We started this project with an open mind — we were not certain that we would find sufficient evidence of a convincing business case for sustainability in emerging markets. We had heard often enough that businesses in these markets were focused on business gains to the exclusion of other considerations. And that if we did find anything it would be around philanthropy, or would be primarily related to companies which export to the developed world, where sustainability demands were higher.

We were therefore pleased to find such a large number of examples in emerging markets of corporate sustainability across the governance, environmental and social dimensions, and to find that these were indeed linked to business benefits for companies focused on both domestic and export markets.

Through these case studies, as well as discussions with businesses and stakeholders in emerging markets, six main themes arose time and again. This chapter presents our six key conclusions, as well as some ideas about what they mean at a practical level.

This report aims to encourage companies which have not previously recognized the links to find business value even as they participate in social and environmental development. It also helps identify new areas of focus for companies which may already be addressing sustainability, and provides ideas for new business models that put environmental and social concerns at the core of the business. These themes will help in all those areas.

Theme 1
New data and evidence

This report presents an important new analysis based on the experience of companies operating in emerging markets. While the cases do not necessarily represent model companies, the activities they undertook do reflect business benefits from specific sustainability efforts. We have combined this evidence with existing studies to develop a picture of the business case for sustainability for companies operating in emerging markets.

However more work is required to better understand the value gained by companies. This report has focused on the areas in which the greatest business case evidence exists. Yet for many areas the evidence was still weak — and in a few cases we were unable to find any link between particular aspects of sustainability and financial performance.

Some of these linkages may not exist — at least in present circumstances. But in many cases the linkages may not have been adequately recognized quantitatively even though a lot of qualitative, anecdotal evidence may exist. And undoubtedly there are many business case examples that have not come to our attention.

Creating the right methods to evaluate financial returns from sustainability factors will be important to understanding the business case better. It will also become important to identify key performance indicators against which performance will be measured.

Action

Companies should strive to understand and measure sustainability performance better, as well as the impact it has on their business. They need to ask themselves the right questions and create and use the tools necessary to evaluate results.

Theme 2
There is a business case in emerging markets

Our findings refute the argument that the business case holds only in developed markets. A comparison with the business case in developed markets shows that opportunities and priorities differ, but benefits apply in both markets. The strongest business case in developed markets came from reputational gains and brand value, whereas in the emerging markets the majority of the evidence focuses more on cost reduction and higher sales.

There are also risks. As with any business initiative, too much money can be spent, too little benefit gained. Companies must assess risks, and analyze the costs and benefits of sustainability action as they would for other company activities.

Also, as sustainability implies some form of interaction with stakeholders, it can raise the company profile above the rest of the competition. A higher profile can result in enhanced reputation, but also greater scrutiny and potentially criticism. The more that sustainability is developed and integrated into core business management and processes, risks and opportunities will be better understood and better managed.
Theme 3
The greatest evidence of benefits were of cost savings & productivity and revenue growth & market access

This report has identified the areas of the business case which were supported by the strongest evidence. We found that in emerging markets cost saving, productivity improvement, revenue growth and access to markets were the most important business benefits of sustainability activities. Environmental process improvements and human resource management were the most significant areas of sustainability action.

The importance of good human resource management may be largely intuitive for many managers — reflected in the high number of companies focusing on this factor. But the strong evidence we found of the business case for human resource management provides a factual basis to back up those instincts, and to persuade others who have not taken it seriously.

While the cost savings from good environmental management may also have been expected, the strength of the evidence and the number of companies engaged in these process improvements was a surprise.

Theme 4
Every company can find benefits but specific business cases vary

Every kind of company can find benefits but the best opportunities will depend on the particular drivers, circumstances and priorities of a business. Although we found that certain gains were consistent across sectors, regions and types of companies, the business case plays out in ways which are company-specific. The information we have gathered in this report cannot provide a blueprint for how to implement sustainability in a financially beneficial way. But it does demonstrate the many potential aspects of the business case.

Action
Companies can use the practical examples, the business case matrix, the online database www.sustainability.com/developing-value as well as the suggestions in Chapter 4 to analyze their risks and opportunities and develop their own individual business case. Others may also be able to use these tools to analyze the business case in emerging markets further, including developing specific business cases for different local contexts or for individual sectors.

Theme 5
The business case is dynamic

The business case is constantly evolving, reflecting changing expectations and relevance, just as with other business parameters. As stakeholder communities develop and access to information increases, expectations will rise. They will require greater accountability and transparency and will increasingly expect businesses to contribute towards sustainable development. It is likely that the more intangible business factors, such as brand value & reputation, will gain greater importance in emerging markets as they have in developed countries.

For many companies, meeting minimal requirements may be all that is possible in the short term. But the most successful companies will anticipate these growing expectations and derive value from them. Developing proactive sustainability strategies and being ahead of societal demands can bring greater opportunities — although these are accompanied by new risks.

Theme 6
Other players are key

Government, NGOs, business customers and other players often have their own sustainability objectives. By putting pressure on companies with poor performance, as well as rewarding those which make improvements in their sustainability activities, these players can strengthen the business case while moving their own agendas forward. But if their expectations require changes beyond what is practical for companies to achieve in the expected time frame, they can also act as roadblocks to sustainability.

Action
Sustainable development is a long-term goal which cannot be achieved without the involvement of all sections of society. Non-business players need to adopt partnership approaches which can help all the parties involved better realize their individual short-term objectives, while furthering the aims of sustainable development — at the local, national and global levels.

‘Ten years ago [the drive for sustainability] would have been too early because we didn’t have a real economy. Ten years from now it would be too late because we would have done too many of the wrong things. Right now is exactly the moment for these ideas to take root and transform Brazil’s development path.’

José Luiz Alquéres, former chairman Electrobras, Brazil
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### Africa
- **African Institute for Corporate Citizenship**
  - 137 Daisy Street, Sandton
  - PO Box 37357 Birnam Park 2015
  - South Africa
  - T: +27 11 432 5364
  - F: +27 11 432 1530
  - [www.corporatecitizenship-africa.com](http://www.corporatecitizenship-africa.com)
- **Common Ground Consulting**
  - PO Box 1828
  - Cape Town 8000
  - South Africa
  - T: +27 21 424 5052
  - F: +27 21 424 2495
  - [www.commonground.co.za](http://www.commonground.co.za)
- **Ethics Institute of South Africa**
  - 1209 Schoeman Street, Sanlam Gables
  - Hatfield, Pretoria 0083
  - South Africa
  - T: +27 12 342 2799
  - F: +27 12 342 2790
  - [www.ethicsa.co.za](http://www.ethicsa.co.za)
- **National Business Initiative**
  - PO Box 294
  - Auckland Park 2006
  - Johannesburg
  - South Africa
  - T: +27 11 482 5100
  - F: +27 11 482 5507
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### Asia
- **All-China Federation of Industry and Commerce**
  - 93 Beiheyah Street
  - Beijing
  - China
  - T: +86 10 6513 6677
  - F: +86 10 6513 1769
  - [www.acfic.org.cn](http://www.acfic.org.cn)
- **Asian Institute for Corporate Governance**
  - Business School
  - Korea University
  - Korea
  - T: +82 2 3290 1657
  - F: +82 2 3290 2552
  - [www.aicg.org](http://www.aicg.org)
- **Association for Sustainable & Responsible Investment in Asia**
  - Hoseinee House/Rm 601
  - 69 Wyndham Street
  - Hong Kong, China
  - T: +852 3105 3701
  - F: +852 3105 9707
  - [www.asria.org](http://www.asria.org)
- **Bangladesh Centre for Advanced Studies**
  - House 23, Road 10A, Dhanmondi R/A
  - Dhaka 1209
  - Bangladesh
  - T: +880 2 811 3977
  - F: +880 2 811 1344
  - [www.bcas.net](http://www.bcas.net)
- **Business Group for Thai Society**
  - 10 Soonthornkosa Road
  - Klongtoey, Bangkok 10110
  - Thailand
  - T: +66 2 262 6606
  - F: +66 2 249 3700
- **Centre for Science and Environment**
  - 41 Tuglakabad Institutional Area
  - New Delhi 110062
  - India
  - T: +91 11 698 1110
  - F: +91 11 698 5879
  - [www.cseindia.org](http://www.cseindia.org)
- **Centre for Social Markets**
  - 15 Stephen Court
  - 18A Park Street
  - Calcutta 71
  - India
  - T: +91 33 229 4537
  - F: +91 33 229 0647
  - [www.csmworld.org](http://www.csmworld.org)
China Enterprise Confederation
17 Zizhuyuan Nanlu
Beijing 100044
China
T +86 10 6872 5437
F +86 10 6841 4280
www.cec-ceda.org.cn

Confederation of Indian Industry
India Habitat Centre
4th Floor, Zone IV, Lodhi Road
New Delhi 110003, India
T +91 11 464 5228
F +91 11 460 2524
www.cinionline.org

Development Alternatives
B-32, Tara Crescent
Qutab Institutional Area
New Delhi 110016
India
T +91 11 685 1158
F +91 11 686 6031
www.devalt.org

Federation of Thai Industries
Queen Sirikit National Convention Centre
Zone C / 4th Floor
60 New Rachadapisek Road
Klongtoey, Bangkok 10110
Thailand
T +66 2 229 4255
F +66 2 229 4941/2
www.teriin.org

Institute of Environment and Development
34 Fu-wai-da-jie Street
Cai-yin Building / Rm 441
Beijing 100832
China
T +86 10 6857 7249
F +86 10 6851 9950
www.lead.org.cn

Partners in Change
S 385 Greater Kailash II
New Delhi 110048
India
T +91 11 641 8885
F +91 11 623 3525
www.caringcompanies.org

Philippine Business for Social Progress
3rd Floor Lower Level
DAP Building
San Miguel Avenue, Pasig
Manila 1601
Philippines
T +63 2 635 3670
F +63 2 631 5714
www.pbsp.org.ph

Responsible Business Initiative
52-B New Muslim Town
Lahore 54612
Pakistan
T +92 42 586 6398
F +92 42 586 7341
www.rbi.org.pk

Tata Energy Research Institute
2002 Darbari Seth Block
Habitat Place, Lodhi Road
New Delhi 110003
India
T +91 11 468 2100
F +91 11 468 2144
www.teriin.org

Department of Environmental Sciences & Policy
Central European University
Nador u. 9, H-1051
Budapest, Hungary
T +36 1 327 3021
F +36 1 327 3031
www.ceu.hu/envsci

EcoPravo—Kharkiv
PO Box 10479
Kharkiv 61002
Ukraine
T +380 572 19 10 21
F +380 572 19 10 21
www.ecopravo.kharkov.ua

Institute of Corporate Law and Corporate Governance
5, Building 2
Zvonarsky Pereulok
Moscow 103031
Russia
T +7 095 258 3569
F +7 095 258 3568
www.iclg.ru

Slovak Cleaner
Production Centre
Pionierska 15
83102 Bratislava
Slovak Republic
T +421 2 4445 4328
F +421 2 4425 9015
www.fns.uniba.sk/zp/sccp

Latin America

Acción Empresarial
Encomenderos 231/of. 601
Santiago
Chile
T +56 2 234 5141
F +56 2 234 5088
www.accionemprendarial.cl

Earth Council
Apartado 2323-1002
San José
Costa Rica
T +506 256 1611
F +506 255 2197
www.ecouncil.ac.cr

Ethos Institute — Business and Social Responsibility
Rua Francisco Leitao, 469
Conj. 1407—CEP
São Paulo, SP 05414-020
Brazil
T +55 11 3068 8539
F +55 11 3068 8539
www.ethos.org.br

Fundamas
Edificio FUSADES, Blvd Sta. Elena
Urb. Santa Elena, San Salvador
El Salvador
T +503 244 0538
F +503 244 0539

Fundes
www.fundes.org
www.mypyme.com
throughout Latin America

Institute for the Development of Social Investment
Rua São Tomé, 119
Conj. 42—Vila Funchal
São Paulo, SP 04551-080
Brazil
T +55 11 3044 4686
F +55 11 3044 4685
www.idis.org.br

Instituto Brasileiro deGovernança Corporativa
World Trade Center,
Av. das Nações Unidas, 12551
Conj. 25º andar—Sala 2508
São Paulo, SP 04578-903
Brazil
T +55 11 3043 7008
F +55 11 3043 7005
www.ibgc.org.br

Peru 2021
Lord Nelson N 218
Miraflores, Lima 18
Peru
T +51 1 421 3795
F +51 1 440 2151
www.peru2021.org
Brand value & reputation
Public perception of a company, its products and brands. This would include the reputation of the company, the personal reputation of the company manager/owner and the brand value of the company.

Business case
The extent to which sustainability improves business value, as conventionally defined.

Civil society
The set of institutions, organizations and behavior situated between the state, the business world and the family. Specifically, this includes voluntary and non-profit organizations of many different kinds, philanthropic institutions, social and political movements, other forms of social participation and engagement, and the values and cultural patterns associated with them. 69

Corporate governance
Improving board structures and procedures to make a company more accountable to shareholders, covering issues such as financial reporting, transparency and audit, remuneration of directors, separation of powers and minority shareholder rights. At its broadest it is the full set of relationships between a company's management, its board and stakeholders.

Digital divide
Refers to the growing exclusion from social and economic opportunities of people without access to the internet and communication technologies. 70

Digital dividend
Projects that bridge the digital divide through business solutions that bring connectivity and digital services to unserved populations in developing regions.

Eco-efficiency
Involves 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.

Eco-tourism
Responsible travel to natural areas that conserves the environment and sustains the well-being of local people. 71

Emerging markets
Developing countries recognized as having access to international capital markets, thereby creating opportunities for attracting private capital flows.

Engagement
The process of seeking stakeholder views on their expectations of an organization, in a way that may realistically be expected to elicit those views. 72

Human capital
The accumulated knowledge and skill set of a company's employees, which affects its ability to learn, innovate and compete.

License to operate
Traditionally refers to compliance with local, national and international legislation and regulation. Increasingly, however, retaining or enhancing license to operate refers to earning the trust and respect of diverse groups of stakeholders. To be commercially viable over the long term, a company must retain its license to operate with stakeholders.

Multinational corporation
(MNC)
A company that has production operations in more than one country.

Product stewardship
Product stewardship is a product-centered approach to environmental protection. It involves reducing the environmental impacts of products throughout their life cycle, from the raw materials through manufacturing, use and disposal.

Small and medium sized enterprise
(SME)
An independent small business managed by its owner or part-owner. 73 SMEs are usually classified by numbers of employees, total sales and assets. IFC classifies an SME as having up to 300 employees, total assets of up to $15 million, and total annual sales of up to $15 million. This classification is broadly consistent with those used by most other international financial institutions.

Socially responsible investment
(SRI)
Investment decisions that incorporate environmental and social criteria as well as traditional financial considerations in measuring a company’s performance or its attractiveness as an investment. Also known as ethical investment.
Stakeholder
Any individual or group which can affect or is affected by an organization’s activities. ‘Stakeholders’ are increasingly self-legitimizing — in other words, those who judge themselves to have an interest in an organization’s operations, value and performance are de facto ‘stakeholders’.

Sustainability
There are over 100 definitions of sustainability and sustainable development, but the best known is that of the World Commission on Environment and Development. This suggests that development is sustainable where ‘it meets the needs of the present without compromising the ability of future generations to meet their own needs’.

Transparency
An organization’s openness and honesty with its stakeholders about its activities.

Triple bottom line
The basis of integrated measurement and management systems focusing on economic, social and environmental value added — or destroyed.
Endnotes

3 The cases are recorded in our online database, which can be accessed at www.sustainability.com/developing-value. The numbers of cases and companies are different because several companies produced more than one example, resulting in a total of 247 cases.
7 Throughout this report we use the $ sign to refer to US dollars.
14 www.developmentgoals.org/achieving_the_goals.htm
15 As defined by the Brundtland Commission. Refer to website for full list: www.sustainability.com/developing-value
16 The sources for all case studies which appear in this report can be found on the website www.sustainability.com/developing-value

17 The World Bank classifies economies as low-income (GNI $755 or less), middle-income (GNI $756–9,265) and high-income (GNI $9,266 or more). Low-income and middle-income economies are sometimes referred to as developing countries. World Bank, *Global Economic Prospects and the Developing Countries, Making Trade Work for the World’s Poor 2002*, Washington.
21 As of May 2002.
24 From a speech at the Centre for Social Markets conference, December 2001.
26 New Ventures, Jolyka www.new-ventures.org/jolykanv.html
31 We did not include the IFC-funded companies (a fifth of the total cases) under this heading, although they have to meet IFC requirements in relation to environment, social and governance performance, www.ifc.org/enviro
33 ‘Samsung Turning Name into a Global Brand’, Taipei Times, 20 February 2002.
34 LCV News, March/April 2002, Year II – No. 21, page 2. Also see www.lcvco.com.br
35 Global Corporate Governance Forum www.gcgf.org
38 Global Corporate Governance Forum www.gcgf.org
39 King Committee on Corporate Governance, King Report 2002, Institute of Directors, South Africa, 2002.
40 By ‘philanthropy’ we mean activity motivated solely by a desire to help, without any consideration of potential business benefits.
43 The strength of the evidence has been measured according to how confident we can be that there is a connection between the two factors. This is based on the volume of evidence relevant to x on box, and the nature of the evidence. We have scored quantitative data more highly than qualitative material, and given the lowest score to anecdotal evidence. The measure therefore combines volume and weight of evidence.
45 www.environmentfoundation.net/2001-geoffrey-chandler.htm
47 The study also looked at Middle East & North Africa and South Europe & Central Asia, but there were insufficient cases in these regions to establish clear trends.
52 Study by the Center for International Health at the Boston University School of Public Health on costing model that estimates the present value of new HIV infections in the formal business sector in Southern Africa.
54 WBCSD is a coalition of 150 international companies committed to sustainable development via economic growth, ecological balance and social progress. It also operates regional networks and partner organizations in many emerging markets. www.wbcsd.ch
55 www.unglobalcompact.org
58 Economic instruments are tools to create financial incentives for environmentally responsible behavior, while imposing costs for unsustainable behaviour, including taxes and other charges for resource use, new markets for trading resource usage rights and new property rights. A good list of examples from around the world of these and other innovative policy instruments can be found at www.iisd.org/susprod/compendium
59 In addition to the Novo Mercado, BOVESPA has two intermediate listing segments, the Special Corporate Governance Level 1 and Level 2, which also require higher standards of corporate governance, but are not as strict as the requirements of the full Novo Mercado. These different levels encourage voluntary adherence to appropriate standards. See www.novomercadobovespa.com.br/english/index
64 www.bpdweb.org
65 http://unepfi.net/fii/signatories _country.htm
66 16 May 2002.
67 New cases will be added to the online database accompanying this report at www.sustainability.com /developing-value
69 22 May 2002.
70 David Sanders Payne, Capitalismo Natural, Rocky Mountain Institute www.rmi.org
71 Centre for Civil Society, London School of Economics.
72 Adapted from World Resources Institute’s Digital Dividend program www.digitaldividend.org
73 As defined by The International Ecotourism Society www.ecotourism.org
74 Adapted from AA 1000.
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