

# **The Business Case for Sustainability**

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# Presentation Overview

- **Business case for sustainability**
- **Role of environmental due diligence (EDD) and corporate environmental risk management**
- **Business case for ISO registration**
- **Conclusions/trends**



# The Sustainability Landscape

- Corporate distrust prevalent
- Vancouver, Seattle, Genoa
- Corporate governance, reputation and brand image
  - *“From a business perspective, sustainable development is now a mainstream issue for any company that believes it has a future in the 21st Century.” Paul Anderson CEO BHP*



# The Response

- Expanded business performance reporting
- CERES, WBCSD, UN Global Compact
- Social Responsible Investing (SRI)
  - *“It is important to understand that we are not doing this (BP’s work with local communities in Colombia) from any sense of philanthropy, but as a proper part of doing business.” Sir David Simon Chairman BP Amoco*



# Sustainability – Why?

- Corporate DNA is modifying
- Integrated strategic planning
- Triple bottom line, 3P, 3E
- Shifting societal values
  - *SD definition: “development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs.” Brundtland Commission 1987*



# Sustainability Management

- Goal – operationalize 3P values and principles
- Transparent reporting - linking values and value
- Sustainability Management and Reporting System (SMRS)
  - *“Instead of being marginalized, developing countries must be allowed to develop by promoting education and building up their resources of competence. The activities of international corporations are important in making this happen.” Jorgen Centerman CEO ABB*

# Reputation and Brand Management

- New sustainable competitive advantage (SCA) – company of choice
- Transparent reporting - linking values and value
- Non-financial risk management – Nike, Shell and Body Shop
  - *“We believe that an organization’s ability to achieve business success and at the same time affect positive change draws its strength from core values, both individual and institutional.” Livia Desmone CEO 3M*



# Supporting Research and Benefits of Sustainable Business

- **Research**
  - Kotter & Heskitt, Harvard Business School – shareholder vs stakeholder
  - “Built to Last” - new sustainable competitive advantage (SCA) is company of choice
- **Benefits**
  - Enhanced corporate profile/relationships
  - Cultural changes
  - Improved risk management
  - Reduced operating costs
  - Perception of “thinking globally, acting locally”





# Reputation, Reputation, Reputation...

- **Third party SD report verification**
  - Shell, Suncor, BP, 3M, Sony, Bayer, BMW, GM
- **Reputation Quotient (RQ) – 1999/2000 US data**
  - **Direct link between corporate performance, market value and reputation**
    - Increase in RQ: Market value +8%
    - Decrease in RQ: Market value -28%



# Measuring Success

- **Engaging Stakeholders Benchmark Survey 2000 (UNEP/SustainAbility)**
  - Global Top 50
  - Triple Bottom Line/3P language common
- **Critical Success Factors**
  - Economic contribution
  - Ethical business practices
  - Employee relations
  - Environmental performance
  - Public affairs/Community involvement
  - Corporate donations



# Case Study – SRI

- **Socially Responsible Investing**
  - **US - \$2.1 trillion in ethical funds (13% of total investment assets), double growth rate of other fund sectors**
  - **UK – \$4.5 billion**
  - **Australia - \$2 billion, strong growth in past 2 years**
  - **Europe - \$1 billion in 220 SRI funds**



# Case Study – SRI

- **Growth factors**
  - **Global concerns with sustainability**
  - **Painful consequences**  
e.g. Huntingdon Life Sciences
  - **Positive benefits**  
e.g. BP, DJSGI
  - **Increased public interest in ethical funds**




# Paradigm Shift


- **Shell Group – Inclusiveness**

- **How the World Turns**

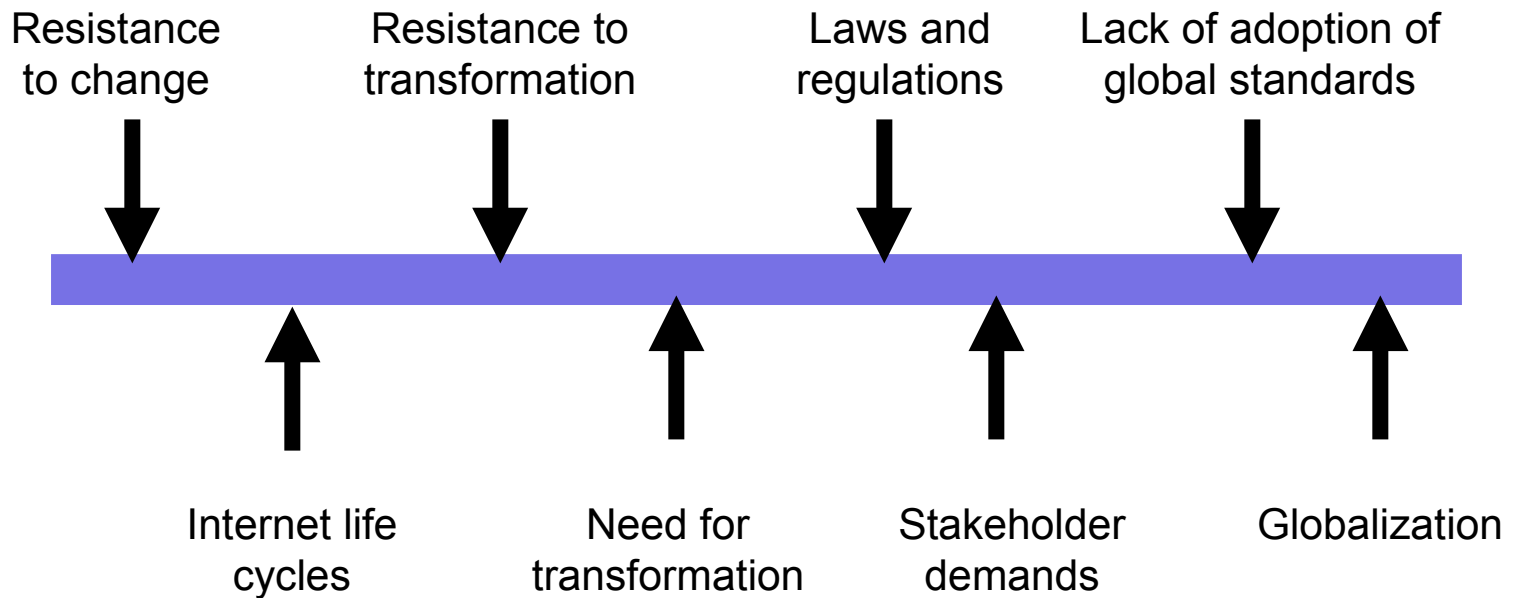
**1950s/60s Trust Me**

 **1970s/80s Show Me**

 **1990s Prove It to Me**

 **2000s+ Include Me**

# EDD/ERM- The New Drivers

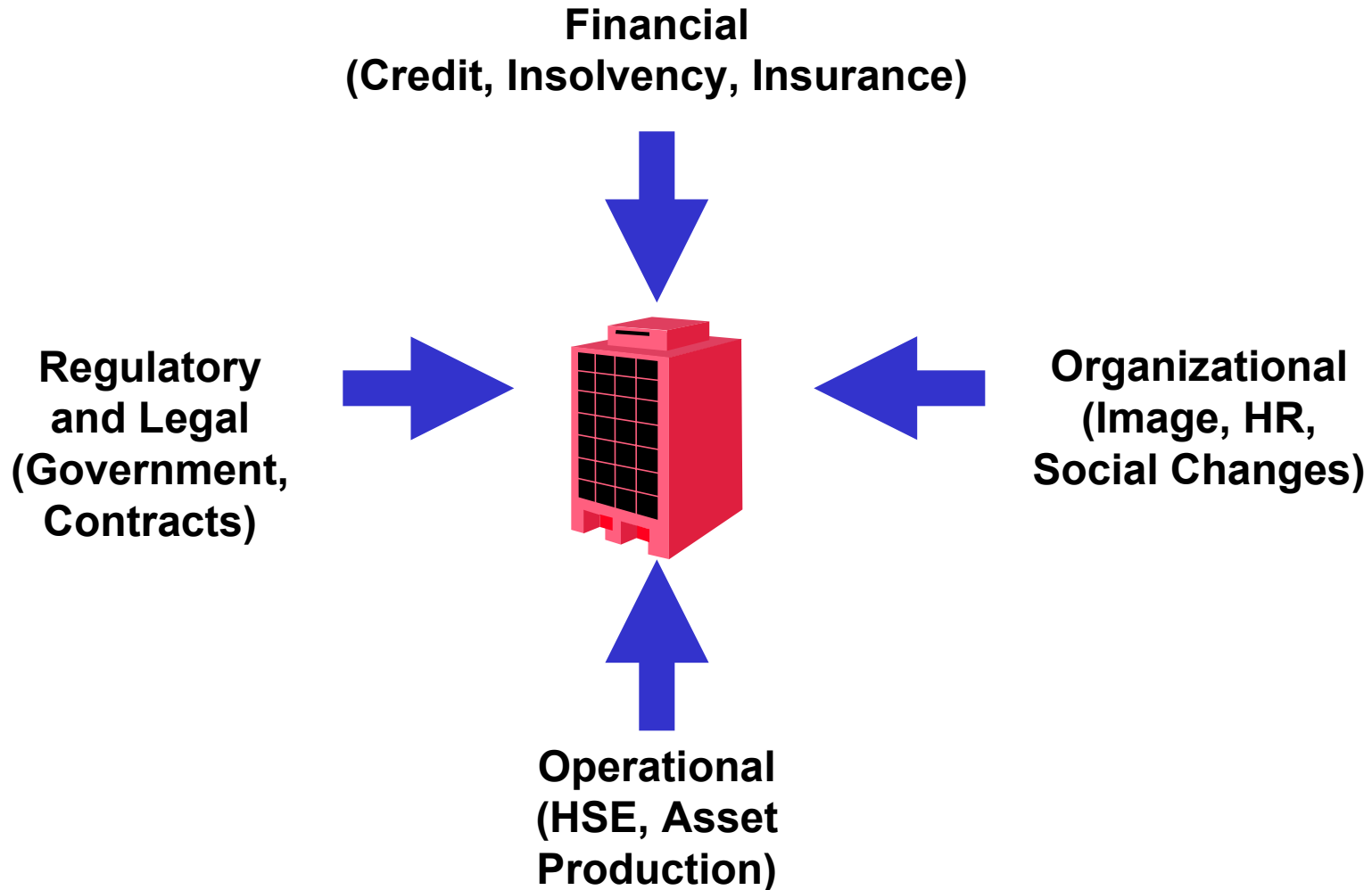


# Business Risk - Definition

***“probability that events or actions will adversely affect an organization’s ability to execute its strategies successfully, and achieve its business objectives”.***

**KPMG LLP**

# Corporate External and Internal Risks





# Environmental Risk Management - Definition

***“systematic application of management policies, procedures and practices to the analysis, evaluation, control, and communication of environmental risk”.***

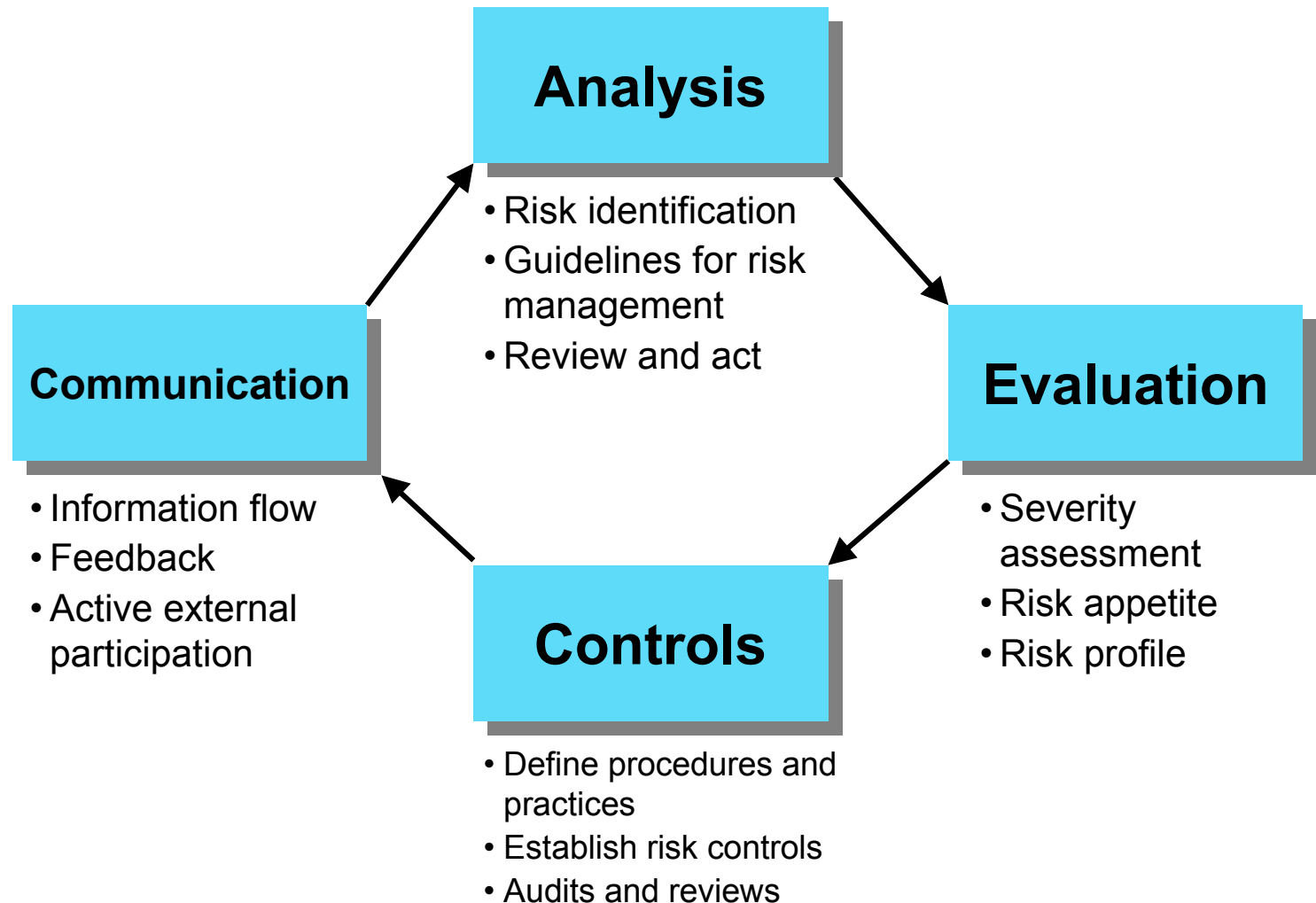
**CSA 1997 (modified).**

# Risk Management Approaches

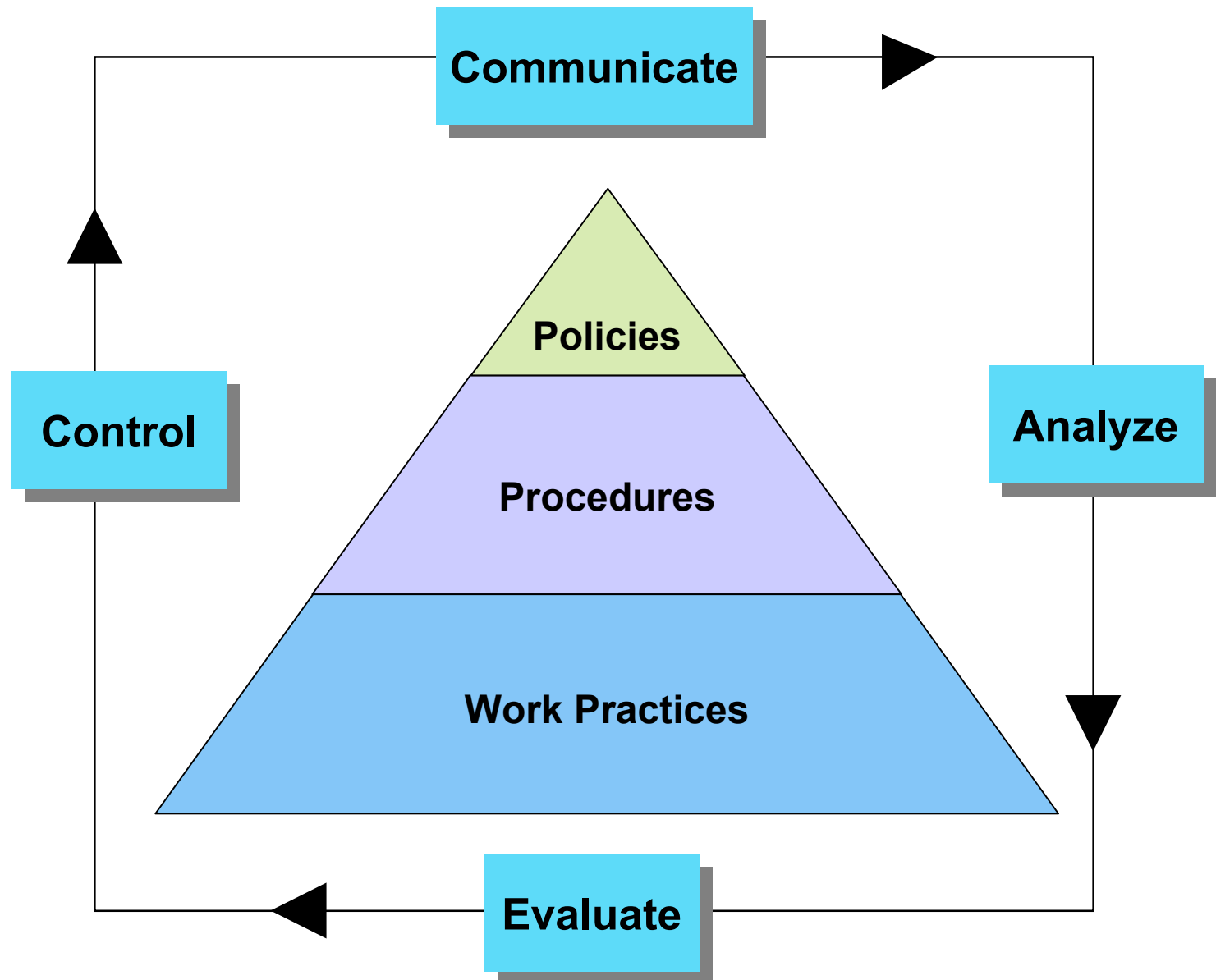
- ***Corporate*** – environmental decision-making framework for several events
- ***Issue Specific*** – frequency and consequence of an individual event



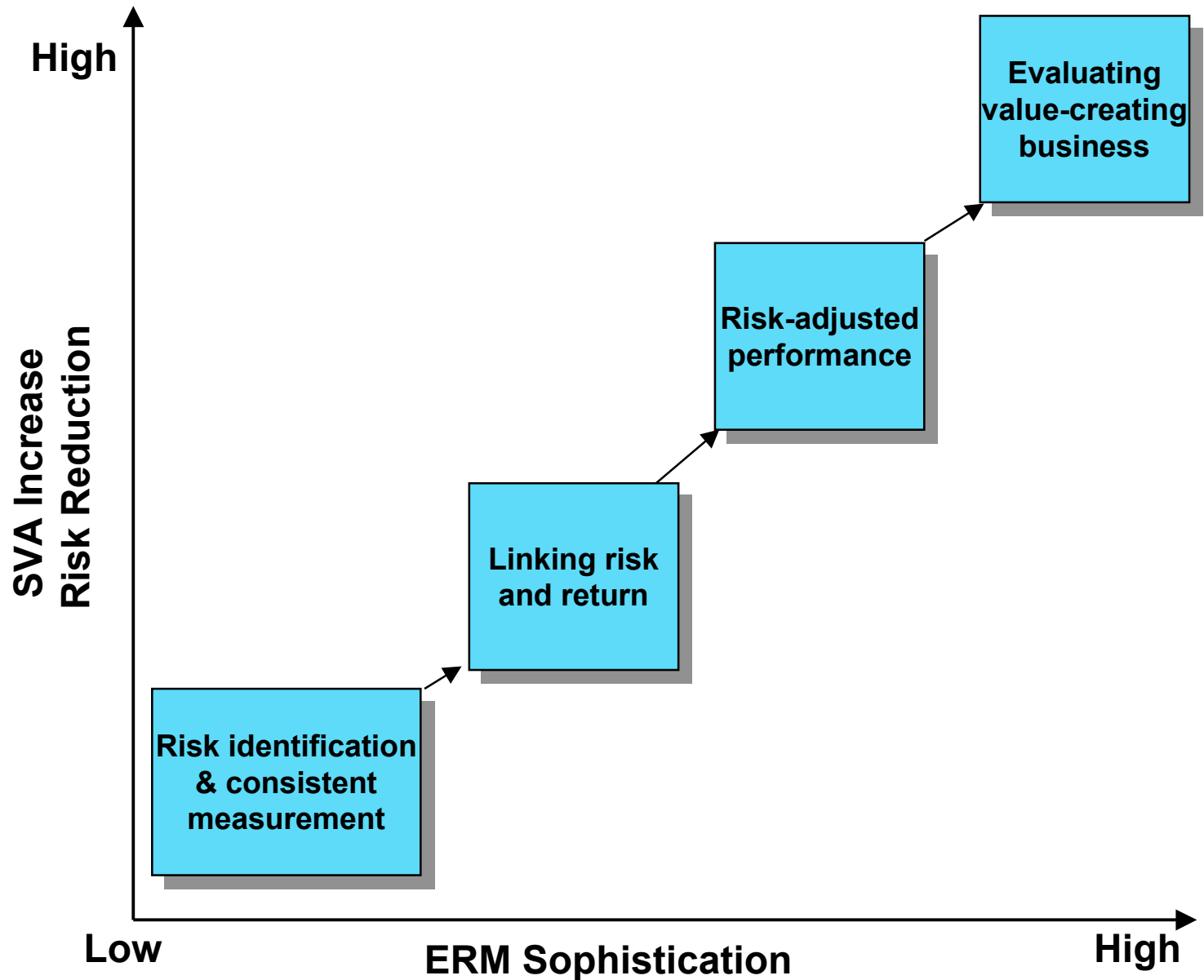
# ERM - The Building Blocks



# EMS - The Hierarchy



# Evolutionary Development



# **Need for Global Environmental Standards - ISO**

- **Brundtland Report/Sustainability**
- **Move away from EPA's command and control to self regulation**
- **Public concern/NGOs**
- **Corporate acknowledgement of global issues (PCBs, dioxins, CFCs, GHGs)**
- **Competing national standards**
- **Potential for non-tariff trade barriers**



# Pros and Cons of ISO 14001 Registration – Shell Canada

## BENEFITS

- Assuming you are already “certifiable”, additional benefits were intangible/soft.
- Possible public relations benefit - be one of the first in Canadian industry.
- Would assist in any due diligence defence.
- May push competitors into following.
- Provide additional internal focus and organization for implementation of EMS.
- Provide definite measure of EMS implementation.
- Becoming certified fits with Shell Group expectations.



# Pros and Cons of ISO 14001 Registration – Shell Canada

## COSTS

- Required additional work to conform to ISO approach.
- Committed Shell to ongoing effort to maintain.
- On-going external audits and cost
- No opportunity to displace or eliminate current HSSD internal audit activities.
- Not becoming certified involved pushing back against Shell Group requirements.



# **Business Case for EMS Registration - KPMG**

- **Reduction in environmental risks**
- **Improved environmental compliance and due diligence status**
- **Elevated corporate image and credibility**
- **Increased customer base/market share**
- **Enhanced environmental performance**



# Conclusions/Trends

- **Stronger linkage between financial & HSE/SD performance**
- **Increased communication of non-financial risks (HSE/SD reports)**
- **Expanded HSE/SD report verification**
- **ISO 14001 is cost-effective ERM option**
- **Increased adoption of ISO 14001 by ENR sector in North America (oil & gas, utilities, forestry/pulp & paper, mining)**
- **More third party certifications (Canada 72% YOY 14001 growth in 2000, total 475)**



# ...Beyond EMS Audits

*Questions?*

*“Just as the Stone Age did not end  
for a lack of stones...*

*...environmental auditing will not end  
for a lack of environmental issues.”*