

Chapter 3 The diversity of the business case

The cases we have gathered demonstrate the many and varied opportunities for businesses to achieve their objectives while undertaking activities which further sustainable development. The evidence set out in Chapter 2 confirms the business case for sustainability action, with some common threads running throughout. The strongest trend is that companies of all types in all regions can experience efficiency gains from investing in people and making environmental process improvements.

In addition to some common trends, the examples also show that the details of how the business case plays out in each specific company differs. There is a multitude of business cases, with some interesting contrasts between regions, sectors and types of company. The following analysis, based on the case studies gathered for this report, outlines some of the strongest differences by region and type of company, which are driven by the relevant context and business approaches.

Several of our case studies also suggest the importance of sectoral variation. However, while we touch very briefly on sectoral issues in the discussion of market focus, we do not attempt a comprehensive analysis, as there were not enough examples in each sector.

Different types of company

We have divided the companies into the three broad categories indicated in Figure 4. 'National and multinational (MNC)' refers to large companies based in the emerging markets, although they may have operations and customers anywhere in the world. 'Small and medium sized enterprises (SMEs)' are also based in the emerging markets, but are distinguished by their size. 'Foreign multinational (MNC)' refers to companies operating in emerging markets but with their ownership based elsewhere – i.e. in one of the developed markets.



Smallholder, Hungary

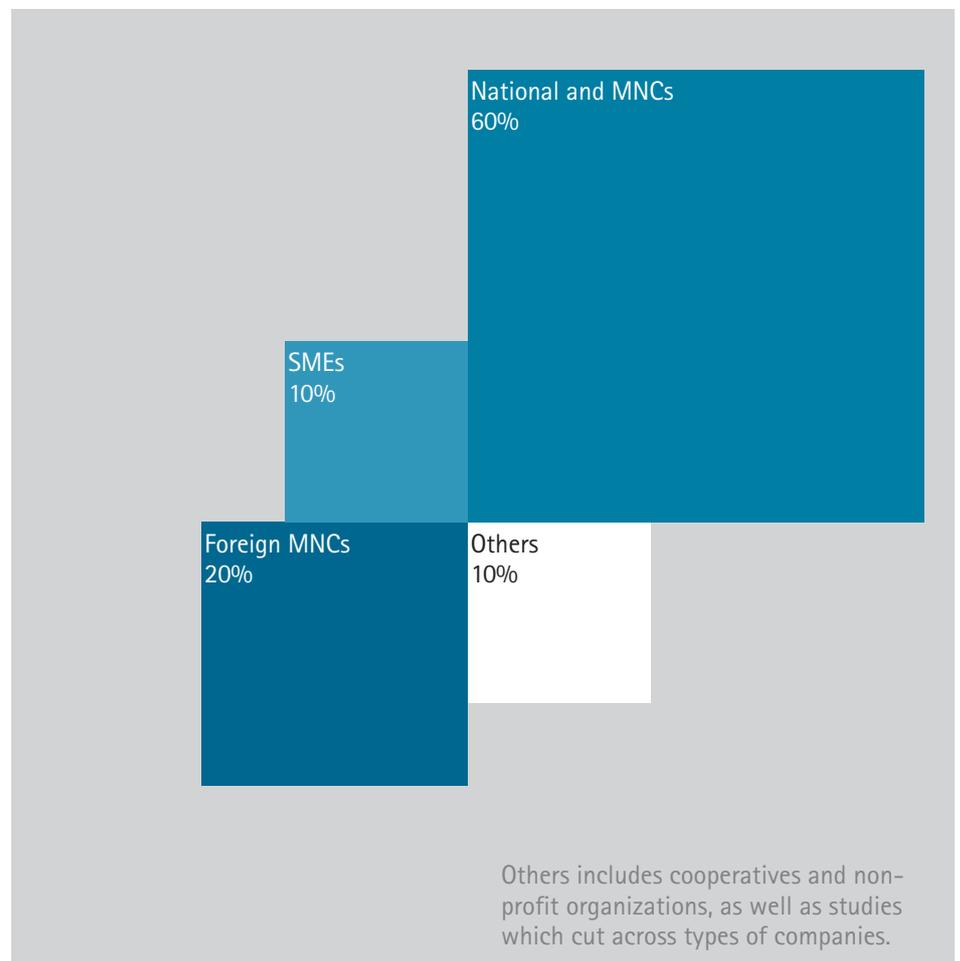


Figure 4 Percentage of cases by company type

Small and medium sized enterprises (SMEs)

Key trends

- Cost savings and revenue growth demonstrate the strongest benefits.
- No examples of enhanced access to capital or risk management.
- Environmental products more important than for other categories.

For SMEs, many of which operate in survival mode, even small changes in revenues and costs are critical, time horizons are short, and access to capital is problematic. The external sustainability drivers tend to be weaker, as these companies are likely to be under less public pressure than larger businesses to demonstrate high social and environmental standards.

Nevertheless, the examples in this study show that a business case does exist for SMEs. It focuses overwhelmingly on cost savings (accounting for nearly half of the SME cases, most based on environmental process improvements), as well as revenue growth & market access (over 40%). Governance & management also contributed to both cost saving and revenue growth.

None of the SMEs in this study benefited directly from greater access to capital because of sustainability activities. Indirectly, the increase in revenues and reduction in costs increased profitability, thereby improving credit worthiness. Enhancing SME access to capital is one area the World Bank Group has highlighted as a priority within the SME Linkage Program. Among other objectives, the program seeks to develop viable local financial intermediaries to support SMEs.

Some SMEs are leading the way in innovation, employing 'alternative business models' (see Box 6, page 16) to achieve business objectives by generating both social and economic development or creating environmental products. Examples include eco-tourism, microfinance, organic agriculture and 'digital dividend' projects. For example, the **Campements Villageois** in Senegal are successful eco-tourism developments. Local people plan, build, operate and manage the 'campements', with major decisions open to the whole village. Since 1974, 400 bed spaces have been created in 19 Campements Villageois, for a cost of around \$140,000. They represent 10% of the alternative tourism sector in Senegal, with annual receipts from tourists totaling around \$138,000.

National companies and MNCs based in emerging markets

Key trends

- Cost savings strong, but focus on revenue growth weaker than for SMEs.
- Greater focus on risk management and brand value & reputation.
- Governance and socio-economic growth were stronger factors than for other categories of companies.

As for SMEs, over half the examples of national companies and MNCs enjoyed the greatest benefits in the form of cost savings (60%). However, unlike the SMEs we analyzed, for which savings derived mostly from environmental process and governance & management, the benefits here came from almost all the sustainability factors.

Several national companies and MNCs also benefited from sustainability in two ways which SMEs did not – through improved risk management and access to capital. One-fifth of the companies in this category also enjoyed improved reputation, which resulted from a wider variety of sustainability factors than for SMEs, in particular human resource management and environmental process.

One example of reputational benefits is the **Haiha-Kotobuki** joint venture in Vietnam. Working with a number of local partners, the company helped develop programs for the prevention and control of HIV/AIDS. The company's deputy director has identified corporate reputation as one major benefit from the partnership. 'Instilling public trust in a company's quality products and the procedures involved in providing the product to the public is vital to our success.'⁴⁶

Foreign MNCs

Key trends

- Stronger focus on intangibles than for national companies.
- Governance and environment are less important as sustainability factors than for other categories of company.

We found examples of foreign MNCs which experienced financial benefits from improved sustainability in all areas. But compared with companies based in emerging markets, cost saving was a less important benefit (29%). Risk reduction (24%) and human capital (11%) were somewhat more important.

Interestingly, environmental process improvements and governance & management show up less as sustainability drivers of financial performance for foreign MNCs than for companies based in emerging markets. This may be a result of companies based in developed markets differentiating themselves less through these factors. These companies are more likely to focus on developing their own global standards than using certification schemes, for example.

As with national companies, risk management was an important aspect of sustainability contributing to business success for foreign MNCs. Driven by a wide variety of stakeholder pressures both in their home country and their country of operation, MNCs based in the developed markets more frequently derive benefits from engagement and social development activities as a means of managing risk and maintaining their local license to operate.

MNCs analyzed in our study also demonstrated a willingness to move beyond traditional concepts of social development such as community development. Some have chosen to analyze the social impacts of their products and processes and taken steps to mitigate those that are adverse. One such example comes from **Henkel Chile**, a producer of adhesives and other household products. As part of its production of adhesives, the company used toluene, an organic solvent also frequently used as an inhalant by children from poor and marginalized social groups. In large or frequent dosages, toluene has been shown to have irreversible negative impacts on the central nervous system even leading to death in extreme cases.

To limit availability of the substance in the community, in 1995 Henkel Chile developed non-intoxicating substitutes for toluene solvents. Despite expected start-up costs associated with such a change in product, the company has increased its market share and enjoyed excellent public relations as a result of its decision. Finally, Henkel Chile was well ahead of its competitors when Chilean law was changed three years later to ban the use of toluene solvents in adhesives.

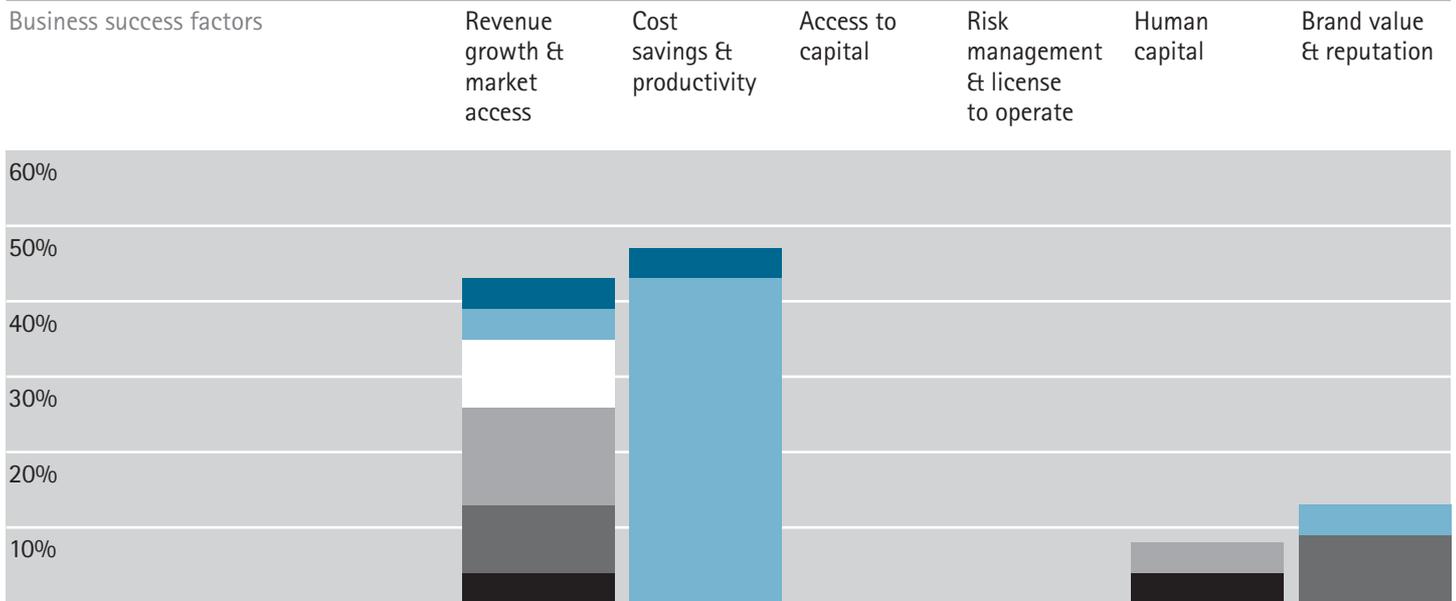


Figure 5 Percentage of SMEs showing specific business cases

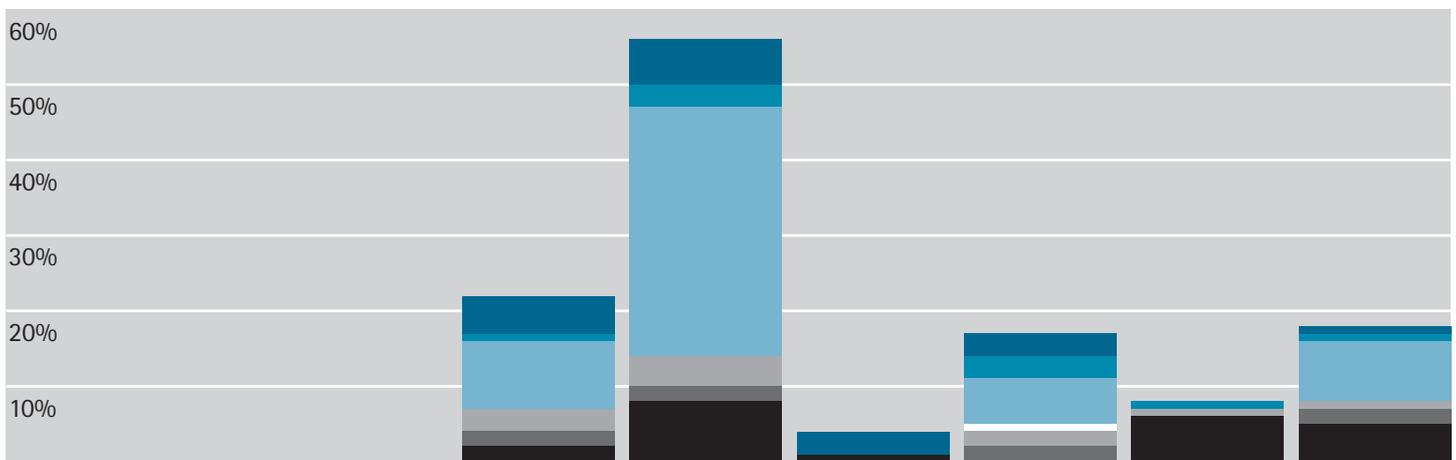


Figure 6 Percentage of national companies and MNCs showing specific business cases

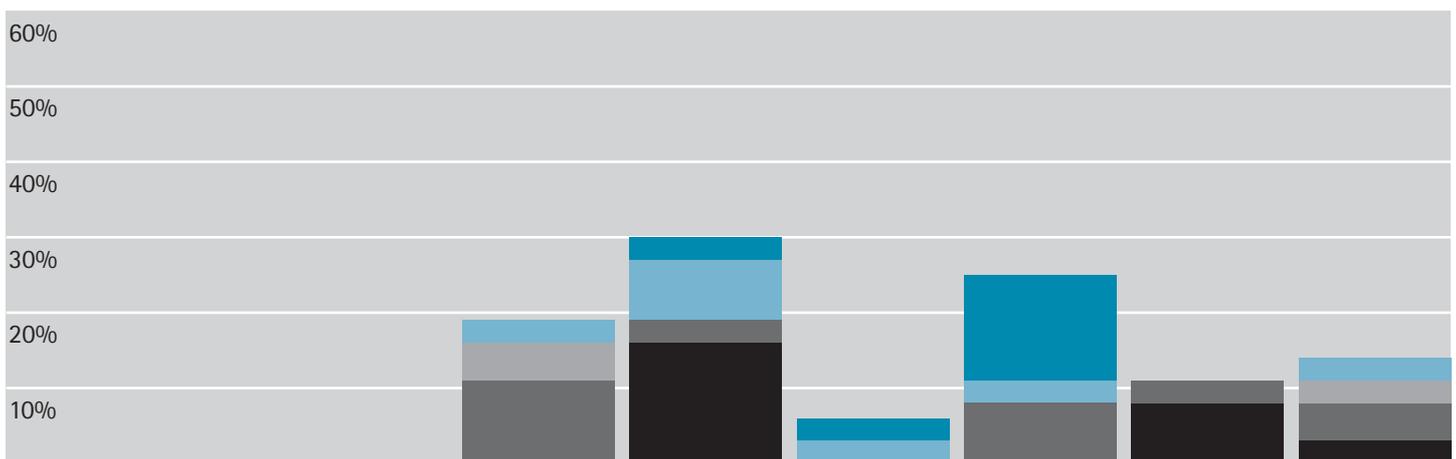


Figure 7 Percentage of foreign MNCs showing specific business cases

Differences by market focus

In addition to the type and size of company, we found that market focus – whether the company trades domestically or internationally – had a significant influence over how often firms gained from sustainability. This difference is also in part a reflection of sectoral differences, with resource-based sectors and agriculture and textiles more heavily represented among export-focused companies, and service industries more typical of domestically-focused companies.

Export-oriented companies are more likely to concentrate on meeting international environmental and labor standards, and on adherence to recognized management systems. In some cases, companies became more competitive internationally, gaining greater access to international markets and customers, and sometimes price premiums. This is especially true for those companies receiving recognized certification (see Box 5, page 13).

SMEs are also taking advantage of these opportunities – combining them with the development of environmentally and socially beneficial products, such as organic and fair trade agricultural goods.

Companies focused on the domestic market, on the other hand, respond to a wider range of local societal pressures, but also reap more diverse rewards. They are more likely to gain from local economic and community development, focusing on their license to operate, which helps them further their own revenue growth. Stakeholder engagement is another way companies producing for domestic consumption lower risks and cost. Domestically-oriented financial services firms have been particularly successful at gaining improved access to capital through governance improvements.

The following chart illustrates the different impacts on these dimensions.



Zen car production, India

	Market	Sustainability factors	Impacts	Opportunities
Large companies	Local	<ul style="list-style-type: none"> – Environmental process – Engagement 	<ul style="list-style-type: none"> – Cost savings – Risk management 	To develop business models to source and supply goods in ways that meet society's needs and expectations: <ul style="list-style-type: none"> – through local SMEs and supply networks
	International	<ul style="list-style-type: none"> – Local economic growth 	<ul style="list-style-type: none"> – Revenue growth – Market access 	To provide basic and sustainable services: <ul style="list-style-type: none"> – connectivity (digital dividend) – power (solar, off-grid)
SMEs and local entrepreneurs	Local	<ul style="list-style-type: none"> – Environmental process – Human resource management – Management systems, including certification 	<ul style="list-style-type: none"> – Cost savings – Market access 	To improve competitiveness and innovate
	International	<ul style="list-style-type: none"> – Environmental product – Local economic growth 	<ul style="list-style-type: none"> – Revenue growth – Market access 	To develop niche, premium markets: <ul style="list-style-type: none"> – organic – certified forest products – eco-tourism – fair trade

Figure 8 Impacts and opportunities

Sustainability in the Philippines



Intercropping, Philippines

History

Business efforts towards sustainability in the Philippines date back to before the 1970s, and began in the form of philanthropy. Wealthy families belonging to the 'illustado' class and individual international businesses led the trend of making donations to support communities. In 1970, the business sector came together in response to the turbulent situation in the country with 50 of the country's top corporations pooling resources to form Philippine Business for Social Progress (PBSP), with an initial focus on poverty alleviation and building social capital.

In the 1980s businesses began to realize there was a business case for community involvement, as it helped to improve relationships which might otherwise be confrontational. This trend has continued, with companies understanding the need to build reputation as a route to competitive advantage. The emergence of thinking around sustainable development broadened companies' understanding of corporate responsibility. This has led to the notion of stakeholders being critical to business success rather than merely participants in transactions.

Sustainability now

Concerns about the impact of globalization and the development of international standards, especially for labor conditions, have helped drive business to look into their internal and external practices. The government has also provided an impetus with legislation such as the Indigenous Peoples Rights Act (IPRA), the Mining Act and the Fisheries Code which highlights the need for stakeholder engagement.

The NGO sector is a very powerful driver and traditionally the business sector has been wary of dealing with it. The feeling has been mutual — some NGOs have mistrusted business deeply, especially during the Marcos regime. But over the past few years, the business community and civil society have started to work together and identify areas of collaboration.

Consumers, on the other hand, do not have the purchasing power to pressure the business sector. With about 30% of the population below the poverty threshold, what matters is the price of the commodity and not how the product was made. The government has recently made good governance one of the key pillars of its administration, and is the first country to adopt the Asia-Pacific Economic Cooperation framework of corporate governance reform.

The social, economic and political context of a given country plays a very important part in the whole business sustainability and development discourse. In the Philippines, factors such as the conflict in Mindanao, labor disputes, corruption and lack of basic infrastructure facilities are ongoing problems that affect business.

Priorities

PBSP recognizes and encourages members to work on four areas:

- **Social investment** with potential benefits from a higher quality workforce, improved reputation and returns from investments in social enterprises.
- **Corporate–community partnership** to empower communities, ensure respect for social and cultural values and validate companies' license to operate.
- **Environmental stewardship** to mitigate adverse impacts of operations on the environment.
- **Managing workplace concerns** to provide an enabling working environment, including good health and safety conditions and the provision of appropriate benefits, protect human rights and promote the spirit of volunteering.

PBSP's CSR Impact Report finds that the strongest positive impacts companies experience are improved human and intellectual capital, stakeholder acceptance especially from local communities, operational efficiency especially from resource efficient technology, reputation and managing risk of negative publicity. On the other hand, the evidence of eco-efficient practices improving their financial performance is weaker. Companies also find weak evidence that CSR practices reduce their security costs or vulnerability to bribery.

The future

Most companies need to work on communicating sustainability policies and programs to stakeholders and on measuring impacts. Businesses face the challenges of dwindling resources, increasing stakeholder demands and corruption in the political, social and judicial systems. Costs are a barrier to business pursuing sustainability. More documentation and sharing of good practice, and better evidence of the business case from empirical studies, would help people to break out of this old paradigm.

A view of the development of corporate sustainability in one country, contributed by the Philippine Business for Social Progress — Center for Corporate Citizenship . www.pbsp.org.ph

Regional differences

Attitudes to sustainable development vary widely from region to region, and even within regions. While broad generalizations can be dangerous, the case studies we analyzed showed some regional differences in the opportunities being grasped by companies.

This does not necessarily mean that opportunities are not available to some companies, just that local priorities and pressures play an important role in the particular benefits being experienced in those regions. It also suggests that there is potential for cross-regional learning, both for the corporate sector and for other stakeholders that wish to help companies improve their sustainability activities (discussed in Chapter 5).

The discussion below considers five regions – **East Asia & the Pacific** (countries east of Bangladesh and south of Russia); **South Asia** (Bangladesh, India, Nepal, Pakistan and Sri Lanka); **Sub-Saharan Africa**; **Central & Eastern Europe** and **Latin America & the Caribbean**.⁴⁷ In all regions except South Asia, the strongest evidence of a business case was for eco-efficiency – a fifth of all cases in the study. To focus on the differences, the ‘key link’ indicated on the map on page 41 thus refers to the strongest link apart from eco-efficiency.

Interestingly, however, cost savings were the main benefit from implementation of these management systems, even in cases where they were developed to meet customer demands. In a survey in Thailand,⁴⁸ for example, 76% of the respondents said they achieved cost savings from ISO 14001. More than two-thirds said they also achieved greater efficiency.

The 1997 Asian crisis has been influential in spawning calls for greater transparency and better corporate governance in the region. There are some examples of companies starting to benefit from improved corporate governance, such as the **Bank of Shanghai** (see page 9).

It is notable that East Asian companies did not show significant benefits from better community relations. This may reflect a lack in some parts of the region of strong NGOs, trade unions and consumer groups, which can be important in raising issues and stimulating corporate responses. A global study by Environics International⁴⁹ found that only 8% of citizens in Asia had punished companies for being socially irresponsible, compared with 23% in Latin America and 42% in North America.

East Asia & the Pacific

Companies in the region experienced strong benefits from environmental and social management systems, particularly those which are internationally recognized, such as ISO 14001 and SA8000. Production for the global market is important for many East Asian and Pacific companies, and certification systems can help them win international customers. **The Hua Hui Industrial Company** in China, for example, which makes toys and dolls, found that SA8000 certification helped it to acquire new customers and access new markets, with orders up by 30%.

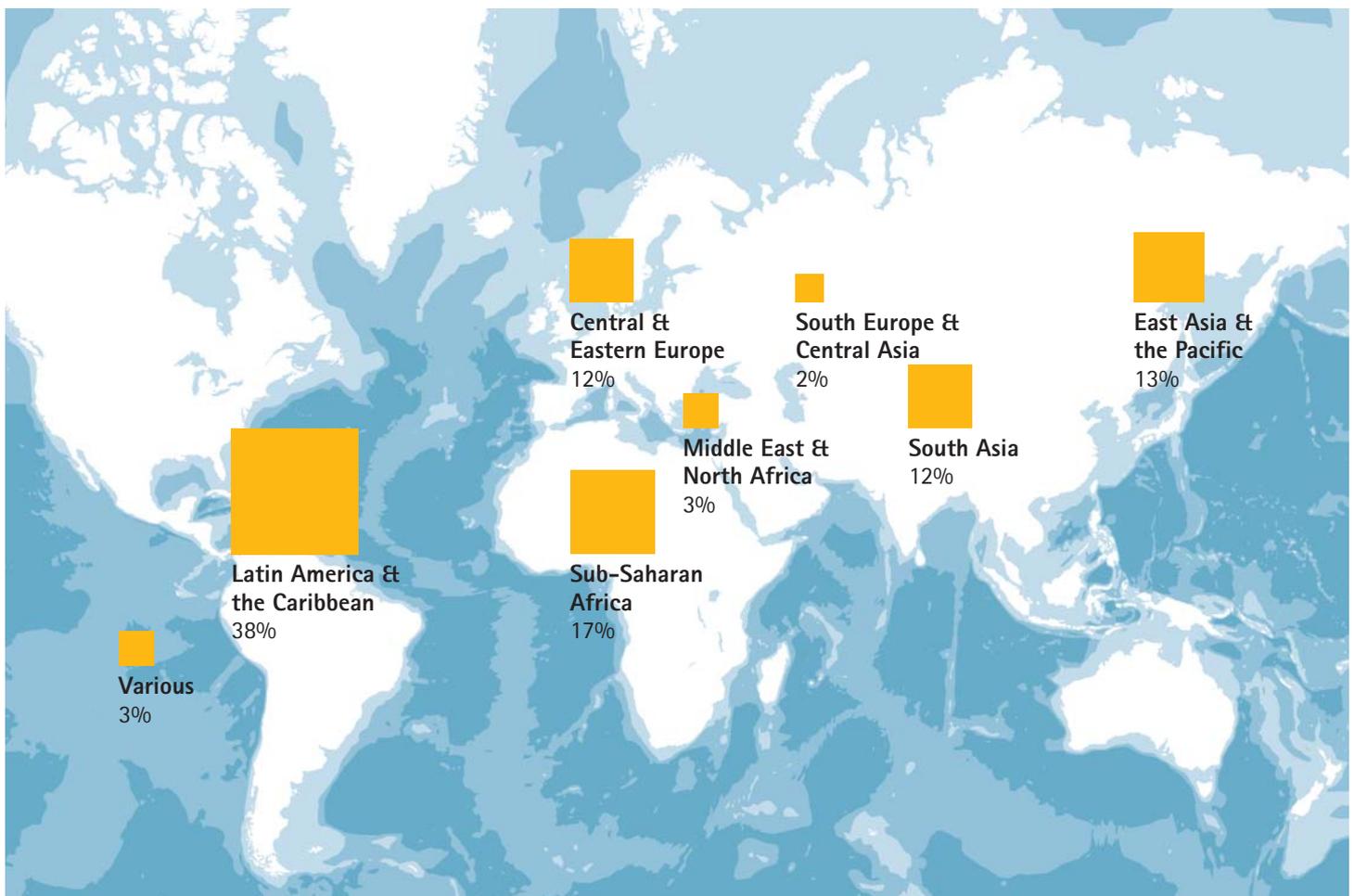


Figure 9 Percentage of cases by world region

South Asia

Social issues such as harmful child labor, fair labor practices and community welfare are more prominent than environmental concerns in South Asia, the only region for which eco-efficiency benefits were not common. In some countries, such as India, large companies commonly provide comprehensive welfare benefits for employees – well beyond what would be expected in developed countries, such as subsidized housing, children's education and development resources for neighboring communities.

But that is not to say that the environment is not important. A survey in India found that the general public perceives the primary role of companies to be providing quality products at cheap prices, but then expects them to ensure that operations are environmentally friendly and that employees are treated fairly in accordance with global standards.⁵⁰

Himal Power made the first direct foreign investment in Nepal's hydropower sector. It built a separate small power plant for the surrounding rural community, which is not connected to the grid. In addition, it provides both human resources and infrastructure towards the improvement of social services around its facility and supports local service providers. Its community outreach program contributes to good community and local government relations. As a result, it has remained largely unaffected by the civil conflict that has threatened development efforts throughout much of the country.

Companies in South Asia also experience important reputation benefits from social investments. For example, the extensive social development program of **Tata Iron and Steel** in India promotes positive industrial relations, as well as generating community rapport and good relations with local government.

In contrast to East Asia, we did not find any evidence that corporate governance has been a major factor in South Asia.

Sub-Saharan Africa

Despite significant commercial pressures in Africa, there was substantial evidence of a business case in the social areas, as well as a stronger focus on human resource management than for South Asia. Companies in Africa with a proactive approach to managing the labor force are experiencing increased productivity and motivation, and lower staff turnover.

Some of the community focus may derive from governments' unwillingness or inability to provide services. Ayo Ajayi, managing director and CEO of the UAC in Nigeria, says, 'In developed countries, governments provide education, health, law and order. In Africa, these are areas where companies are likely to use up their CSR budget. Good leadership is lacking in Africa.'⁵¹

Health is an important issue, with company activities ranging from focusing on safe working conditions to HIV/AIDS initiatives. These issues are clearly urgent, and can place demands on companies to develop and implement prevention and care strategies.



Figure 10 Strongest business case link by region (apart from eco-efficiency)

While it is difficult to quantify costs and benefits of HIV schemes accurately, one study found that the total cost per new HIV infection (due to sick leave, productivity loss, recruitment, training, etc.) is likely to be greater than the cost of treatment and care to keep employees in the workforce.⁵²

Companies in Africa have also benefited from revenue gains through the development of environmental products & services, including organic agriculture and eco-tourism. For example, the **EPOPA** program in Uganda was set up to develop organic cotton for export, thereby enabling producers to benefit from access to new international markets and a price premium in some cases of 50% over non-organic cotton. In addition, prices for organic cotton tend to be far more stable than prices for non-organic, adding a degree of certainty to the production process for these farmers.

Central & Eastern Europe

Opportunities to benefit from environmental process improvements are especially prevalent in Central & Eastern Europe, where the strongest business case evidence is for revenue growth and cost savings. Companies pursuing these improvements can also help address the legacy of communist era pollution and prepare themselves for possible future EU accession.

At the Estonian textile company **Krenholm**, investment in acquisition of modern technologies is addressing reduction in water use and energy efficiency – including more efficient lighting and installation of a new gas fired boiler. Reduced resource consumption has led to reduced costs.

The companies of the region have also saved costs with the assistance of cleaner-production programs such as those of the World Environment Center and participation in the EU's Phare program, as well as from management systems.

Box 10

Business case in developed and developing markets

In 2001 SustainAbility published a report, *Buried Treasure: Uncovering the Business Case for Corporate Sustainability*, which focused on developed markets. These are the key similarities and differences between the findings of the two studies.

Similarities

- Environmental process improvement is by far the strongest factor in both studies, with evidence of strong cost savings.
- Human resource management is a strong category in both studies, with a strong link between workplace conditions, training and increased productivity.

Differences

- There was stronger evidence for revenue growth, access to markets and cost savings in emerging markets.
- Brand value & reputation are more important and more strongly correlated to sustainability in developed countries.
- Human capital was more important in developed countries.
- Community development is seen primarily as an overhead in developed countries. In emerging markets it is important in retaining the license to operate and reducing risk.

The key difference is that emerging market companies are more concerned with short-term cost savings and revenue gains, while brand value and reputational issues are more significant in developed countries. This could suggest that, as companies gain business stability and operate in an increasingly global world market, intangible assets like brand value, reputation and human capital will become more important business drivers for emerging market companies than cost savings and revenue growth.

Latin America & the Caribbean

The most important link in Latin America (after eco-efficiency) was for cost savings and higher productivity from good human resource management. This emphasis on labor force issues may also derive from the strong trade union tradition in many countries, although the role of trade unions has generally weakened in the last few decades.

Good human resource management can also bring benefits when it encourages greater worker loyalty. In one survey in Peru, 92% of executives and 94% of workers interviewed indicated that increased employee loyalty was a benefit of corporate sustainability action. Community development activities have also been important in Latin America, helping companies to build trust and linkages with local communities.

License to operate is a particularly important concept in some regions of Latin America, where the legitimacy of official institutions is often weak and communities may not, in any case, accept an official permit granted by the government.

The evidence shows that Latin American companies have improved their access to capital through actions in all seven sustainability factors – a fact that did not hold true in any other region. Governance & management systems and environmental process improvements demonstrate the strongest link to access to capital for these firms. **Sadia**, a poultry and pork processor in Brazil, has extensively upgraded its health and safety policies, making the company more attractive to international investors and helping its recent listing on the New York Stock Exchange.

Finally, in the cases we gathered, Latin America is the only region apart from Africa with examples of companies benefiting from environmental products & services (although other research⁵³ has found evidence that Asia and Central & Eastern Europe are achieving strong growth in environmental products). Companies have increased revenues and accessed new export markets through organic products such as coffee in Colombia and Venezuela, and sugar and heart of palm in Brazil.

Sustainability in South Africa



Tourists, South Africa

The emphasis of sustainability in South Africa has been on the social rather than environmental aspects. This can be attributed to the country's isolation during the apartheid years, and the poverty and social problems in black communities that the country is now seeking to address. 'Corporate Social Responsibility or Investment' (CSR/CSI) is thus the preferred term to describe business commitment to sustainability.

Some companies have a history of highly innovative, cutting edge work that was carried out almost clandestinely to deal with some of the problems of apartheid. On the other hand, some companies have traditionally not been as involved and have recently come to the realization that they need to make a contribution.

CSR is in the process of maturing from being mainly a philanthropic add-on to becoming part of business strategy, at the heart of the business, and with a potential benefit for the bottom line. So far, few companies have progressed very far in this direction, however. Many are struggling to understand what to do and how to ensure the best impact. Some overseas firms are coming to terms with the significant role and contribution expected of business in South Africa.

Large companies are involved directly (albeit informally) through the President's Big Business Working Group, which has agreed a framework for the encouragement of fixed investment and has held high-level discussions on issues such as Zimbabwe, black economic empowerment, the budget, obstacles to investment and land reform.

The key drivers have been the need for social stability, better education and economic growth. The King Reports deal with the need for companies to demonstrate strong corporate governance, especially King II.

Health has risen up the agenda in the last few years, especially driven by HIV/AIDS and employees pressing for improved health provision. Investors have also begun to be concerned about companies' social performance.

The role of key players

Government has helped by clearly articulating socio-economic priorities. Business organizations such as the National Business Initiative (NBI) have helped to sensitize business to social responsibilities and to implement CSR in line with the government's priorities.

There is also a growing acceptance of the benefits of working in partnership, even in some cases with competitors, in support of the bigger picture.

The NGO sector played a large role in developing and implementing CSR prior to the democratic government, but has since been hampered by funds being diverted through the government. NGOs are changing to maintain support, becoming more accountable, relevant and business-like.

Trajectory

There is a growing understanding of the key role business has to play in developing the South African society and economy. This trajectory could be given an added impetus by four factors:

- A large number of new businesses will mature and make their contribution, particularly information technology companies and black businesses.
- Consumers could become stronger in pushing for CSR in the companies they buy from. This needs to develop as a force in South Africa.
- Social pressure on companies has not been as significant as in some countries. Civil society is developing, as has been demonstrated recently in campaigns over the provision of anti-retroviral drugs in the fight against HIV/AIDS.
- Environmental issues are a very new concept for this country. Those issues that affect our children, our health, shelter and food will become more of a rallying point for lobbying.

The NBI believes that business must contribute to building a stable democracy in which a market economy functions to the benefit of all. Business has a duty and opportunity to contribute to public policy, social development and economic growth.

Business collective action needs to focus on aspects where public and business interests intersect. South Africa will succeed only through the empowerment of all people through basic education and skills development to support economic growth and job creation. Thus the NBI believes the priorities of CSI in the country are skills development and job creation.

A view of the development of corporate sustainability in one country, contributed by the National Business Initiative
www.nbi.org.za