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The Business Case for Sustainability

With South Africa hosting the Conference of the Parties (COP 17) in November/December 2011, the eyes of the world are going to be on Durban. This scrutiny will, firstly, assess South Africa's success as a host in patching together a coherent agreement as a follow up to the Kyoto Protocol, but also evaluate its efforts in reducing green house gas emissions – South Africa being the 12th largest emitter globally. This is a consequence of our coal-based energy system, but is significantly out of line with the size of our Gross Domestic Product (GDP).

Challenging national targets have been set by Government (34% reduction from business as usual by 2020 and 42% reduction by 2030), but these are going to depend on the investment of the business community in efficiency programmes and new technologies. South African companies thus have a crucial role to play in ensuring a sustainable future for the country.

Background

'Sustainability' is a fundamental part of a company's governance practices, but also an opportunity to position the company in a positive light to its customers and other stakeholders. An integrated sustainability programme can be a way of managing key social, environmental and economic risks as well as seizing opportunities for new products, services and markets.

Sustainability is most often defined in terms of the Brundtland Commission (the World Commission on the Environment and Development 1987) report – development that meets the needs of the present without compromising the ability of future generations to meet their own needs. A number of other terms such as corporate social responsibility are used fairly interchangeably, but each amounts to a consideration of economic, social and environmental aspects in the strategy and operations of an organisation.

At an international level the sustainability agenda is strongly influenced by a number of codes, guidelines or initiatives, such as the Global Reporting Initiative (GRI), Carbon Disclosure Project (CDP) and Dow Jones World Sustainability Indices. These collectively identify many of the key issues that companies should be managing and, in the case of CDP and the

Dow Jones, assess company progress against their industry or national business counterparts.

From a South African perspective, the JSE Socially Responsible Investment index criteria and other legislative requirements place a uniquely South African perspective on these issues via a strong focus on transformation imperatives and social upliftment.

The business case

A business focus on sustainability has a number of benefits for the organisation, especially around identifying opportunities for operational efficiencies and saving costs, as well as positioning the company as a responsible corporate citizen to a wide range of stakeholder groups and influencing change in its value chain.

Resource scarcity is a major challenge for business, particularly related to increasing electricity, fuel and water costs. Responsible management of these scarce resources has the significant benefit of impressive Rand savings that can be achieved through energy and water efficiency programmes, packaging reductions, increasing recycled content in products and packaging, and through logistics efficiency programmes. A shift from paper-based administration or communication to electronic methods is another popular saving opportunity. With 25% year on year electricity price increases, water tariff increases and fuel price increases, it should not be a hard sell to any business to focus on resource efficiency.

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A focus on sustainability issues can also help to identify new products and services for an organisation, thereby creating a boost in sales and creating a focus on innovation. This innovation focus is not limited to products or services, but also drives changes in processes within organisations.

Market research internationally as well as in South Africa shows that a growing number of consumers are interested in where the products they purchase come from and how they are produced. These consumers want to be sure that production has taken place in a way that respects the environment, labour rights and conditions, and ideally benefits community development.

Companies that profile themselves as dealing with these issues in a credible manner, can build their brand as an ethical organisation and benefit from increased support from consumers. One point to note is that consumers increasingly don't feel that they should pay a significant premium for such products, so areas like Fairtrade products and organic cotton textiles are having to ensure they are not much more expensive than their conventionally produced counterparts.

An interesting variation on the growing interest around ethical organisations is the affinity many employees feel for companies that have strong programmes around the environment and social development. This has been shown to be a strong attraction and retention area for a number of companies, including two local ones I have worked with. In their cases, their sustainability programmes showed very high and still increasing awareness around sustainability issues amongst employees, and strong support for their ethical business conduct in internal staff surveys.

The socially responsible investment (SRI) portion has grown to between 10 and 15% of the international investment community, and refers to investment that considers sustainability strategy and performance in the selection and management of stocks within a portfolio. This creates another significant financial advantage for companies with strong sustainability programmes that can position themselves as an investment destination for the SRI market. This is enhanced in South Africa, as European and North American SRI funds often look for emerging market companies to invest in. SRI investors generally look at longer term investment horizons and companies that are looking at a broader range of risks and opportunities that could impact their business – something that is inherent in an integrated sustainability strategy.

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A strong sustainability programme can ensure compliance with a wide range of legislation and codes of conduct covering areas such as Broad-based Black Economic Empowerment (BBBEE), environmental issues, integrated reporting in terms of King III and many other areas. Early adoption driven by sustainability considerations can also improve relationships with government, regulators and other

stakeholders, and position the organisation positively.

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It is clear that a multifaceted business case exists for companies in South Africa to develop and grow their sustainability strategies, and indeed to tailor them to those issues that affect their industries, in the countries in which they operate. In this way they can ensure development takes into account our unique environmental heritage and community upliftment.