

## Chapter 6 Six themes

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.

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### 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.

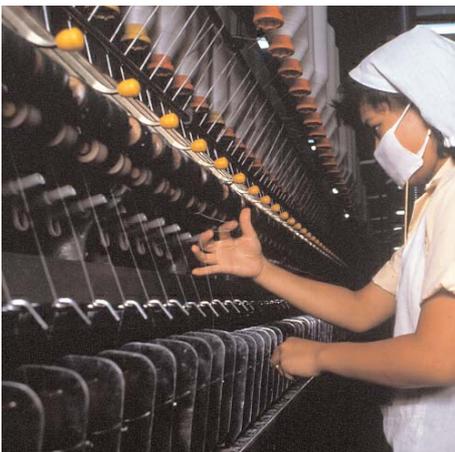
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### Theme 2 There is a business case in emerging markets

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.



Textile factory, Indonesia

### Action

Emerging market companies can learn from the experiences of those in developed markets, but the opportunities and risks experienced by similar companies in their own region can suggest action appropriate to their particular circumstances. Equally, companies based in developed markets can learn from emerging markets. This is especially true of foreign multinationals with global operations. These MNCs need to beware of imposing their own value systems, instead of adapting in a locally meaningful way.

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### 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.

### Action

The strength of these key links can help to convince skeptics of the business benefits available, and may suggest new ways to enhance business performance.

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### 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](http://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.

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### 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.

### Action

Companies will need to be flexible in their approach to sustainability, monitoring changes, understanding new demands and changing values. As societal expectations develop and competitive pressures increase, the links summarized in the business case matrix may change. The cases and matrix at [www.sustainability.com/developing-value](http://www.sustainability.com/developing-value) will be updated as new information becomes available.

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### 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<sup>68</sup>

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## International

**International Business Leaders Forum**  
[www.iblf.org](http://www.iblf.org)

**International Finance Corporation**  
[www.ifc.org/sustainability](http://www.ifc.org/sustainability)

**International Institute for Sustainable Development**  
[www.iisd.org/business](http://www.iisd.org/business)

**SustainAbility**  
[www.sustainability.com](http://www.sustainability.com)

**United Nations Environment Programme – Department of Technology, Industry and Economics**  
[www.uneptie.org](http://www.uneptie.org)

**World Business Council for Sustainable Development**  
[www.wbcsd.ch](http://www.wbcsd.ch)

**World Resources Institute**  
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# Glossary

## **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.<sup>69</sup>

## **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.<sup>70</sup>

## **Digital dividend**

Projects that bridge the digital divide through business solutions that bring connectivity and digital services to un-served 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.<sup>71</sup>

## **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.<sup>72</sup>

## **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.<sup>73</sup> 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.



Eucalyptus plantation, Kenya

## Endnotes

The sources for all case studies which appear in this report can be found on the website [www.sustainability.com/developing-value](http://www.sustainability.com/developing-value)

- <sup>1</sup> International Finance Corporation, *IFC – The Partner of Choice*, Washington, 2002, page 5.
- <sup>2</sup> SustainAbility/UNEP, *Buried Treasure: Uncovering the business case for corporate sustainability*, London, 2001.
- <sup>3</sup> The cases are recorded in our online database, which can be accessed at [www.sustainability.com/developing-value](http://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.
- <sup>4</sup> World Resources Institute/UNEP/WBCSD, *Tomorrow's Markets: Global Trends and Their Implications for Business*, 2002 [www.wri.org/business/tomorrows\\_markets.html](http://www.wri.org/business/tomorrows_markets.html)
- <sup>5</sup> SustainAbility/Ketchum/UNEP, *Good News & Bad: The Media, Corporate Social Responsibility and Sustainable Development*, London, 2002.
- <sup>6</sup> International Finance Corporation, *IFC – The Partner of Choice*, Washington, 2002, page 5.
- <sup>7</sup> Throughout this report we use the \$ sign to refer to US dollars.
- <sup>8</sup> Institute of International Finance press release, *Net Private Capital Flows to Emerging Markets Fall \$54 billion in 2001 to \$115 billion*, New York and Washington, 30 January 2002.
- <sup>9</sup> World Bank, *Global Economic Prospects and the Developing Countries: Making Trade Work for the World's Poor 2002*, Washington, page 2.
- <sup>10</sup> In terms of Purchasing Power Parity – World Bank, *Global Economic Prospects and the Developing Countries: Making Trade Work for the World's Poor 2002*, Washington, page 30.
- <sup>11</sup> World Resources Institute/UNEP/WBCSD, *Tomorrow's Markets: Global Trends and Their Implications for Business*, 2002 [www.wri.org/business/tomorrows\\_markets.html](http://www.wri.org/business/tomorrows_markets.html)
- <sup>12</sup> 'Once-communist world marches to its own rhythm', *Financial Times Survey – Investing in Central and Eastern Europe*, 17 May 2002.
- <sup>13</sup> Institute of International Finance press release, *Moderate Recovery Seen in Private Capital Flows to Emerging Markets*, New York and Washington, 22 April 2002. [www.developmentgoals.org/achieving\\_the\\_goals.htm](http://www.developmentgoals.org/achieving_the_goals.htm)
- <sup>14</sup> As defined by the Brundtland Commission.
- <sup>15</sup> Refer to website for full list: [www.sustainability.com/developing-value](http://www.sustainability.com/developing-value)
- <sup>16</sup> 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.
- <sup>17</sup> SustainAbility/UNEP, *Buried Treasure: Uncovering the business case for corporate sustainability*, 2001.
- <sup>18</sup> Wayne Visser, 'Greening the corporates: The transition, local business and sustainable development', *Development Update, Special Edition: Election 1999: Where have we come from? A balance sheet of the political transition*, Volume 3, Issue 1. Wayne Visser and Clem Sunter, *Beyond Reasonable Greed: Why Companies Need to Shapeshift*, Human & Rousseau Tafelberg, Cape Town, 2002.
- <sup>19</sup> International Network for Environmental Management, *The ISO 14001 Speedometer*, January 2001 [www.inem.org/htdocs/iso/speedometer/speedo-4\\_01.html](http://www.inem.org/htdocs/iso/speedometer/speedo-4_01.html) 14 February 2002.
- <sup>20</sup> As of May 2002. Social Accountability International, *SA8000 Certified Facilities*, [www.cepa.org/certification.htm](http://www.cepa.org/certification.htm) (29 May 2002).
- <sup>21</sup> International Finance Corporation, *Paths out of Poverty: The Role of Private Enterprise in Developing Countries*, Washington DC, 2000.
- <sup>22</sup> C.K. Prahalad & Stuart Hart, 'The Fortune at the Bottom of the Pyramid', *Strategy + Business*, 26.
- <sup>23</sup> From a speech at the Centre for Social Markets conference, December 2001
- <sup>24</sup> Roper Reports Worldwide, *Cause Branding: Does Social Good = Market Share*, Spring 2000.
- <sup>25</sup> New Ventures, *Jolyka* [www.new-ventures.org/jolykanv.html](http://www.new-ventures.org/jolykanv.html) 29 May 2002.
- <sup>26</sup> Ritu Kumar, David F. Murphy & Viraal Balsari, *Altered Images: the 2001 state of corporate responsibility in India poll*, Tata Energy Research Institute, New Delhi, 2001.
- <sup>27</sup> 'Good Job Infy, Says Employer Poll', *The Times of India*, 20 February 2002. [www.bestemployersindia.com](http://www.bestemployersindia.com)

- <sup>29</sup> Hewitt Associates, The Best Employers in Asia, [www.bestemployersasia.com](http://www.bestemployersasia.com) 11 December 2001.
- <sup>30</sup> Cheryl Dahle, 'The New Fabric of Success', *Fast Company*, Issue 35, June 2000.
- <sup>31</sup> 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](http://www.ifc.org/enviro)
- <sup>32</sup> McKinsey, *The McKinsey Emerging Market Investor Opinion Survey 2001*, London, 2001.
- <sup>33</sup> 'Samsung Turning Name into a Global Brand', *Taipei Times*, 20 February 2002.
- <sup>34</sup> *LCV News*, March/April 2002, Year III - No. 21, page 2. Also see [www.lcvco.com.br](http://www.lcvco.com.br)
- <sup>35</sup> Global Corporate Governance Forum [www.gcgf.org](http://www.gcgf.org)
- <sup>36</sup> The Committee on the Financial Aspects of Corporate Governance, *Report of the Committee (The Cadbury Report)*, The London Stock Exchange, December 1992.
- <sup>37</sup> Credit Lyonnais Securities Asia, *Saints and Sinners: Who's got religion?*, April 2001.
- <sup>38</sup> Global Corporate Governance Forum [www.gcgf.org](http://www.gcgf.org)
- <sup>39</sup> King Committee on Corporate Governance, *King Report 2002*, Institute of Directors, South Africa, 2002.
- <sup>40</sup> By 'philanthropy' we mean activity motivated solely by a desire to help, without any consideration of potential business benefits.
- <sup>41</sup> The International Ecotourism Society, *The Ecotourism Fact Sheet*, 2000 [www.ecotourism.org/textfiles/statsfaq](http://www.ecotourism.org/textfiles/statsfaq)
- <sup>42</sup> International Finance Corporation, *Community Development Resource Guide*, Washington, 2000.
- <sup>43</sup> 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.
- <sup>44</sup> International Finance Corporation, *IFC – The Partner of Choice*, Washington, 2002, page 13.
- <sup>45</sup> [www.environmentfoundation.net/2001-geoffrey-chandler.htm](http://www.environmentfoundation.net/2001-geoffrey-chandler.htm)
- <sup>46</sup> Paper presented at Business and AIDS Symposium, 5th International Congress on AIDS in Asia and the Pacific, 1999, quoted in Anthony Pramualratana & Bill Rau, *HIV/AIDS Programs in Private Sector Businesses*, Thailand Business Coalition on Aids, Bangkok.
- <sup>47</sup> 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.
- <sup>48</sup> Thailand Environment Institute, *How can it Benefit Business? A Survey of ISO 14001 Certified Companies in Thailand*, Bangkok, 1999.
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- <sup>59</sup> 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](http://www.novomercadobovespa.com.br/english/index)
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- <sup>71</sup> As defined by The International Ecotourism Society [www.ecotourism.org](http://www.ecotourism.org)
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