

# Environmental Responsibility: Good for Business?

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The names “Exxon-Valdez” or “Bhopal” bring to mind searing images of environmental and human disaster. They remind us not only of the devastating international consequences of environmental irresponsibility, but of the high costs to business, both financial and in terms of reputation.

In the 1960s and 70s, environmental awareness was driven by concern over just such instances of industrial pollution, oil spills, pesticide residues, toxic contamination, and urban air pollution. When governments imposed regulations and unproductive “end of pipe” waste treatment, business tended to view environmental responsibility as just one more financial and bureaucratic headache.

This is now changing. Environmental responsibility is now seen more broadly as fundamental to sustainable development—meeting the resource needs of the present without compromising those of future generations. Concern has grown over the health impacts of water and air pollution, greenhouse gas emissions, soil degradation, biodiversity loss, toxic chemical and waste disposal, and unsustainable water use. It is no longer acceptable to live off our capital rather than its interest. And while the market system has generated unimaginable wealth for some, it has not eliminated poverty for the vast majority of human beings. Clearly unacceptable and a source of insecurity.

Today, governments and public opinion have higher expectations of the private sector. It is not sufficient just to make a profit, essential as that is as a source of wealth for long-term development, and as a sign of business efficiency. The private sector is expected to show corporate social and environmental responsibility. Failure to do so can have a significant impact on the bottom line.

How can environmental responsibility be good for business? The 2004 Executive Opinion Survey of the World Economic Forum included a set of questions to business leaders concerning government action on environmental regulations and enforcement, subsidies, government-business cooperation and compliance with international agreements. Other questions gauged business attitudes toward issues such as environmental marketing and labelling, cleaner production and waste reduction, energy efficiency and long term planning, corporate social responsibility and poverty reduction.

It comes as no surprise that economic development and environmental responsibility tend to go hand in hand. Wealthier economies can afford more environmental action than poor ones. But the Survey showed that some wealthier countries are not making adequate efforts to maintain their good environments, while some poorer ones, with degraded environments, are implementing effective measures to reverse the situation. Moreover, it was the more dynamic and competitive business sectors which gave positive answers to this part of the survey. Environmental care and social responsibility are seen to make good business sense, and the stereotype of business in general as anti-environment no longer applies.

The Survey also confirmed that environmental responsibility takes different forms, depending on the developmental stage of each country. In poor countries, whose principal assets are primary commodities and cheap labor, the key factor in responsibility is whether primary products are extracted with due regard to environmental consequences and the well-being of the labor force. Responsible companies aim for a sustainable flow of resources and strengthening of workers' qualifications, rather than cut-and-run profits. For intermediate economies, environmental responsibility means cost-effective environmental controls, pollution reduction, and the efficient production and use of primary commodities. For advanced economies, the competitive edge is in

new environmental technologies and clean production processes, and new markets for environmentally-friendly and socially-responsible products.

Surprisingly, the Survey also showed that businesses are at a disadvantage where environmental regulations are lax, or poorly and erratically enforced. In about 40 percent of countries, governments apply subsidies in ways that distort competition and encourage inefficient use of energy and materials. Corruption in the application of standards undermines competitiveness. Where governments adopt and apply clear environmental standards and regulations, and mandate company disclosure of environmental performance, businesses have a level playing field, where their true competitive advantage can stand out.

This still leaves a problem of imbalances at the global level. The present anarchy in international environmental regulation creates serious inefficiencies for business, in contrast to the economic field where the Bretton Woods Institutions and the World Trade Organization maintain certain principles and standards. If businesses, particularly multilateral corporations, pushed governments to strengthen environmental governance at the international level, both consistent global competitiveness and efficient environmental responsibility would improve.

Business has too long assumed that anything that increases costs hurts competitiveness, and that high standards are a disadvantage in the global market place. These results show that adherence to environmental standards, when carefully planned, not only protects the public and the environment, but represents investment in a good reputation, increasing market share.

No one needs reminding that the impact of unethical corporate conduct can be fatal for even very large companies. While the most obvious examples involve misleading accounting and fraud, environmental irresponsibility is increasingly regarded as unacceptable. Illegal forest cutting in the tropics, unregulated destructive fishing on the high seas, and the export of hazardous wastes to developing countries are widely seen as morally reprehensible. They may be profitable in the short term, but in an increasingly globalized world, nothing can be hidden for long. A business that is caught practising double standards can find the rebound very expensive. Consumer trust is built slowly, and once lost, is not easy to restore.

Today, some innovative enterprises are turning apparent environmental liabilities into business opportunities. By actively exploring the implications of sustainable development for business, far-sighted business leaders can position themselves ahead of their competitors. It is now obvious that businesses will be ahead of the game if they achieve energy economies and reduce dependence on fossil fuels. Opportunities abound in alternative energy-efficient technologies and renewable energy sources. However, as in any emerging area, the successful businesses will be those that best judge the speed at which markets will evolve, and neither fall behind, nor get too far ahead of demand.

Waste reduction and management provide another area for innovation, where one company's waste becomes another's raw materials. Many products, from appliances and packaging to armaments, were conceived with no concern for their ultimate disposal. Every waste is, in a sense, a lost opportunity. There is enormous business potential in eco-efficiency, material flow management, cleaner production, recycling, cradle-to-grave product management, and industrial ecology.

New consumer markets are being built around "fair trade" and "green" consumerism, based on the demand for socially responsible, environment-friendly products. The emergence of certification and labelling programs creates opportunities to rise above the competition and sell to niche markets at higher prices. Organically-grown or environmentally friendly produce, pesticide-free cotton, fish or forest products from sustainably-managed stocks, energy-efficient appliances, safe vehicles and toys, and products manufactured and traded in socially-responsible ways are growing in market

share. Such products are setting standards for a whole industry, where the reputation as a pioneer will be a continuing advantage.

Businesses that want to stay ahead know that it is cost-effective to be proactive rather than reactive, to anticipate problems and avoid them, rather than compensating after investments have already been made. This also means transparency about reporting on corporate policy and behavior up front, instead of responding reluctantly to the demands of environmental groups or governments. In a globalizing world, environmental responsibility is indeed good for business.

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