of the annual amount of material produced di-

vided by the amount of greenhouse gas produced would give a valid indicator of greenhouse gas production. The intention of the World Business Council for Sustainable Development is not to develop one single approach to measuring and reporting eco-efficiency. Rather, the council wants to establish a general, voluntary framework that is flexible enough to be widely used, broadly accepted, and easily interpreted by a broad spectrum of business and industry. The specifics of defining, measuring, and communicating eco-efficiency will necessarily vary from one business to another, and comparisons between different businesses must be approached with great caution.

In 1999, the council launched a pilot program to test the validity of its eco-efficiency indicators concept. The pilot attracted 23 companies worldwide from various industrial sectors, including mining, electronics, consumer goods, chemicals, petroleum, life sciences, and banking. The results of the

Businesses could also use sustainability reporting as a means of generating dialogue with customers, investors, and suppliers.

This is the premise behind Global Responsibility, a new company established in Monaco to develop the Global Responsibility Communication Platform. The Platform, which began as a research project at the International Institute for Industrial Environmental Economics at Lund University in Sweden, is an Internet-based service that offers a website for sustainability reporting and stakeholder dialogue.<sup>5</sup> Initial member companies include Volvo Car Corporation, Sony International Europe, ITT Flygt, and Skanska.

Businesses can publish their sustainability reports on the Global Responsibility website, using a reporting format that purportedly satisfies the criteria of the Global Reporting Initiative and other guidelines. Global Responsibility's audit partners, KPMG and Deloitte & Touche, verify the reliability of company information by random auditing.

The Platform also provides stakeholders an Internet forum and chat rooms to communicate with companies. In addition to sustainability reporting, the Platform provides information on environmental labeling and other environmental data about company products.

### **Sustainable Consumption**

Until now, businesses concerned with sustainable development have mainly considered only the supply side of the market. Companies have primarily focused on making environmental improvements through changes in process and product design. Envi-

ronmental metrics have focused on resource inputs and environmental pollution of manufacturing facilities. Social metrics have generally dealt with the impacts of manufacturing facilities in the community. The demand side of the market—consumption—has not undergone the same scrutiny, even though sustainability will not be achieved with-

in selecting technologies and delivery systems to meet those needs.

### **The Next 10 Years**

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out significant changes in our patterns of consumption.

In 1999, the United Nations Commission on Sustainable Development issued a report on sustainable consumption that largely focuses on the role of governments in promoting sustainable consumption.<sup>6</sup> The role of businesses is not defined, but the report clearly calls upon governments to change consumption patterns to promote sustainability.

Recognizing that the burden of changes in consumption patterns will ultimately fall on business, the World Business Council for Sustainable Development recently undertook stakeholder dialogues on product innovation to promote sustainable consumption.

This new dimension of business sustainability requires a new level of openness on the part of business. The discussion will ultimately address how products and services are marketed. It will have to address core business strategies of firms in identifying and responding to customer needs and

efforts with skepticism. Michael McCloskey, chairman of the Sierra Club, for instance, is not convinced that the principle of sustainable development is sound. He fears "that 'sustainability' will prove to be no more than a boon to publicists who will paste new labels on old bottles and claim that every project that makes their clients rich is sustainable."<sup>7</sup>

Even if we accept the sustainability concept and put faith in the efforts of individual businesses to make real improvements in environmental and social performance through voluntary efforts, important questions remain to be answered. Will businesses be able to demonstrate convincingly to their investors—the stakeholders who count the most to management—that improved environmental and social performance results in improved financial performance and competitive advantage over the time horizons that most investors care about? The performance of the stock of some of the companies that are

leaders in sustainability initiatives indicates that the financial community is not yet convinced.

Since only a tiny minority of businesses are now engaged in sustainability efforts, how will these efforts be broadened to involve all sectors of the market and all sizes of businesses in the developing as well as the industrialized world to make a real difference to the environment and society?

Of course, the journey must start somewhere, and the efforts of the leading companies are laudable and may produce measurable results due to the sheer scope of their economic activity. But at the current rate of expansion, how many

years will it take business sustainability initiatives, such as indicators and reporting, to penetrate the majority of the world's businesses? These are the immediate challenges for the sustainability movement. It will be at least another decade before we can expect to have any clear answers.■

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#### NOTES

1. The World Business Council for Sustainable Development was formed in 1995

from a merger of the Business Council for Sustainable Development and the World Industry Council for the Environment.

2. See <<http://www.shell.com/library/publication/1,5833,,00.html?article=2871&type=publication&siteid=1532>>.

3. See <<http://www.wbcscd.ch/publications/measuring.htm>>.

4. See <<http://www.globalreporting.org/Guidelines/June2000/June2000GuidelinesDownload.htm>>.

5. See <<http://grcp.cybercom.se/scp/>>.

6. See <<http://www.un.org/esa/sustdev/cpp14.htm#report>>.

7. Michael McCloskey, "The Emperor Has No Clothes: The Conundrum of Sustainable Development," *Duke Environmental Law & Policy Forum* 9 (Spring 1999), p. 153.