Business Progress Toward Sustainable Development

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ABSTRACT
In the five years since the United Nations Conference on Environment and Development, business has made great progress toward finding ways of implementing the goal of sustainable development. While recognizing that society is still a very long way from achieving sustainable development, and that further progress will require contributions from all sectors of society, business has changed a great deal since the decades preceding the 1992 Rio Earth Summit, popularly known as UNCED. Given the important role of the private sector as a primary engine of economic growth and development, it is in everyone’s interest that business be given the incentives, the encouragement, and the right frameworks to adapt and change in support of sustainable development.

THE ROAD TO RIO
During the 1960s and 1970s, one group of activists championed the environment and another advocated the “development” of the poorer nations. Their messages often appeared contradictory: one group claimed that economic development should not be allowed to degrade the environment; the other argued that bits of the environment had to be sacrificed for the sake of development. Their messages often appeared simplistic to business people in industrialized countries. Environmentalists urged the business community to “save the planet” and talked of a nature and biodiversity that were “priceless.” Much of the development lobby urged a sharing of wealth. These were not messages that business could easily relate to or act on, as there was little quantification; there was much talk of rights but little assigning of tasks or responsibilities.

The 1980s saw the refining of the concept of “sustainable development,” most notably in the 1987 report of the World Commission on Environment and Development (known as the Brundtland Report) which defined it as progress that “meets the needs of the present without compromising the ability of future generations to meet their own needs.” The phrase neatly brought together considerations of the material needs of the present and the future, of growing populations, and of requirements to conserve and pass along adequate environmental goods and services—including the vast amount of information contained in natural genetic diversity—to future generations.

A decade after the publication of the report (which called for the Earth Summit), the concept remains poorly defined, or perhaps over-defined in hundreds of different interpretations that now
compete for attention. But the term has had the effect of bringing environmental and developmental concerns together in a way that brought new actors into the debate. Business was one of those new actors. Concern for the “environment” had often cast business in the role of villain: the primary source of pollution and of the main misuse of resources.

Today, however, the countries in which business has been most successful in creating wealth for society are those most able to clean up pollution and manage resources. Developing nations can and must avoid the more polluting aspects of both the early Northern industrial revolution and the industrialization of the centrally-planned economies.

Concern for development also tended to cast big business as the villain, taking advantage of poor nations. But business and freer trade today offer successfully developing nations the opportunity to create the wealth and to obtain the technology and skills to manage their environments more efficiently.

Unlike the earlier environmentalism or developmentalism, sustainable development has several key roles for business. The Brundtland report called firmly for economic growth, but growth with a new technological and social content. In a world where millions remain in abject poverty and where the population is expected to at least double, any call for “no growth” is at best poorly informed, at worst cruel and inhumane.

As for technology, to give an example, it is clear that many of the world’s people need greater access to energy but it is not clear how much of this can safely be derived from carbon-based fuels. Given the right market signals, business will provide new energy technologies. Business remains the primary producer of the innovation required by the concept of sustainable development. Government policies, pressure from NGOs, and consumer choices can all catalyze this innovation through market mechanisms and by introducing the right framework conditions.

As for social change, the Brundtland report called for equity of opportunity. Given the right legal and social frameworks—access to education, human rights, property rights—business can help provide opportunities for anyone to earn enough to live in dignity and in harmony with the environment.

Another requirement for sustainable development is basic efficiency—getting as much added value as possible with as little input as necessary of energy and natural resources, while producing little waste, especially in the form of pollution. Given the right signals—from government in terms of reducing wasteful subsidies and properly costing resources and pollution sinks, and from society in terms...
of a preference for “eco-efficiently” produced goods and services—business will respond via market mechanisms and improve its eco-efficiency.

The Earth Summit became the first major global conference with strong business attendance, partly because business was ready for sustainable development, and partly because governments and many NGOs now recognize the essential role of business in debating these issues and indeed its comparative advantage in moving forward.

THE PROGRESS OF BUSINESS IN PROMOTING SUSTAINABLE DEVELOPMENT

How much progress business is making in promoting sustainable development is difficult to measure with any quantifiable certainty for several reasons. First, business is a collection of activities covering a vast spectrum of size and type. Second, surprisingly little progress has been made in the development of “sustainability indicators” for business, or government, or any other type of activity. Third, it is hard to decide a time frame over which progress should be judged.

Business started being more concerned with environmental and social issues well before the Earth Summit. Rio spurred that progress, but unevenly. The Earth Summit occurred just as many centralized market economies began freeing up and opening up their markets. These countries have been forced to define their version of market economics at the same time as they explain their notions of sustainable development. Thus it is possible for equally rational observers to be deeply impressed by the great progress of business or deeply critical of the disappointing progress made.

Rio did offer business and all other actors a route map for progress in the form of Agenda 21. However, this large document lacks priorities and has far more to say to governments than to business. Thus different enterprises and different sectors of business have had to set their own priorities, responding to their perceptions of their own positions and of market, social, and policy realities.

The WBCSD has collected evidence, mostly from its membership, which indicates some “signals of change.” These signals add up to an identifiable change of course—a paradigm shift—away from a fractured view of environment and development issues, to a holistic view of business and sustainable development.

More specifically, it involves shifts from:

• Seeing only costs and difficulties in the concept of sustainable development to seeing savings and opportunities.

The vast spectrum of size and type in the realm of business, limited progress in the development of “sustainability indicators,” and the problem of establishing time horizons for assessing progress—all these factors make it hard to measure how much progress business is making in promoting sustainable development.
• End-of-pipe approaches to pollution to the use of cleaner, more efficient technology throughout entire production systems, and further, to seeing sustainable development as integral to business development.

• Linear, “through-put” thinking and approaches to systems and recycling approaches.

• Seeing environment and social issues as responsibilities only for technical departments or experts to seeing these issues as company-wide responsibilities.

• A starting premise of confidentiality to one of openness and transparency.

• Narrow lobbying to open discussion with stakeholders.

These shifts are occurring at different speeds in different places, but they are all happening. One good example of such a “signal of change” is the newly developed concept of “eco-efficiency.” This is a management approach developed by the WBCSD designed to help companies support sustainable development. It has been taken up by many corporations and business schools and is one of the defining principles utilized by a new investment fund. Narrowly defined, “eco-efficiency” is about producing more with fewer resources and less pollution. But it goes further and encourages business to become more competitive, more innovative, more environmentally responsible.

Eco-efficiency calls on business to:

• Reduce the material intensity of goods and services.

• Reduce the energy intensity of goods and services.

• Reduce toxic dispersion.

• Enhance material recyclability.

• Maximize sustainable use of renewable resources.

• Extend product durability.

• Increase the service intensity of goods and services.
Eco-efficiency encourages action by allowing business to adapt to new ways of working without immediately abandoning its traditional practices. Furthermore, the philosophy harnesses the business concept of value creation and links it to the environment. The goal is to create value for society and the company, by doing more with less over a product or service life cycle. In the formal definition of the concept, as developed by the WBCSD, eco-efficiency is reached by 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 in line with the earth’s estimated carrying capacity.

THE ROAD AHEAD

There is a lively global debate today about how various sectors of society are, or should be, changing. Governments, the negative view runs, are losing power and a clear vision of their legitimate roles. The more positive view is that governments are correctly withdrawing from areas where others, such as civil society and business, can and do perform required functions better.

Negatively viewed, business is swashbuckling around the globe largely uncontrolled by weakening governments. A more positive view holds that business, through freer trade, is spreading the technologies, skills, and processes required for development and, given the right global frameworks, for more sustainable development.

Amid this confusion, there is a tendency among governments, environment/social NGOs, and the media to call on business to do everything: create wealth and jobs, clean up the environment, deliver “development,” satisfy all stakeholders, fight corruption, educate, provide health care, and generally stabilize and improve society. Obviously business cannot do all these things, though business can find, and perhaps should be looking harder for, its appropriate role in each of these activities. But one thing is certain: a business that is not profitable over time ceases to exist, and thus is no longer a player in the issues listed above, or in any other issues. So in this sense, competitiveness in the marketplace must be a first concern of any business. It is for precisely this reason that the more farsighted businesses are taking an interest in sustainable development.

TRENDS TOWARD SUSTAINABLE DEVELOPMENT

Several trends suggest that business will pay more and more attention to the sustainable development agenda to remain competitive. These trends are stronger or weaker in various parts of the
world and in various business sectors. None taken alone is totally convincing, but the length and breadth of the list makes compelling reading for a thoughtful chief executive:

- Environmental regulations are getting tougher, and so is enforcement; in some countries chief executives face jail sentences for willful pollution damage.
- Cutting waste and using natural resources more efficiently can save costs and boost profits.
- Some governments are providing opportunities for business to avoid costly and innovation-stifling bureaucracy by encouraging self-regulation and pacts with government agencies, rather than new environmental laws.
- More is being made of appropriate economic instruments (tradeable pollution permits, charges, and taxes) to encourage continual improvements.
- Environmental groups and businesses are working together more to find solutions.
- Banks, concerned about their own legal liabilities and by borrowers’ possible difficulties in repaying loans if they face large pollution clean-up bills or fines, are looking more closely at borrowing companies’ eco-efficiency records.
- Insurers, themselves suffering huge pay-outs for past pollution damage by companies they have insured, are also taking a closer look at the eco-efficiency performance of companies seeking insurance.
- More investors are becoming interested in investing in environmentally responsible companies and non-polluting technologies.
- The best and brightest people are more willing to work for environmentally responsible companies.
- The public is using its buying power to encourage business toward fulfilling environmental and social responsibilities.
The last trend raises the issue of “green hypocrisy” on the part of companies pretending to be more environmentally and socially responsible than they are. There will always be this sort of offender, but the more sophisticated companies see this approach as not only wrong, but also dangerous. Both media and consumers are becoming too sophisticated to allow companies to pretend; they expect real corporate action.

Overall, the list of trends reveals a greater focus on the environmental side of sustainability than on the social side. This is partly because society as a whole has focused more on the environmental side; and it is partly because, controversial as they remain, business’ environmental responsibilities are clearer than their social ones. The balance is shifting slightly, however. Consumers are taking more interest in how companies treat their employees—those from minorities and other categories of vulnerable workers—and their neighbors. The BCSD-Latin America is, for example, planning a major study of business’ social responsibility.

Another obvious point about this list is that the pace of change is strongly influenced by the extent of the political and societal will to encourage change. Emerging developments outside the business sector are likely to tie companies’ bottom lines more tightly to their eco-efficiency performance.

The notion of a “tax shift” has been around for some time. It denotes a shift from taxing social benefits such as employment to taxing damage to society such as pollution and the waste of resources. Proponents have pushed the shift as much as a tool to increase employment as an anti-pollution device. Changes in accounting practices are part of this process. Critics have been concerned that governments could be tempted to use such a shift as a guise for collecting more revenue. Despite these concerns some countries, such as Norway and Sweden, have begun to shift their tax systems with the introduction, for example, of a limited carbon tax. There is still debate on whether this is the best way to internalize externalities.

The report of the President’s Council on Sustainable Development (PCSD) in the US called for this type of tax shift. This is especially significant in that the PCSD brings together government cabinet members, business leaders, and NGO leaders. All agreed on the logic of such a shift, as well as on changes in national standard accounts and wider use of economic instruments. Just a few years ago such recommendations would have been viewed as radical; now they are the logical conclusions of establishment figures from various sectors of society.
As for national standard accounts, it is commonly understood that they are flawed in that a rising gross national product or gross domestic product (an apparent sign of a thriving nation) measures rates of expenditure, and says nothing about the state of the resource base, which plays an important part in long-term national prosperity. This is similar to judging an individual’s economic worth on what he or she spends, rather than on the value of his or her real property, equity holdings, salary, and savings. There is much debate on how to change these indicators, but a good deal of agreement that change must come and in ways that reflect the health of the resource base.

What has been less discussed is the fact that any such change in national accounting will rely heavily on data supplied by business. What natural resources does a company use? In what quantities? To what extent are these resources renewable? It is trite but true that, in business, “what gets measured gets done.” So this change in national accounts will cause a profound change in the ways in which companies manage their resource use.

Greater effective use of appropriate economic instruments would encourage companies into continuous improvements in resource use and pollution release, as opposed to the get-to-a-given-level-and-stop effect of most regulations. However, there will always be a need for clear, effective, enforced regulations, especially in cases of threats to human health.

In a world in which all the developments listed above had taken effect, it would be impossible to imagine an enterprise able to be environmentally sloppy and yet still competitive in the marketplace. Today’s world is some way from that state, because environmental resources and pollution sinks are often under-priced, and governments often subsidize the misuse of resources.

But the trends are real. Astute chief executives are positioning their companies to take advantage of these trends—that is, they are making them more eco-efficient and more in line with the demands of sustainable development. They are banding together to push these trends along so their companies will benefit sooner rather than later.

This discussion applies mainly to big companies. Small and medium-sized enterprises tend to lack the capital, executive time, and room to maneuver to improve rapidly in eco-efficiency. They will need the impetus of improved government frameworks and of the larger companies, which many of them supply.
IMPROVING THE FRAMEWORKS

How can business travel more quickly along the positive route to sustainable development? One important approach is to keep improving lines of communication among business, government, and NGOs. There is an inherent logic to sustainable development on which all can agree, whether the starting point is a government, or a business, or an NGO perspective. Documents coming out of mixed councils such as the President’s Council on Sustainable Development of the US are proving this to be true.

Some countries still need to make deep reforms in government institutions to improve democracy, freedom, and human rights. The report of the World Commission on Environment and Development (the Brundtland report) concluded, in fact, that the prerequisite for sustainable development is “effective citizen participation in decision making.” This goes far beyond holding national elections every few years; it has to do with guaranteeing the rights of citizens and citizen groups to information, rights to consultation in matters affecting them, and rights to legal redress. In many countries, business will have to become more adept at respecting and working within those rights.

From a business and economic viewpoint, many nations require basic institutional changes beyond human rights improvements. These might be divided into first- and second-generation reforms.

The first set involves methods of correcting resource misallocation by improving price signals so that resources are shifted from less efficient to more efficient uses. These include: steps to decrease inflation, trade protection, subsidies, and the number and power of state-owned-enterprises. Also needed are steps to make financial markets more efficient, resilient, and independent of government interference.

Second-generation reforms remove the barriers that keep resources from moving toward more efficient use. These include more secure property rights; better dispute resolution mechanisms; improvements in the appropriateness, clarity, and enforcement of regulation; more stable political frameworks; and improvements in legal systems and access to these systems. Judicious privatization can make more efficient use of resources and bring business skills and investments into areas where they are needed. It also sends the necessary signal that a government will henceforth be less involved in the economy and less likely to reverse key reforms.

The creation of secure property rights can play a role in sustainable development too, mainly through the encouragement of small businesses. It can motivate investment, including that in foreign technology. It provides collateral. It can lower the transaction costs.
Being able to buy and sell property easily also helps people move to where there are jobs and opportunities.

There is growing evidence that first-generation reforms, as important as they are, cannot spur development without a large representation of second-generation reforms. However, there is even more evidence that neither first- nor second-generation reforms will bear fruit among people who cannot get either health care or education, particularly primary education and skills training. Business can play a role in these areas, but both will remain primarily the responsibilities of governments, and of the citizens who vote for them.

THE BUSINESS ENVIRONMENT

With conditions so different around the world and with nations at different development stages, it is hard to make a meaningful list of policies needed to help business better support sustainable development. It is clear that such policies must be based on an integrated view of the economy, society, and the environment. Every government’s responsibility is to devise the policy frameworks—in conjunction with business and citizen groups—that will allow consistent and realistic goals to be developed and met. These goals must be based on good science and assessment of risk, and should balance ecological, economic, and social objectives.

The conditions needed for business to make a greater contribution to sustainable development include the following:

**Freer and more open markets**

Where governments excessively interfere in domestic markets, economic development suffers. Trade is the lifeblood of all economies. Open, prospering markets are a powerful force for creating equal opportunities for nations and people. Open, competitive markets create the most opportunities for the most people. Nations with these markets will be the most successful in fighting poverty, and this framework provides the greatest opportunities for people to free themselves from the remaining poverty.

**Stable and predictable trade rules**

Business needs a stable and predictable legal and economic climate in which to operate. This is created through rules that help guarantee the conditions for freer and fairer competition in world markets. For example, the World Trade Organization attempts to do this through limiting trade restrictions. Environmental standards should be designed to avoid creating barriers to trade. Eco-labeling schemes must especially avoid being distorted into trade barriers.
International standards

Business should be encouraged to voluntarily achieve agreed-upon standards of quality and environmental performance. Standards such as those from the International Organization for Standardization are providing an independent verification of quality in various areas without creating barriers to trade.

Realistic target-setting

Governments should work with business and other groups to set targets that recognize the realities under which business operates. These targets should encourage efficiency and cost-effectiveness, should allow business flexibility of responses to meet goals, should allow for gradual introduction so that business has adequate time to adjust, should be fair and equitable across business sectors, and should provide transparency of compliance so as to eliminate free riders.

International solutions for international problems

Global issues, such as loss of biodiversity and climate change, cannot be dealt with strictly on a national or regional basis. While appropriate local actions are required in dealing with such threats, international frameworks are needed to establish goals and to put in place the most effective solutions. These frameworks may range from international treaties and conventions on emissions to international agreements on activities such as Joint Implementation.

Fast dissemination of technology

The development and use of new technologies provides society with a tool to overcome many social and environmental problems. Policies are needed to encourage such technologies by breaking down barriers to their use. For example, an auto fleet comprised of low-emission models could help to reduce overall emissions and should be encouraged. This can be achieved in a number of different ways, such as allowances on scrapping old vehicles and favorable tax treatment on investing in new technology. International dissemination of technology requires suitable investment frameworks and the building of skills and know-how to use it effectively.

Educate the market

Sustainable development demands sustainable consumption in line with sustainable production. There is considerable debate on how this can be achieved; but harnessing market forces is always a preferable route, and an obvious first step is to make appropriate information
available to consumers. For example, buyers could be encouraged to opt for the most energy-efficient models of appliances if they were given information to allow them to compare energy costs over time. Care must be taken over labeling schemes to ensure that these cannot be distorted into technical barriers to trade. Tax policies can also encourage builders, buyers, and renters toward more energy-efficient buildings. The task of providing the necessary information for consumers to make sensible choices would be made easier if costs (such as the cost to the environment from waste emissions) were reflected as much as possible in prices and hidden subsidies were removed. Such internationalization of so-called externalities needs to be gradual to prevent sudden market distortions.

Economic instruments that motivate

Governments should use market mechanisms and introduce new economic instruments (or amend existing ones) to encourage actions that move toward the goals of sustainable development. For example, favorable treatment of investments in clean technologies—within a revenue-neutral tax shift—could speed their introduction. Energy efficiency would be encouraged and greenhouse gas emissions per unit of output would be reduced by a system of tradable permits for emissions: this is when policy makers fix the total amount of emissions and the government then issues a set number of permits to cover the emissions. Under such a system emitters are allowed to buy and sell the permits.

Voluntary agreements

Command-and-control policies, while still effective as part of the general mix of policies, have proven inflexible and overly costly for both government and business. Voluntary agreements can overcome these problems. Such agreements come in many forms ranging from legally binding agreements to voluntary initiatives. They provide flexibility, which allows business to achieve the desired goals in the most economically effective manner possible. This benefits the entire economy of the nation precisely in line with Agenda 21. For example, in negotiated agreements between government and industry, certain industrial sectors agree to take specific actions without the need for legislation. The Dutch have pioneered these agreements and other countries, such as Portugal, Australia and the United States are experimenting with them. Initiatives taken voluntarily by industry, such as those on energy efficiency by the European chemicals industry and those by Japanese industry, have no legal status but nonetheless can be effective at achieving specific goals.
THE RESPONSIBLE COMPANY

As noted, there is much debate about the appropriate responsibilities of government, business, and citizen groups. It is not clear how this will be resolved. A growing number of business leaders realize that to achieve market success they must honor a changing array of environmental and social responsibilities.

Members of the WBCSD are building these responsibilities into their companies and are being helped in their task by the Council which addresses sustainable development issues of crucial importance to business.

How can such a “responsible company” be described today? It is built on the concept of eco-efficiency with its emphasis on doing more with less. It is profitable and continues to add environmental and financial value for its shareholders and to create wealth in society. It devises management systems that help it measure, monitor, and continually improve its performance in contributing to the goal of sustainable development. It conforms to best practices in its sector and reports regularly on its social and environmental performance. It has an open and transparent relationship with everyone outside as well as inside the company who has a legitimate interest in its activities—its stakeholders. It ensures that its decisions are fair and just to those affected and it encourages full participation with wide consultation with its stakeholders before it acts.

Such a company bases its decisions on good science and risk analysis and will respond to scientific uncertainty by adopting a precautionary approach in those areas of its business where there is reasonable concern about the potential to cause harm to people and to the environment. To prosper in fast-changing markets, it reacts to demands from customers for products and services that are environmentally sound in themselves and that also help users improve their own environmental performances. To achieve this the company uses a number of tools, such as life-cycle analysis to design products that contribute to sustainable development.

People should not serve the market; the market should serve people. When governments set the appropriate framework conditions, the market can help provide more sustainable forms of progress—if it mirrors sustainable development concerns as effectively as it reflects economic realities.
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