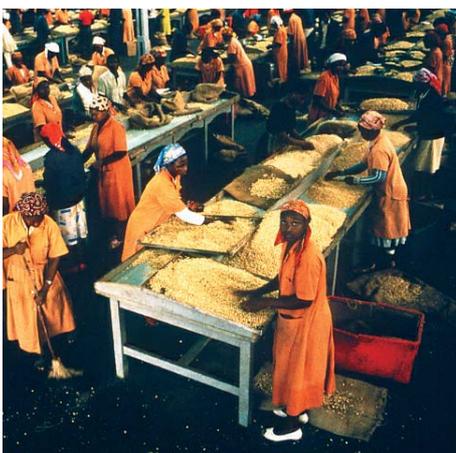


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Sorting cashews, Mozambique

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Forewords



Kavita Prakash-Mani



Jodie Thorpe



Peter Zollinger

SustainAbility

For business, sustainability is about ensuring long-term business success while contributing towards economic and social development, a healthy environment and a stable society. It is rapidly moving up the agenda as a prime business concern across the globe.

Since its foundation in 1987 SustainAbility has guided business towards new pathways to sustainable development, both as strategic advisors and an independent think tank. The business case – showing that companies find business benefits from sustainability efforts – has been central to this work and, in 2001, together with the United Nations Environment Program (UNEP), we published our first business case report, *Buried Treasure: Uncovering the business case for corporate sustainability*. Recognizing the growing importance of engaging developing countries in this agenda, SustainAbility has begun to look more systematically at the role of business in this part of the world.

Developing Value is our first report with this focus. It aims to help business managers in emerging markets to understand the opportunities, risks and bottom line implications of sustainability strategies. It analyzes company examples from Africa, Asia, Latin America and Central & Eastern Europe, and shows how their sustainability efforts have improved business performance. We hope our findings will trigger action and result in making companies in emerging markets more sustainable and more competitive.

We are delighted to have had the opportunity to partner with IFC and Ethos, which have brought to the project unique emerging markets expertise.

Kavita Prakash-Mani
Jodie Thorpe
Peter Zollinger
SustainAbility



SustainAbility, the International Finance Corporation and the Ethos Institute are very grateful to Ireland Aid for its financial support



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Bernard Sheahan



Peter Woicke

International Finance Corporation (IFC)

For decades, three myths have hindered the advance of sustainability principles in the world of business. The first myth is that while sustainability might work for soft-hearted visionaries and futurists, it does not for mainstream, hard-nosed business people in search of markets. The second is that sustainability efforts belong downstream in the production cycle after the 'real' business is completed, rather than in ongoing operations. The last and perhaps most damaging myth is that sustainability makes sense for rich companies in developed nations but not for the private sector in the emerging markets.

This report on the business case for sustainability challenges all three myths with factual evidence and case studies drawn from virtually every region of the world. It makes clear that sustainability is not an all-or-nothing, one-size-fits-all proposition; that sustainability can increase all elements of the triple bottom line and contribute to the public goods realm rather than simply adding economic costs; and that sustainability is a pragmatic pursuit, not an ideological exercise. In short, this report makes the case that sustainability is about increasing opportunities, not limiting them.

We at the International Finance Corporation are fortunate to have had two excellent partners – SustainAbility and Ethos – in this endeavor and are very grateful for their contributions. We believe that these types of partnerships, which enable us to draw from a wider pool of experience, will become more common. More important, our collaborative process sets the stage for what we most hope to see next: a wider, deeper and more tangible development of sustainability.

Peter Woicke
Executive vice president
International Finance Corporation



Nelmara Arbex



Valdemar de
Oliveira Neto

Ethos Institute – Business and Social Responsibility

The lack of systematic research on responsible management practices from companies in emerging economies and the impact of these practices on business have been one of the greatest obstacles to those dedicated to the promotion of corporate social responsibility.

In order to understand the business case for corporate responsibility deeply, we want to explore the contribution that these local experiences bring to the debate. This initiative offers the opportunity for companies and interested organizations to systematically examine evidence from Latin America, Africa and Asia, and to further develop, in a permanent process of reflection and evaluation, the evidence needed to build the business case for corporate responsibility/sustainability.

We are certain that this study will disclose unexpected, interesting and important information for all types of readers, and will confirm the wealth of these unexplored experiences for the construction of business cases.

The Ethos Institute considers this project to be an extremely important study, and we are delighted to be able to contribute the experiences of Brazilian businesses. We are thankful to IFC and SustainAbility for their invitation to participate in this important endeavor and to the sponsors and project teams for their participation.

Nelmara Arbex
Valdemar de Oliveira Neto
Ethos Institute

Executive summary



Stock exchange, Brazil

Many businesses in emerging markets are gaining valuable business benefits from initiatives which help progress towards sustainable development – sound environmental practice, social and economic development.

Developing Value aims to help business people in emerging markets identify these opportunities to increase profits by making progress on sustainability. It is aimed primarily at owners and managers who are relatively new to sustainability (although some may be addressing aspects of sustainability without describing it as such) and others who are interested in exploring the cost:benefit equation of their investments. This report also provides tools to help managers assess and construct their own case.

Sustainability has real relevance in emerging markets

Based on more than 240 real-life examples in over 60 countries, *Developing Value* is the first large-scale study analyzing the 'business case' for sustainability in emerging markets – the opportunity for businesses to achieve benefits such as higher sales, reduced costs and lower risks from better corporate governance, improved environmental practices, and investments in social and economic development. It pinpoints the many opportunities available to diverse businesses in Africa, Asia, Central and Eastern Europe, the Middle East and Latin America.

The companies examined are ordinary businesses taking practical steps to address specific issues, though some have integrated sustainability more strategically. The evidence confirms that there are compelling commercial reasons to take action, despite a common assumption that sustainability is a luxury which emerging markets cannot afford.

Concerns about sustainability issues and about development among policy-makers, consumers and investors have risen dramatically during the 1990s and will continue to grow, further fuelled by events such as the 2002 UN World Summit on Sustainable Development in Johannesburg. These growing concerns, accompanied by the rising importance of the private sector, have provoked fears about the impact of globalization on progress towards sustainable development. Contrary to common assumptions, this cocktail of concerns is often greater in emerging markets than in developed countries.

It means that emerging market businesses, too, face growing risks – and opportunities – as a result of increasing public apprehension about sustainability-related issues. Businesses which were unaffected by these issues three years ago are today affected, and businesses that seem unaffected today may well find themselves affected three years from now.

This trajectory is summed up by Rafael Wong, executive vice president of **Reybankcorp** in Ecuador, 'In five years, there will be no access to international markets for companies that do not show respect for the environment. It is becoming fundamental to international trade.'¹

Many opportunities exist

As in all business activities, there are no guarantees of success from improving environmental, social or corporate governance performance. Being able to identify the risks and capitalize on the opportunities will become increasingly important as the sustainability trajectory accelerates.

The most significant opportunities available through actively pursuing more sustainable approaches to business are to:

- **save costs** by making reductions to environmental impacts and treating employees well;
- **increase revenues** by improving the environment and benefiting the local economy;
- **reduce risk** through engagement with stakeholders;
- **build reputation** by increasing environmental efficiency;
- **develop human capital** through better human resource management;
- **improve access to capital** through better governance.

These opportunities are documented in many examples throughout the report, as well as in four in-depth case studies from Brazil, China, the Czech Republic and South Africa.

The business case varies by region and company size

Overall, the business case exists for all companies although the specific elements may vary. While companies of all types in all regions can achieve measurable commercial return by investing in their employees and in environmental process improvements, there is diversity in the business case, with interesting differences between regions as well as between types and sizes of company.

'In five years, there will be no access to international markets for companies that do not show respect for the environment. It is becoming fundamental to international trade.'

Rafael Wong, executive vice president
Reybankcorp, Ecuador

For **small and medium sized enterprises** the emphasis is very much on cost savings, although they also benefit from higher revenues and improved market access, especially through environmental products and services. **National companies and multinational corporations** based in emerging markets gain benefits in all areas, led by cost savings from environmental process improvement.

Foreign multinationals (headquartered in developed countries with operations in emerging markets) also experience more intangible benefits such as risk reduction and human capital development.

Export-oriented companies which demonstrate adherence to sustainability standards and management systems benefit from better access to markets and can sometimes apply price premiums to their products. Companies focused on the **domestic market** are more likely to gain from local economic and community development, which strengthens their license to operate and can deliver revenue growth.

In most **geographic regions**, eco-efficiency – cost savings from better environmental management – is the most significant relationship. South Asia appears to be the exception: the strongest evidence of a business case is for higher revenue from local economic growth, and community development leading to improved reputation. These geographic differences are also a function of the different business contexts in these areas.

Developing Value – a practical guide for change

Developing Value takes this discussion a step further, suggesting practical steps companies can follow in the implementation of sustainability activities and strategies, from understanding the business priorities to implementation and monitoring.

The business case is constantly evolving, reflecting changing expectations and relevance. Companies will need to be flexible in their approach to sustainability and monitor change. Sustainability is itself a continuous process – from small activities that bring quick returns to incorporation in strategies that bring long-term competitive advantage. Companies need to choose their focus.

Enhancing the business case

While the evidence demonstrates that businesses can benefit while helping to achieve sustainable development objectives, other players also have responsibilities and can help to strengthen the business case. Governments in emerging markets need to provide good governance, regulatory certainty, and an appropriate mix of policy tools, including clear and enforceable regulatory standards and appropriate economic instruments.

Investors and lenders, both local and international, could strengthen the business case by including companies' sustainability performance in funding assessments.

Business customers in developed countries could work with emerging market suppliers in meeting higher technological and management standards. Consumers should act on their values – question companies' sustainability performance and follow through in their purchasing decisions. NGOs can help by applying appropriate pressure on companies, and exploring collaboration and new partnerships involving business, governments and other players.

Developing Value is just the start of a discussion. It answers some questions but also raises many more. The full report can be used in several ways. Readers may select an entry point appropriate to their own interests and concerns, whether that be sustainability, the emerging market context or the specific business case. We hope that this work will be picked up and used by others in the field to find the business cases for specific regions and industry sectors – and by business managers seeking to customize the business case for their own operations.

www.sustainability.com/developing-value provides information on all the case studies examined in this report through a searchable database. It also links to sustainability tools and resources.

The business case matrix

A significant output of this study is the business case matrix which relates key aspects of sustainability to a set of recognized business success factors – demonstrating graphically where a viable business case exists. This matrix has been adapted from previous work by SustainAbility, *Buried Treasure*,² which examined the business case for sustainability in developed countries.

A comparison of the two studies shows that emerging market companies focus more on short-term cost savings and revenue gains, while intangibles like brand value and reputational issues are more significant in developed countries. Community investment and development are seen primarily as an overhead in developed countries, but in emerging markets they are shown to be important in retaining the 'license to operate' and in reducing risk.

The business case matrix		Sustainability Factors						
		Governance & engagement		Environmental focus		Socio-economic development		
		Governance & management	Stakeholder engagement	Environmental process improvement	Environmental products & services	Local economic growth	Community development	Human resource management
Business success factors	Revenue growth & market access	High	High	High	High	High	High	High
	Cost savings & productivity	High	High	High	Low	High	High	High
	Access to capital	High	High	High	High	High	High	High
	Risk management & license to operate	High	High	High	High	High	High	Low
	Human capital	Low	High	Low	Low	High	High	High
	Brand value & reputation	High	High	High	Low	High	High	High

Figure 1 The business case matrix