crédito y caución
Atradius Group

Is sustainability incompatible with business growth?

An Atradius White Paper

November 2009

In the Spring of 2009 a group of senior representatives of leading European businesses met in Rome, for a roundtable debate, hosted by Atradius, on an issue that will still be uppermost in the minds of many people and businesses long after the current economic recession is gone – if not forgotten.

Sustainability. Meeting the needs of the present without undermining the ability of future generations to meet their own needs.[1]

But not just sustainability, vital though that topic is. The meeting focused on the question of whether sustainability as a concept, an aspiration and a reality can exist comfortably alongside the world's economic growth – growth which over the past hundred years or more has been anything but socially and environmentally friendly. The views and ideas aired at that meeting were the impetus for Atradius to research and produce this white paper, and, throughout, we quote from the participants at that meeting to illustrate our findings and conclusions.

Why does this concern you?

At this stage, you may be asking why you should concern yourself with this topic, especially at a time of recession when you have other priorities on your mind: how to keep your business afloat during these difficult times; how to reduce costs to maintain a profit margin in the face of reduced demand and shrinking markets; and basically what the value to you and your business is of continuing to read on.

The answer is that sustainability in business is not just an ethical question, as the definition above implies, but also a crucial factor in future commercial success, for a variety of reasons which we – Atradius - hope will become clear during the course of this paper.

[1]This is the classic definition of sustainability that first appeared in the Brundtland Commission report *Our Common Future* 1987

The imperative for a change in attitude and practice is given impetus by the current recession. We will look at a range of factors that can help – or hinder - a sustainable business process: governmental encouragement or penalty; a shift in consumer demand; and an increasing awareness of the implications of either adopting or rejecting sustainability. What we hope to show is that sustainability, as an important element of commercial performance, can pay dividends at a time when businesses are seeking ways to improve their bottom line.

We also aim to identify what it is that can create a genuine culture in which sustainability is a pivotal boardroom topic, and not simply a side issue. Does the impetus for change come from government regulation, from individuals or from within commerce and industry itself?

And change there certainly needs to be. One only has to think of the history of the automotive industry, the meteoric rise (if you'll excuse the pun) of air travel, and the destruction of essential rain forests to feed our consumer demands, to feel that 'sustainability' and 'economic growth' aren't just strange bedfellows, but would never have made it past the first hesitant kiss.

Things are however changing, and that change is evidenced by those who graced our roundtable debate, from a wide range of countries and industries, but each with a genuine commitment to ensuring that their businesses take sustainability seriously.

The question is 'Can the expertise and experience of these professionals in their own fields influence, and be applied to, other areas of industry and commerce?'. The answer is a definite 'Yes', but not without a real commitment to change by everyone involved in business, by the governments and bodies that regulate those businesses, and by the individuals that make those businessses tick.

We aim to bring some enlightenment to what can and should be done to allow sustainability and business growth to become natural – and lifelong – partners.

The participants in the round table debate

Let's first meet the expert contributors to our round table debate.

Matt Fisher, Business Excellence Group Manager, based in London, England, for the Ricoh Europe CSR Division.

Ricoh is a leading global manufacturer of digital office equipment. Ricoh has a fine record in sustainability, and has fully embraced the 'Three Ps Balance' of Planet, People and Profit, combining management of a sustainable environment, social activities and the generation of continuous business earnings.

Gregoris Kotoulas, General Manager, Mellon Poland Sp z.o.o.

Mellon Poland offers leading transaction solutions to, amongst others, retail banks, life insurance companies and telecommunications providers. One aspect of its CSR commitment is a programme to recycle printer toners and cartridges, enabling it to provide valuable sponsorship to hospitalised children.

Giuseppe Montesano, Head of Environmental Policies, Enel Spa

Enel is Italy's largest power company, producing and distributing electricity and gas across Europe, North and Latin America. Its mission is to pursue excellence in the management of large infrastructures, and to use technological innovation to create value and satisfaction for all its stakeholders.

Jon Moore, Director of Communications, Intelligent Energy

Intelligent Energy, through its bases in the UK, USA and Japan, is a much sought after partner for the supply of environmentally responsible, clean energy technology platforms and innovations.

Elfriede Neuhold, Head of Environmental Management, Telekom Austria

Telekom Austria makes responsible use of natural resources and promotes environmental awareness throughout its organisation. It has tough but attainable targets to increase its energy efficiency and develop innovative technologies to benefit the environment.

Fulvio Rossi, CSR and Internal Communications Manager, Terna Spa

Terna's main activity is the transmission of electricity throughout Italy and Brazil. It has developed a system to monitor and limit the environmental impact of its activities, and aims to provide a service that is reliable, economic and respectful of the environment.

And from Atradius:

Samuel Pengel
Country Manager
Atradius Italy

Silvia Ungaro
Corporate Communications
Manager
Based in Italy

Christian Bürger
Publications and
Events Manager
Based in Germany

Simon Groves
Experiential Marketing
Manager
Based in the UK

Atradius, a leading global credit insurer, is a member of the United Nations Global Compact Initiative and is committed to aligning its operations to greater sustainability and environmental responsibility.

The questions that the round table addressed

Now to the crux of the debate and to the issues that governments, businesses, and consumers alike need to understand and address.

The issues confronting the business world were well summarised in the opening presentation to the round table debate, by Atradius Country Manager for Italy Samuel Pengel, whose introduction is summarised below. This effectively sets the agenda for the white paper:

"Ladies and Gentlemen,
I warmly welcome you to this 'tavola rotunda' as we say in Italy: our round table. Your expert contributions to this debate will form the basis of a white paper that Atradius will publish in the near future with the aim of influencing both governmental bodies and commerce and industry to take a positive sustainable attitude,and to ensure the wellbeing of not just our current generation but of those that will follow.

While there is no dispute that the sustainability of planet earth is essential if future generations are to survive and prosper, there is a particular obligation on commerce and industry to take a lead, by both reversing past practices that have almost certainly contributed to the problem and devising new and innovative alternatives.

But if only it were that simple.

"Let's look at the opportunities for long term improvement presented by embracing the sustainability industry itself"
Samuel Pengel, Atradius

Businesses can be successful only if they meet the demands of consumers, and meet them at an acceptable price. But as long as those demands fly in the face of sustainability, as they often do, how can businesses change and contribute positively to a better future?

Who will bear the cost of changing outdated – and polluting – processes? Should that cost be met by businesses alone, or government, or consumers – or a combination of all three?

Can a philosophy of sustainability exist across all industries, or are some, by definition, destined to remain diametrically opposed to sustainability? And can those industries survive?

There are clearly barriers to wholesale sustainability, whether they be in terms of cost, technological advancement or consumer demand. But what can we, as a body, propose to overcome those barriers?

And let´s look at the positives of sustainability: the opportunities that exist for long term improvement in service and cost saving, and those presented by embracing the sustainability industry itself: the research, development and production of energy efficient technologies.

What of the role of education in changing to a culture of sustainability? Education of the consumer and of industry itself. Is that a matter for governments, for industry itself, for pressure groups or a combination of all three?

So, to summarise, the key topics that we will discuss today, and which will form the basis of a white paper designed to influence governments and businesses alike, are those of:

- *the cost – and potential savings – of adopting a sustainable policy*
- *the role of governments as facilitators of change*
- *the opportunities afforded by sustainability as a concept and an industry in its own right*
- *the obstacles to progress – and what can be done to overcome them*
- *the obligation on business itself*
- *the need for education, and the implications of either adopting or rejecting a sustainable philosophy in business and in our private lives as consumers"*

Sustainability as a commercial necessity

First, let us look at evidence from a variety of sources to demonstrate that developing a policy of sustainability within a business can lead to commercial benefits:

In a recent speech on the Global Green Economy, the UN Under-Secretary General Achim Steiner pointed to the sad fact that, often, commercial enterprises are slow to understand the commercial possibilities of technologies designed to improve our living conditions, and those of future generations. As he said *'Time after time, resource efficient, low carbon and environmentally friendly products and processes have often languished on the research shelves'* of the world's universities, colleges and research institutes. Steiner cites, as an example, the development of the energy efficient compact fluorescent light bulb, whose commercial potential went unrecognised for decades as the market failed to factor in the trend away from energy wastage and pollution.

Tellingly, and this is an issue we will return to, Steiner states that *'governments have a clear role to play in shaping and focusing markets to deliver wider benefits and longer term goals'*.

The recognition, in some circles at least, if not in commerce and industry generally, that environmental issues have a commercial dimension - and thus affect shareholder value - has been around for a long time.

In its 2004 report 'The Materiality of Social, Environmental and Corporate Governance Issues to Equity Pricing', the UN (through its Environmental Programme Finance Initiative) demonstrated how some leading industrial players integrate sustainability considerations into their equity valuations. One conclusion of that report was that too few analysts and financial institutions truly appreciated the commercial value of an environmentally friendly business philosophy. And the overall finding of the report was that environmental and social criteria are important to investors with a long term focus.

The commercial potential of what has become known as 'The Green Economy' is also apparent in the far-sightedness of Japanese car makers in producing high-tech fuel efficient cars like the Toyota Prius, which has left less visionary Western car makers reeling. The Japanese read the trends early and saw the commercial potential of 'green' cars.

So, we will address the question 'Is sustainability incompatible with economic growth?' from a number of distinct perspectives: from the point of view of governments and governing bodies who have pledged through initiatives such as the Kyoto Protocol to meet targets for reducing carbon emissions; from the point of view of individuals and pressure groups who are demanding change; and from the point of view of commerce and industry itself, which is trying to balance the demands of consumers with the pressures for change.

The cost and potential savings of adopting a sustainability policy

"The path to sustainability is associated with cost. But better communication on this subject can show that the pay-back far outweighs the cost"
Silvia Ungaro, Atradius

In any industry, where processes are changed, there will be an initial 'set up' cost: the cost of investment in adapting equipment, retraining, rebranding, and redesign. Many businesses have been deterred from changing to a sustainable policy for fear of incurring major costs. In fact, despite the number of major international initiatives such as Kyoto, no real consensus has yet been reached on quantifying the cost of change. Cost is bound to be uppermost in any business's mind when contemplating change to more sustainable processes. This lack of clarity – coupled with some unilateral cost estimates from bodies who perhaps have an ulterior motive for overstating the case - can itself be a deterrent to meaningful change.

In truth, there is no simple answer, and the cost will differ from region to region, industry to industry, and business to business.

- EC President Jose Manuel Barroso has estimated that the EU faces costs of €60 billion to meet agreed measures for cutting greenhouse gas emissions.
- The airline industry claims it will cost at leat €3.5 billion to comply with cap emissions starting in 2012.
- EU steelmakers estimate the cost of the EU cap-and-trade scheme to be €50 billion between 2013 and 2020.

The role of governments

If those estimates are even close to being accurate, then to extrapolate them across the whole gamut of carbon emitting industries suggests strongly that there must be a role for governments to provide subsidies to enable change.

Much has been said and written about the balance between governmental encouragement of business to introduce sustainable processes and penalties for those who don't. Where should that balance lie? Which approach is proving the most effective?

"Governments should give incentives or financial opportunities to companies that are energy efficient"
Giuseppe Montesano, Enel

The truth is that both are necessary to move businesses away from polluting processes and towards non-polluting and sustainable alternatives. But for change to be lasting it has to be consensual, not forced. Penalties in the form of fines for polluting industries, or higher tax on the production and purchase of fuel inefficient vehicles, may in the short term prove a deterrent, but do not themselves provide a solution. On the contrary, such penalties may even be viewed as an acceptable 'fee' for continuing to act in a certain manner, rather than as a way to change behaviour. As our round table participants agreed, it is tax breaks, government investment and subsidy in the development of sustainable technologies that achieves long term goals. So, for instance, it was agreed that a carbon rebate scheme – rewarding those businesses that use less than their quota – would be more productive in the long run than a carbon tax on those who exceed their quota.

But the measure of whether such government support is truly effective is when the stage is reached where sustainable industries can survive without that support. The investment by the German government in solar energy technology, which we discuss later, is just such an example where at the moment the industry is not self-supporting and government backing comes at the price of high energy costs for consumers.

A singularly important role that governments can play is in taking the development of sustainable technologies and renewable energy out of the competitive arena, creating a level playing field on which no nation is put at a disadvantage – commercial or otherwise - and all nations can gain from those developments.

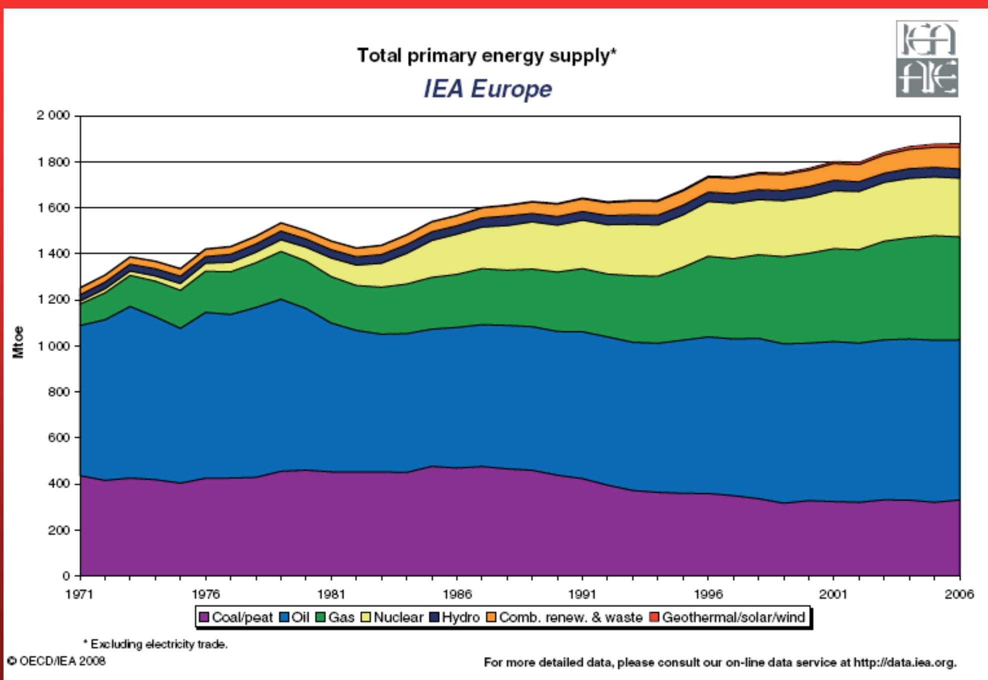
"It's essential that global policies are agreed, with public funding, to support the development and acceleration of these technologies, so everyone can benefit"
Jon Moore, Intelligent Energy

Government assistance apart, the initial cost of a switch to sustainable processes is balanced by the long term savings that can be achieved through adopting a sustainability policy. At our roundtable debate, Matt Fisher from Ricoh made the point that his company has adhered to the principles of Total Quality Management (TQM) for decades, and that this has led naturally to their sustainable philosophy, as TQM, like sustainability, is built on the principles of reducing waste, increasing efficiency, and reducing raw material and fuel usage. He strongly argues that these principles can be applied in any industry. In Ricoh's case, for instance, they have switched their deliveries between the Netherlands and Italy, from road to rail, reducing their CO_2 footprint by 68%, but also their transportation costs by 30%.

"The whole ethos of total quality management is increasing product quality and reducing waste"
Matt Fisher, Ricoh

On a global scale, Toyota's production of environmentally friendly cars is essentially a natural extension of its Total Quality Management (TQM) programme of the 1970s, which successfully eliminated the wasteful use of resources at each stage of the production process, while providing increased customer and employee satisfaction. Through their hybrid cars, what they have now developed is 'eco-efficiency'. The link between TQM and sustainability was described lucidly by Professor Mohamed Zairi, chair in TQM at the University of Bradford School of Management, UK, in his 2005 paper 'TQM Sustainability: how to Maintain its Gains Through Transformational Change'. He defines sustainability as 'the ability of an organisation to adapt to change in the business environment to capture contemporary best practice methods and to achieve and maintain superior competitive performance', while also acknowledging that sustainability of course addresses environmental deterioration and the needs of future generations. As he says *'The reasons for pursuing sustainability are: morality, intergenerational equity, survival, and organizational benefits and risks'*.

Still a long way to go… as this graph of sources of European energy shows…



Source: International Energy Agency

The opportunities afforded by sustainability

Here we need to be clear in what we mean. Certainly, for an individual business, a change to sustainable processes can create profitable opportunities in terms of cost reduction after initial outlay, product improvement, brand positioning and perception. But there is also an entire industry dedicated to creating new environmentally friendly technologies.

In its research document 'Innovative environmental growth markets from a company perspective' (November 2007), strategy consultants Roland Berger looked at the extent to which the European environmental technology industry contributes - and has the potential to contribute - further towards European economic growth. The research showed that Europe has already taken the lead in many areas of environmental technology: waste management and recycling, sustainable mobility, water management, energy efficiency and power generation. While the companies involved in those technologies were correspondingly benefiting, they recommended a range of measures that could enable the industry to flourish even more, including:

- Ambitious targets set by governments could push businesses to become innovative.
- Pan-European harmonization of conditions and regulations.
- Stimulation of demand for environmental technologies through public procurement of environmental products.
- More financial stimuli, such as the tax incentives introduced by France and Italy for buying hybrid vehicles, simplification of requirements for obtaining research and development funding, easier access to loans and long term subsidy programmes.

"Germany is the engine of renewable energy development in Europe"
Christian Bürger, Atradius

An example of how governments can stimulate the industry to the benefit of all those involved: suppliers, investors and consumers and the environment itself, is that of Germany's support for its solar power industry. The vast Waldpolenz solar park, near Leipzig, the world's fourth largest photovoltaic plant, uses over 500,000 thinfilm modules to convert solar energy into electricity – and then feeds it directly into the power grid. This is just one of a series of similar projects across Germany, and, according to the country's Ministry of Economics, the German solar technology industry has grown exponentially over recent years and now has an annual turnover in excess of €4.9 billion – and this despite Germany's less than tropical climate. The impetus for this came from the German government, which encouraged investment in solar technology, and other sources of renewable energy, by not only setting above-market prices for electricity produced through renewable means, but also stipulating that utilities must buy it. While trailing behind Germany in terms of development, similar favourable arrangements across Europe have ensured that technologies can compete with fossil fuels. The aim is to increase renewable market share to meet the goal of 20% of European energy produced from renewable sources by 2020.

Away from the European experience, renewable energy is attracting interest in strange places. Google has installed 9,212 solar panels at its California headquarters, generating enough power to pay for itself in 7 years.

"We need to develop the technologies necessary to reach the goals we are setting ourselves for 2030 onwards

Fulvio Rossi, Terna Spa

These and other prime examples clearly demonstrate the value of 'green' technologies for both investors and producers. In the lexicon of irritating business jargon, this counts as a 'win-win situation': practitioners gain from the support of governments; investors receive a healthy return from the burgeoning industry; and governments come closer to achieving their sustainability targets.

The clear signal to business is 'be involved'.

The obstacles to progress

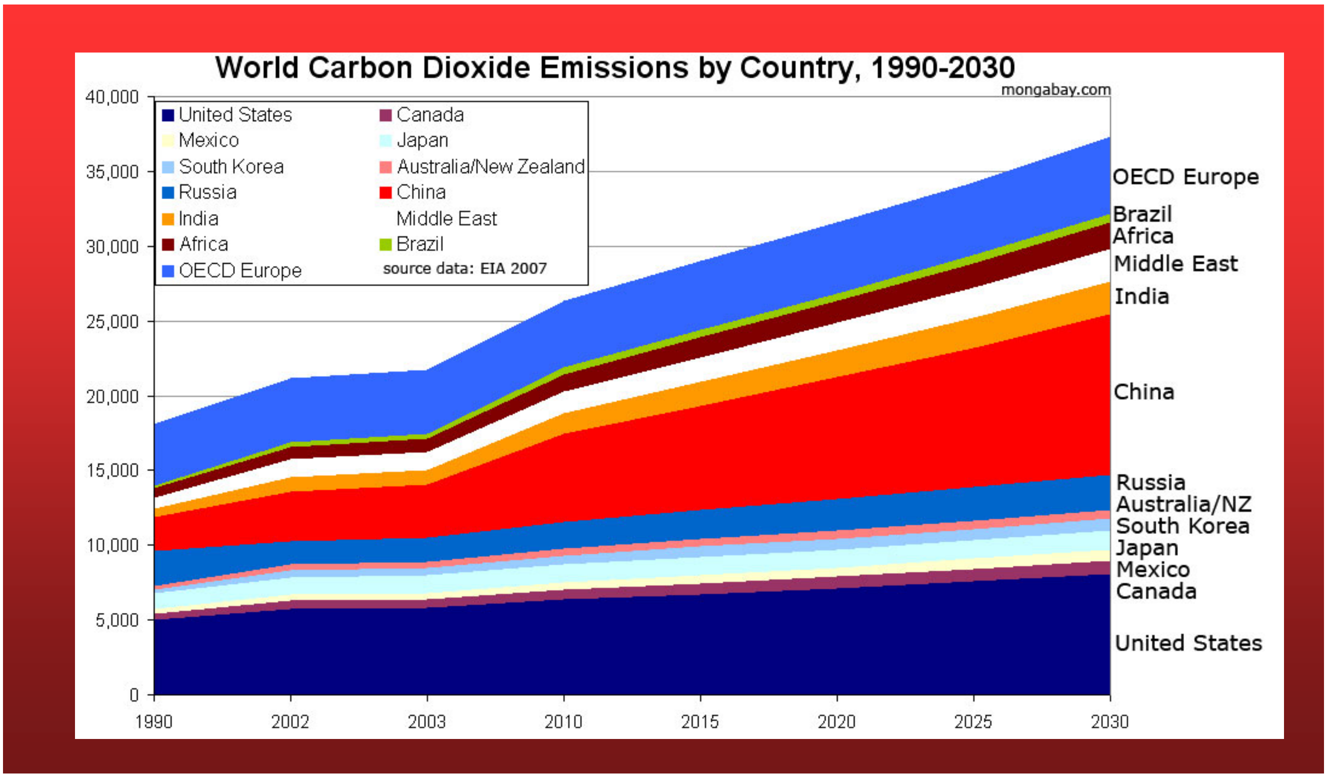
Since there is both an ethical imperative and real commercial benefits to be gained through adopting a sustainable policy within industries and individual businesses, why aren't more businesses making faster progress?

The answer lies, to a large extent, in the very nature of the individual industries themselves, and their geographic locations. The point was made during the roundtable debate that the American government – no doubt in large part as a result of lobbying from its motor industry - has ignored the Kyoto Protocol: ultimately, as we can now see, to its detriment, as the trend towards smaller more efficient cars continues. The finger has been pointed at China, of course, for its burgeoning use of coal fired power stations to support its industrial growth.

While the US has signed but not ratified the Kyoto Protocol, China has done both, but it is still the world's largest producer of CO_2 from power generation: it overtook the US in the second half of 2008, although per capita the US's emissions still far outweigh those of China. Despite its ratification of the treaty, the meteoric rise in China's emission of green house gases – up 120% since the beginning of the decade – must in many minds call into question the real effectiveness of Kyoto.

And, as our round table debate highlighted, China has been able to divert attention from its own less than perfect record on the environment by pointing to the USA's shortcomings. Furthermore, there is an argument that emerging economies, even of the magnitude of China and India, have a right to develop their economies in the same way that Western industrialised nations have in the past.

"China's use of energy fuels its economy – and we in the West rely on Chinese products to maintain our current living standards. But we need to achieve a global energy policy that doesn't penalise developing countries"
Jon Moore, Intelligent Energy



Source: Energy Information Administration

And what is at the root of this increase in China's CO2 emissions? Why, growth, of course. As the round table participants discussed, to challenge China over its pollution record would be futile at a time when it can simply point to the lack of action on sustainability by the USA (in failing to ratify the Kyoto Protocol). Far better to concentrate efforts on the USA, which under President Obama is already making moves to alter its stance on sustainability, and thus remove a central pillar of China's justification of its actions. The President's recent Executive Order setting sustainability goals for federal agencies is a move in the right direction – albeit that the targets are still long term.

However, pointing accusing fingers at these economic giants doesn't alter the fact that, globally, we consume renewable capital such as forests far faster than they can be regenerated, and pump out green house gases faster than they can be absorbed and neutralised.

"To achieve improvements in twenty years time, we have to act now. And that's not easy at a time when businesses face many other problems"
Gregoris Kotoulas, Mellon Poland

And that brings us to perhaps the most important weapon in creating a sustainable future that is compatible with economic growth: education.

Education – and people power

The current economic downturn has hopefully taught us many things, and central among them is that we continue to want 'more, more, more of everything' at our peril. While the recession will eventually recede, the lessons learned will hopefully remain. And the public's attitude to those complicit in causing the recession will persist.

What has this to do with sustainability? The consequences of the recession will cause many to rethink their values and to reassess what is and isn't important. The loss of monetary wealth, disappointment with politicians and 'experts' in economics, and others who were once figures of authority in the world of commerce, can lead ordinary people to achieve extraordinary results through pressure on governments to change the status quo. That isn't some kind of post 'hippy' idealism, but a realistic appraisal based on recent telling examples.

British Prime Minister Gordon Brown recently vowed to "put more power where it belonged – in the people's hands" and gave his backing to voters, dissatisfied in the wake of the recent parliamentary allowances scandal, who were seeking the power to recall their member of parliament and re-run elections. The power to recall politicians in this way was vividly exemplified in the case of Californian State Governor Gray Davis, who was replaced by Arnold Schwarzenegger in late 2003.

The impetus for stricter labelling of foodstuffs with information on content comes not from the industries themselves but from the consumer and organisations representing consumers.

What strengthens the case for change, in whatever context, is education and transparency, enabling the public to make informed decisions.

So, if consumer demand for gas guzzling cars diminishes, then the manufacturers have a choice. They either change their offering or suffer the consequence – a fall in sales. If politicians aren't putting in place either the incentives or penalties to encourage a greater level of sustainability in industry, then the people have the power to oust those politicians, or at least to generate sufficient pressure on them to achieve change.

And individuals within businesses, as well as their customers, can influence the way that those businesses operate.

Here's an example. Judah Schiller is Executive Vice President of Saatchi & Saatchi S, the PR and Marketing firm whose mission statement is 'To build a global movement of happy people living on a healthy planet'. He was instrumental in introducing a Personal Sustainability Project (PSP) to multi-national corporation Walmart. As he put it in a recent interview: *'The natural inclination for most companies is toward a traditional, top-down program, but we've found that top-down approaches don't tend to work for sustainability. The much more effective approach is to educate and inspire and to provide people with the resources and channels to take action. Employees are boss… it's the people who are the lifeblood of an organization and they are the ones who ultimately change the way operations are run, materials are sourced, and products are manufactured and distributed'.*

So it was that the Saatchi & Saatchi S have educated, inspired and engaged the 1.3 million Walmart associates across the US, linking their personal interests and aspirations to organisational sustainability.

"A company that claims to be sustainable must have the support of everybody that works in that organisation"
Simon Groves, Atradius

That underlines that, for 'people power' to be more than either mob mentality or abstract idealism, it requires the foundation of independent and unbiased education on the issue of sustainability to create an understanding of the outcomes of either ignoring or redressing the warning signs.

The roundtable debate addressed the issue of education at length. The younger generation are a 'captive audience' for education on this issue, and no doubt tomorrow's generation of young adults will be far more knowledgable about the importance of sustainable resources than their predecessors. But, as the effects of climate change are already very apparent, there is a pressing need to educate today's adults, too. That means creating awareness of the environmental damage caused by green house gas emissions, and a recognition that fossil fuel sources are finite but that there are viable alternatives. Perhaps most importantly, there is a need to show that 'fast' isn't always 'best' (when delivery involves using scarce resources), 'more' won't always bring satisfaction (but simply profligate waste), and building sustainable foundations for industry will provide cost reductions in the long term, if not immediately.

Adult education in any field is naturally more complex than for those in full time education, and needs to be present everywhere to be effective: as it was and still is in the case of anti-smoking campaigns – combining government policy, and a wide range of channels for information and advertising. And it has to be persistent.

Is education a matter for governments, for industry itself, for pressure groups or a combination of all three?

The process of education can also come from clear leadership on sustainability from within industries, a quality that the round table participants found sadly lacking in some industries, but encouragingly present in others. Where that leadership is lacking it is dificult if not impossible to engage a whole industry within a country in a drive, say, to reduce carbon emissions and achieve cost savings.

For similarities with the need to educate adults about sustainability, the round table participants looked at the example of how people were educated about the harmful effects of smoking. Taking Britain as an example, back in the 1960s, 70% of men and 40% of women smoked. To anyone old enough to remember, it seemed as though everybody smoked, all the time. But, thanks to ongoing medical reports, and education through government led advertising, the message began to get through, and during the 1970s the percentage of the population smoking fell. As these and other forms of education persisted, coupled with a ban on smoking in public places, the proportion of smokers in Britain today has fallen to 27% of men and 25% of women.

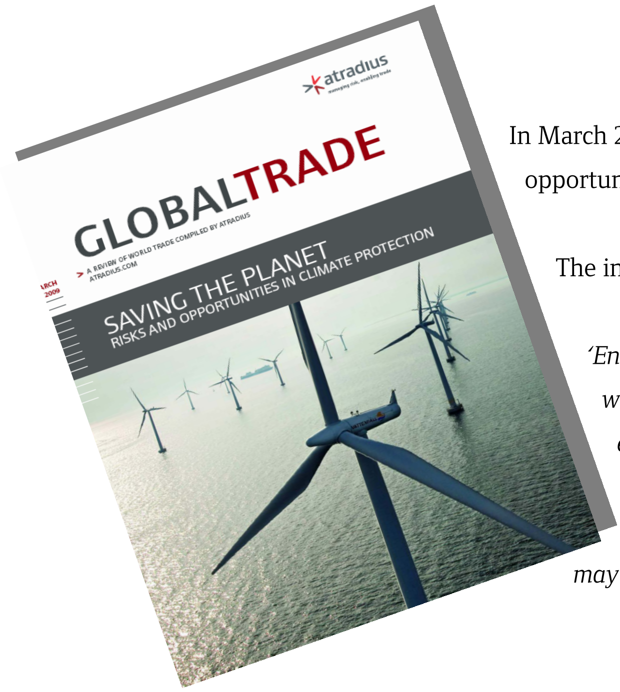
And, as one of our round table participants put it, while we may not always be aware that we are being educated *'we influence each other all the time'*. What is interesting about the smoking analogy is that education had to be backed by government actions – and laws to regulate behaviour: warning messages on cigarette packets and restrictions on where people could smoke.

The same may well be true in the case of encouraging businesses to change their processes.

The obligation on business to change

So far, we have considered the commercial advantages of changing industrial processes to become more sustainable, the opportunities afforded by the industry that develops the technologies that enable a sustainable way forward, the role of government as regulator / encourager / penaliser, and the pressure that can be brought to bear on industry by an educated customer base and work force.

But what, if any, obligation is there on business to change? Here, we must consider the ethics of developing sustainable processes.



In March 2009 Atradius published its report 'Saving the planet: risk and opportunities in climate protection' (from the Atradius Global Trade series).

The introduction to 'Saving the planet' states:

'Environmental protection is a cause that is easy to embrace. No one wants to leave a damaged planet for future generations, and by now everyone is aware of scientific evidence pointing to a warming trend in the atmosphere. Business has a particularly important role to play in ensuring a cleaner future – by both reversing past practices that may contribute to the problem, and by devising innovative alternatives'.

It's true. It would be a strange kind of business that, while placing commercial success at the top of its list of priorities, preferred to achieve that success by intentionally harming the planet, and the wellbeing of current and future generations.

"If the CEO has the right mindset, he will drive things in the right direction"

Elfriede Neuhold, Telekom Austria

What we have established so far is that there is no one right way to achieve sustainability in business and industry. It depends on the nature of the business, the sector, the geographic location. Equally, there is no absolute certainty about what businesses should do to achieve a better environment for us and for our descendants. How far should businesses go to establish their 'green' credentials – and soothe their consciences?

Businesses are run by people. Most people have a social conscience and a tendency to do what they consider to be right. Hence more and more businesses are setting out a sustainability policy, and ensuring that sustainability is a boardroom issue that helps drive costs down and quality up, and increases both customer and employee satisfaction. Effectively, they are adopting what has become known as the 'triple bottom line' approach: people, profits, planet.

The following excerpt from the Dow Jones Sustainability Indexes (DJSI) – the first global indexes to track the financial performance of leading sustainability-driven companies worlwide – shows the all-round benefits that this holistic view of sustainability can achieve:

'3M Company (3M), formerly known as Minnesota Mining & Manufacturing Co., is a US-based diversified technology company organized into seven major businesses: Consumer and Office; Display and Graphics; Electro and Communications; Health Care; Industrial; Safety, Security and Protection; and Transportation.

Sustainability Performance

3M has been at the top of the industrial goods and services companies in terms of corporate sustainability since inception of the DJSI World in 1999. This year is no different. With 3M's Pollution Prevention Pays (3P) program being in its fourth decade, the high visibility regarding environmental management systems and eco-efficiency comes as no surprise. Emission data point toward consistent improvement in eco-efficiency. Eco-design and life-cycle assessment techniques are systematically used during new product development thereby responding to customer demand for environmentally lean products and reducing exposure to future liabilities. Recent examples from the innovation stream include fire protection fluids with minimal environmental impact and low emission solvent as well as solventless technologies for adhesive applications. The stream of product innovations is grounded in the company's approach to human capital development and talent attraction and retention, criteria in which the company outperforms its industry peers.'

We have referred elsewhere in this paper to the campaign by multinational retailer Walmart to make sustainability a central pillar of its 'Triple Bottom Line' philosophy. This has brought not just commercial success to Walmart, but also an acknowledgment from pressure groups that Walmart's aim of zero waste and 100% renewable energy is a genuine ambition and one that it is well on its way to achieving. Walmart's example is catching the attention of its competitors, who can clearly see the all round benefits of this approach, and Walmart's commercial savvy is also paying ecological dividends – as just one example, each year it sells over 100 million energy saving compact fluorescent light bulbs.

These two examples – 3M and Walmart – are by no means isolated. As the roundtable participants pointed out, many of the finalists and winners of the 2009 European Business Awards are also excellent role models for commercial success through sustainability.

So why haven't more businesses bought into the 'Triple Bottom Line' philosophy?

In his book 'The Triple Bottom Line', Andrew W Savitz points to both the underlying misunderstanding that many businesses have of sustainability, and to the tipping point when businesses realise that there is a better way of operating.

First, the misunderstanding:

'Business leaders with a superficial understanding of sustainability think of it as a distraction from their main purpose, a chore they hope can be discharged quickly and easily. "We're responsible corporate citizens, so let's write a check to the United Way or allow employees to volunteer for the local cleanup drive or food kitchen and get back to work."

This approach reveals a fundamental misunderstanding. Sustainability is not about philanthropy. There's nothing wrong with corporate charity, but the sustainable company conducts its business so that benefits flow naturally to all stakeholders, including employees, customers, business partners, the communities in which it operates, and, of course, shareholders.'

And the tipping point…

'It could be said that the truly sustainable company would have no need to write checks to charity or "give back" to the local community, because the company's daily operations wouldn't deprive the community, but would enrich it. Sustainable companies find areas of mutual interest and ways to make "doing good" and "doing well" synonymous, thus avoiding the implied conflict between society and shareholders.'

Once a business has understood the benefits of a sustainable approach, its attitude to the role of governments and other regulatory bodies can change: the targets set by those bodies become a helpful yardstick to measure progress rather than an imposition.

The practical cost benefits of a sustainable approach also take on a new dimension, as the business's economic values are augmented naturally by a set of ethical values – and it feels good: to the business, its employees, its shareholders, its customers and its neighbours.

Beware of Greenwash

But, of course, there will still be those who see being 'green' as a marketing ploy rather than a genuine corporate philosophy: as a way to position themselves in a more favourable light and thereby gain a competitive advantage. And this strategy – that 'green sells' - is backed up by studies showing that consumers react positively to companies that appear to be environmentally aware. The Atradius report 'Saving the Planet: risks and opportunity in climate protection' refers to the 2008 survey by corporate brand identity and image consultants Lippincott that showed a direct correlation between consumers' loyalty to particular brands and those companies' stated ambitions to act on climate change.

That said, consumers are increasingly sceptical of corporate claims to be 'green'. The UK Advertising Standards Authority for one has reported a sharp rise in consumer complaints about so-called 'green wash': dubious claims to environmental purity. While it is heartening that consumers should question green credentials in this way, there is nevertheless the danger that their scepticism could lead to a distrust of genuinely sustainable businesses.

Conclusions and recommendations

From the round table debate, and from the additional research undertaken, the following is patently clear:

Sustainability and business growth are not at odds with each other. There is much to be gained in terms of cost savings, increased market share, improved service, customer satisfaction, brand value, and increased profitablility, from adopting a sustainable policy.

Cost saving. As a natural extension of total quality management, a business that concentrates on the economic and effective use of all its finite resources will, by definition, save costs. Reviewing the way in which goods are transported can not only serve the environment but save on fuel costs. Questioning the need for printed material saves both rain forests and the company's operating costs.

Increased market share. As informed consumers express their preference for products and services produced using sustainable processes, those businesses that have foreseen this trend and adapted products and processes accordingly will be the suppliers of choice.

Improved service. A business that has an ethical dimension to its business model, that encompasses the three Ps – People, Profits, Planet – will engage its own employees fully in its vision, as Walmart achieved with its Personal Sustainability Project.

Customer satisfaction. A sustainability ethic within a business leads naturally to a better deal for its customers. The energy companies represented at our round table debate each have sustainability at the heart of their business models. As Terna Spa's sustainability mission statement says, it 'aims to provide a service that is reliable, economic and respectful to the environment'. When a business includes a regard for the environment in its business model, it cannot help but provide a better standard of service to its customers.

Brand value. While there will always be an element of green wash in claims to sustainability made by some businesses, such claims are under constant scrutiny by consumers, governments, pressure groups, and advertising standards agencies. The genuinely eco-responsible business will gain kudos for its brand simply by living up to its stated standards.

Increased profitability. The bottom line. And the end result that accrues from the combination of each of the other benefits listed above: cost savings, market share, service, satisfaction and value.

The role of government

But there are costs. As we have seen, the initial costs of changing the way that business operates can be high, even though the long term benefits outweigh those costs. And this is one area in which governments have a vital part to play in creating a sustainable business environment. While the will to change must come from within business itself, the environment in which this can be fostered is in a large part created by governments. The Kyoto Protocol won't cure all ills – no pact of this kind will. But it provides a framework. Beyond that, governments can and should encourage sustainable business through incentives and subsidies, and punish transgressors through taxation or fines.

To keep producing CO_2 you can trade your quota. But should you instead be rewarded for using less?"

Elfriede Neuhold, Telekom Austria

However, in this latter respect, penalties should be used with caution as they in themselves may be viewed as an acceptable price to pay for continuing a polluting process. The provision within the Kyoto Protocol for countries to buy carbon credits to offset the effect of their green house gas emissions – effectively putting a price on those emissions - will not itself reduce the overall level of emissions, nor will it persuade countries to change their behaviour by adding an ethical dimension to their actions.

Governments can and should encourage the development of new environmental technologies, as the previous German government had done through its support for the solar technology industry: encouraging investment, setting above-market prices for electricity produced through renewable means, and stipulating that public utilities buy it. In that way governments can generate the revenue to offset at least some of the initial costs of developing sustainable industries.

Our conclusion is that we cannot rely on governments to cure all the ills of polluting industries, but neither should we: the role of government is that of regulator and facilitator, not originator of a new sustainable business environment.

People power and education

Economists since Adam Smith have embraced the concept of 'supply and demand' as the way in which markets regulate themselves, the supply and price of goods and services. Marketeers often talk of 'creating demand' (an odd concept when you think about it). But in the 21st Century, the consumer, the citizen, has potentially much more control over what is supplied, and the supply process itself. As people become more informed, through the many and varied channels of education and awareness, they become more discerning and more demanding. People aren't simply prepared unquestioningly to accept what is offered to them:

'If consumer demand for gas guzzling cars has diminished, then the manufacturers have a choice. They either change their offering or suffer the consequence – a fall in sales'
And:
'If politicians aren't putting in place either the incentives or penalties to encourage a greater level of sustainability in industry, then the people have the power to oust those politicians, or at least to generate sufficient pressure on them to achieve change.'

This white paper may not have approached this subject in quite the same way that others have:

We haven't assumed that politicians hold the key – although they have an important role to play. As with other international initiatives, such as the Doha Round of talks aimed at reducing barriers to free trade, governments can agree generally on a way forward but may not be able to implement it – because national self interest gets in the way.

We haven't assumed that business is devoid of an ethical dimension and has to be forced into a sustainable mindset. We believe that in general people want to do what is best for the planet as well as for their businesses and themselves – People, Profits, Planet.

We haven't assumed that consumers don't care about the way in which their products and services are produced. When people are presented with transparency in the way businesses treat the planet, many choose the options that will prove most beneficial to the planet – and usually they are savvy enough to spot green wash when it arises.

And what we have found is that businesses have much to gain from adopting a sustainability philosophy.

- We would recommend therefore that governments develop a model for supporting and funding the development of sustainable industry and technology – as has happened in Germany - and that initiatives such as Kyoto and the forthcoming Copenhagen gathering continue to seek commitment to a concerted effort by all participants to sustainable regulation of their respective industries. However, the long term aim of all governments must be to enable sustainable industries to become self sufficient.
- We would recommend that the development of sustainable technologies and renewable energy sources be taken out of the competitive arena. By sharing knowledge, governments and those involved in the development of those technologies can hasten that development to the benefit of all nations.

- We endorse the use of positive incentives, such as tax breaks that encourage businesses to adopt sustainable processes. However we warn against penalties for nations and businesses that continue to pollute if those penalties are being perceived to be, and used as, an acceptable 'fee' for maintaining the status quo.
- We would recommend that all businesses investigate the positive profitable benefits of adopting a sustainability policy – in the holistic sense described as 'The Triple Bottom Line': People, Profits, Planet.
- We see education and transparency as the real key to creating long term sustainable benefits in business. We therefore urge governments to:
  - provide clear and unbiased information on the benefits of sustainability,
  - set measurable standards of sustainability and timelines for businesses to meet those standards - coupled with guidance on how they should do so,
  - publicise clear information about which businesses are complying, or taking action to comply, with those standards. Based upon that knowledge, this will enable consumers to make informed choices.

References and acknowledgments

Page 8

The Global Green Economy

Speech by Achim Steiner, UN Under-Secretary General and Executive Director, UN Environment Programme (UNEP). Tel Aviv, April 2009

The Materiality of Social, Environmental and Corporate Governance Issues to Equity Pricing

A study commissioned by the United Nations Environment Finance Initiative June 2004
www.unepfl.net

Page 11

Total Quality Management (TQM). A set of management practices throughout the organization, geared to ensure the organization consistently meets or exceeds customer requirements. TQM places strong focus on process measurement and controls as means of continuous improvement

Page 11

TQM Sustainability: how to Maintain its Gains Through Transformational Change.

Professor Mohamed Zairi, chair in TQM at the University of Bradford School of Management, UK.
Working paper no. 05/14 April 2005

Page 13

Innovative environmental growth markets from a company perspective

Roland Berger Strategy Consultants (November 2007).
Hanselmann Dr. T, Mehner S, Zelt T
Research project on behalf of the Federal Environmental Agency.

Page 16

Federal leadership in environmental, energy, and economic performance

White Office Executive Order, 5 October 2009

Page 18

Judah Schiller, Executive Vice President of Saatchi & Saatchi S, interviewed by Tilde Herrera for Green Biz Radio, 27 March 2008

Page 20
Saving the planet: risk and opportunities in climate protection (from the Atradius Global Trade series). Published March 2009. Available for download at www.atradius.com

Page 21
Dow Jones Sustainability Indexes – www.sustainability-index.com

Page 22
The Triple Bottom Line
Andrew W Savitz with Karl Weber
Published 2006 Jossey-Bass, San Francisco, California USA

Atradius would like to sincerely thank all the participants in the round table debate in Rome in the Spring of 2009 for their valuable contributions to this paper, and Key20 Media, organisers of the European Business Awards, for their tireless efforts in setting up the debate.

crédito y caución
Atradius Group

About Atradius

Atradius is one of the world's leading credit insurers, with a 31% share of the world credit insurance market and total revenues of more than EUR 1.8 billion. Atradius insures trade receivables against non-payment and offers a wide range of credit management products and services, varying from tailor made credit insurance and global solutions, to international debt collection and on-line services.

Atradius' mission is to drive the growth of the market for Trade Credit Protection and provide our customers, partners, investors and people with every opportunity to realise their ambitions for sustainable growth.

We will realise our customers' growth ambitions by:

- making our products, services and people as relevant and accessible as possible to all our customers through market-driven product design and an optimal route to markets
- providing best-in-class risk management and customer service
- being present in all markets where our customers have significant business interests through further expanding our geographical presence

We will realise our investors' ambitions by achieving superior industry growth rates and returns.

We will realise the growth potential of our people by investing in them to ensure that they have the best skills to deliver our promise to our customers whilst fulfilling their personal goals.

Atradius Credit Insurance N.V.
David Ricardostraat 1 · 1066 JS Amsterdam
P.O. Box 8982 · 1006 JD Amsterdam
The Netherlands
Telephone: +31 20 553 9111
Fax: +31 20 553 2811

www.atradius.com