

Companies must be green from go to whoa

OPEN SPACE

By DAN ATKINS

During the 1990s, companies began to incorporate environmental management techniques into their management practices because it represented an opportunity to identify cost savings and minimise potential liabilities.

Furthermore, it demonstrated these companies were responding to growing stakeholder pressure to be responsible corporate citizens.

Since the late 1990s we have witnessed a shift towards focusing not just on environmental management during production, but on understanding broader social and environmental impacts throughout the life cycle of an organisation's value chain, from product development to the sourcing and supply of materials and services, through to production, distribution, consumer use and product disposal.

For example the energy used when producing a motor vehicle is marginal compared with the energy used to power the vehicle and the associated emissions generated.

The emphasis placed on product environmental performance or product stewardship also extends down the supply chain. Many multinational companies are calling on their suppliers to demonstrate a commitment to responsible management practices.

Ford, for example, requires suppliers to certify all manufacturing sites under the International Standards Organisation's environmental management standard 14001 by July 1, 2003.

Although ISO 14001 certification ensures some environmental issues are considered at a site level, it does not give any assurance about the level of environmental performance. Leading companies are going beyond ISO 14001 to integrate environmental considerations into all decision making and operational practices.

Europe is taking the lead and sees competitive advantages in adopting a "triple bottom line" approach. This approach is exemplified by the initiatives of the World Business Council for Sustainable Development: a coalition of 150 companies committed to sustainable development.

One of the group's core objectives is a commitment to triple bottom line reporting — reporting not just on financial results, but on economic growth, environmental protection and social equity.

It has developed a framework to help measure progress toward economic and environmental goals, known as eco-efficiency.

The group had 23 companies, including General Motors, Toyota and



Monsanto, participate in pilot testing of the eco-efficiency indicators. One of the key findings was that the implementation of these indicators was a valuable tool for companies in managing the impact of environmental issues on their business.

One of the key eco-efficiency indicators was greenhouse gas emissions. Following the recent Bonn discussions on the Kyoto Protocol's working rules, it is increasingly likely that companies will be forced to do business in a carbon-constrained environment.

Should an emission trading and/or carbon tax be introduced, companies with inefficient production facilities will come under increasing pressure to remain competitive. Those companies with highly energy-intensive production processes or products will be most at risk.

Swiss-based firm ABB sees its ability to provide clean energy solutions as a market opportunity worth \$US1 billion (\$A1.9 billion) by 2005 and \$US2.5 billion by 2010.

Recognising that environmental and social aspects are able to influence shareholder value, financial markets are now incorporating environmental and social performance into their investment evaluation criteria.

And measures such as the Dow Jones Sustainability Index are finding a positive correlation between how well a company manages its environmental and social issues, and its financial

returns, while the impressive performance of Socially Responsible Investment Funds is raising the eyebrows of mainstream investors.

The insurance and finance industry has also begun to assess the impact of climate-change opportunities and liabilities on market valuations.

All Australian companies must begin developing a strategic approach to triple-bottom-line management and reporting. Incorporating more qualitative considerations of all stakeholder interests, including the environment and social aspects, is a key challenge.

But failure to understand correctly the risk and opportunities this presents will damage short and long-term profitability.

Boardrooms should be developing strategic objectives and performance indicators to help assess their performance on economic growth, environmental protection and social equity.

There is no doubt the cultural change needed to effectively integrate these considerations into all decision-making, strategic planning, investment analysis, and operational activities will take time.

Our European counterparts are already positioning themselves to take advantage of the emerging opportunities this burgeoning agenda presents, and we cannot afford to be left behind.

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