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BUSINESS & THE ENVIRONMENT PROGRAMME

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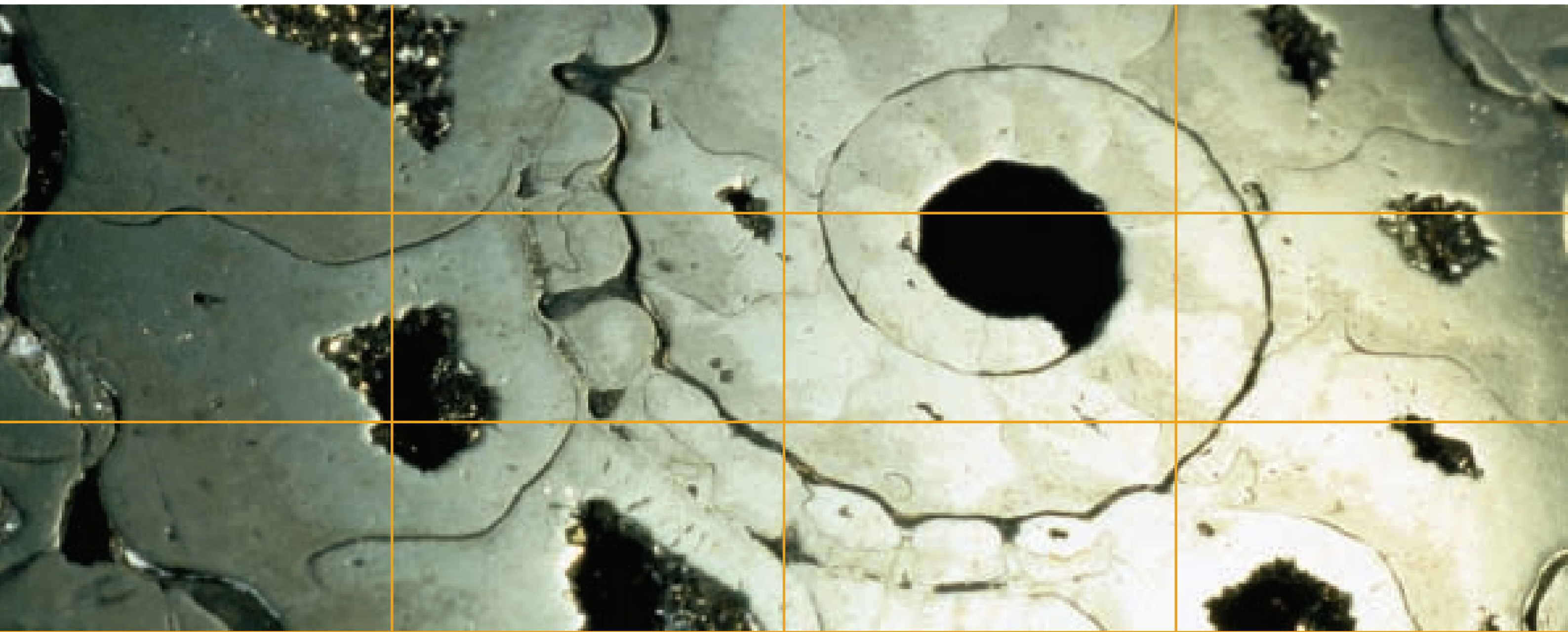

THOUGHT LEADERSHIP

The World in Context: Beyond the Business Case for Sustainable Development

UNIVERSITY OF CAMBRIDGE

PROGRAMME FOR INDUSTRY

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Sustainable development will remain by far the biggest challenge all the way through to the end of this century. If we get it right, the genius and technological virtuosity of the human species will enable us to fashion elegant, regenerative and genuinely sustainable ways of meeting human needs and aspirations. If we get it wrong, the consequences could indeed be dire.

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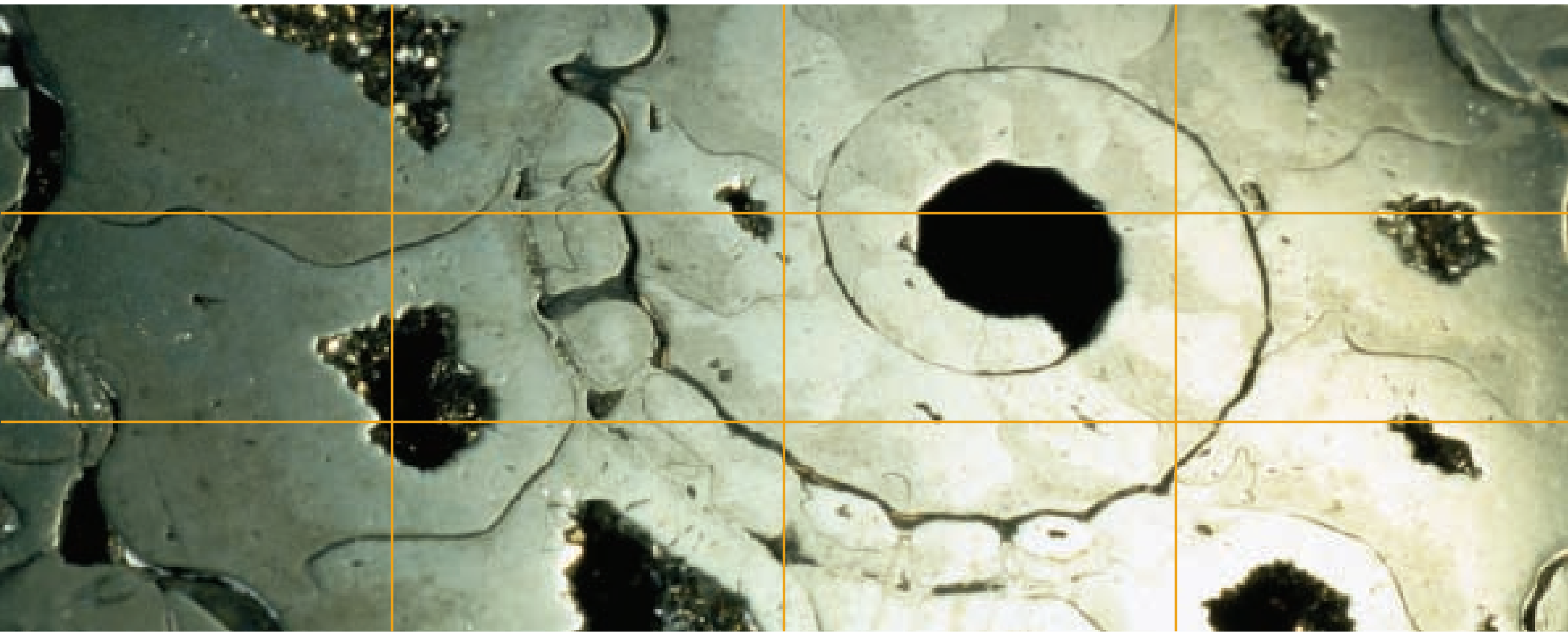

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Foreword

The World in Context: Beyond the Business Case for Sustainable Development is an essay by Jonathon Porritt, Co-Director of HRH The Prince of Wales's *Business & the Environment Programme* (BEP), Co-Founder and Programme Director of Forum for the Future and Chairman of the UK Sustainable Development Commission.

It is the introductory contribution to a new series of *Thought Leadership* papers produced by the *Business & the Environment Programme*. The series will present concise and challenging views from leading practitioners and thinkers on sustainability issues.

The responsibility for the *Thought Leadership* series lies with the BEP Editorial Team of Polly Courtice, Jonathon Hanks, Mike Peirce and Peter Willis. The Editorial Team wishes to thank Jonathon Porritt and all those who provided comments on this essay, in particular the Core Faculty of the *Business & the Environment Programme*.

The Challenge of Unsustainability

It's more than forty years now since Rachel Carson published her ground-breaking "Silent Spring". From that point on, a familiar pattern has emerged. As each new piece of research reveals further evidence of humankind's unsustainable impact on the natural world, dissenting or "contrarian" voices seek either to deny that evidence or to play down its significance. Sometimes they've been proved right; environmental organisations and academics in the field of environmental research are not immune from error, hyperbole and misrepresentation. But the overwhelming balance of the evidence available to decision-makers today confirms one overarching hypothesis: that the health and resilience of all the main life-support systems on which we depend are being systematically degraded by our cumulative impact upon them.

In many respects, that's not so surprising. Between 1970 and 2000, human numbers increased from 3.85 billion to 6.1 billion, and continue to grow by a net 77 million people per year. By 2050, it is estimated that the total world population will be 8.9 billion. Over the same period, the global economy has grown considerably, with world gross national product (GNP) more than doubling since 1970 - a consistent growth at around three per cent annually, which is projected to continue over the foreseeable future. Whilst the seemingly endless swathe of environmental regulation that has been introduced over the last thirty years has brought about significant improvements in local environmental quality for hundreds of millions of people (and has often slowed the pace of national and international pressures on the environment), it has unfortunately failed to reverse global trends that continue to head in the wrong direction. More often than not, it has also fallen far short of the kind of precautionary intervention that so many independent experts now believe is called for.

But so what? As environmental sceptics continue to point out, some of the direst predictions of ecological collapse that dominated the debate in the 1970s and 80s have not been borne out. Many natural systems have proved to be much less "fragile" and much faster to heal than was once feared. And when the real problem was identified (such as the depletion of the ozone layer in the 1980s), effective and relatively rapid international action was taken to get things sorted out. Given that the much–hyped eco-apocalypse has failed to materialise, why should anyone believe the latest self-serving chorus of Cassandras and Jeremiahs?

A not dissimilar discourse dominates the debate about social and economic issues. Whilst pessimists point to growing income disparities, the absolute number of people still living in poverty, and the shocking statistics about the numbers of people dying every day from easily preventable diseases and health problems, let alone HIV/AIDS, the optimists' instant riposte is to point to the astonishing economic success of countries like China and India, the elimination of diseases like polio, growing levels of educational attainment, and a gradual (if somewhat uneven) increase in the numbers of people now able to cast their votes in more or less working democracies. The truth of it is that there are indeed many hopeful and encouraging trends for us to celebrate, ensuring that the "glass half full, glass half empty" debate will inevitably run and run.

But there are some trends that even the most radiant of optimists find difficult to gloss over. For instance, the constant stream of data about intense climatic irregularities all over the world has fixed climate change in most people's minds as a present reality rather than a future possibility. This is confirmed by more than a decade of painstaking analysis of ice cores taken from both the Arctic and the Antarctic, going back over tens of thousands of years, showing that levels of atmospheric CO_2 are pretty steady both during the last few Ice Ages (at about 190ppm) and during the "interglacial" periods between the Ice Ages (at around 280ppm). The record also shows that the climate doesn't move gently or incrementally from one extreme to the other, but tends to swing violently over just a few decades. With current levels of CO_2 already up to 360ppm, and still heading inexorably upwards, there would seem to be some justice in the description of climate change offered by Sir John Howton (one of the UK's most eminent climatologists) as a "weapon of mass destruction".

The Role of Business

What has been the response of the business community to these issues? A number of academic studies have tracked the efforts of individual companies, and of the business community as a whole, over the last fifty years. The story they tell is of a slow but steady journey towards more environmentally and socially responsible behaviour, driven by a complex mixture of external pressure (associated, for example, with increased regulation or fiscal measures), commercial opportunity (responding to market demand), and internal business leadership.

Since the arrival of the World Business Council for Sustainable Development (WBCSD) at the Earth Summit in 1992, the scale of proactive business interventions on both social and environmental issues has increased dramatically. Most of the world's leading companies now report (in one way or another) on their social, environmental and ethical responsibilities. Many have moved way beyond minimalist, compliance-driven strategies, and are working with others (often in cross-sectoral initiatives) to further reduce their "footprint" on the physical environment or local communities. Partnerships with non-governmental organisations (NGOS) and multi-lateral agencies like the World Health Organisation (WHO) or the United Nations Environment Programme (UNEP) are becoming commonplace. Regular surveys of business leaders demonstrate both a growing awareness of the seriousness and urgency of the problems and a realisation that business will need to be far more actively engaged in finding the solutions to these problems.

This is all hugely encouraging. But there remains a huge question mark over the scale of the business response and its uneven character – even amongst the world's top companies there remains an unreconstructed minority that is slow to comply with minimum legal standards and is contemptuous of concepts such as corporate social responsibility. It is noticeable how examples of good practice and progressive policies emanate from the same somewhat restricted core of the "usual suspects".

Again, from an historical perspective, that is hardly surprising. Regrettable though it may be, part of the dynamism of the last two hundred years of industrial progress arose from the ease with which wealth creators could externalise part of their costs – on to the surrounding environment, local communities, their employees or future generations. Such costs were deemed to be an acceptable price to pay for economic progress; it made it easier to create jobs and keep prices competitive and profits high. Legislation has always defined the permissible level of cost externalisation and too often in the past governments have upheld the narrow interests of industrialists at others' expense. Wealth creators have therefore enjoyed a literal "licence to pollute" for so long that we have lost track of the mounting costs; only recently (over the last two or three decades) have we come to realise that this is neither a rational nor a sustainable way to proceed.

Wealth creators today (unlike their predecessors) often find themselves working in three different time zones. They are increasingly obliged to clear up "legacy issues" – liabilities arising out of all the licensed cost externalisation that has finally come home to roost; they're having to deal with far higher expectations on the part of contemporary consumers and citizens, who no longer see destroying the planet or exploiting less fortunate people than themselves as "an acceptable price to pay" for economic progress; and they are now having to take account of the interests and rights of future generations, as in that evergreen definition of sustainable development in the 1987 Brundtland Report: "Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

The Business Benefits of Sustainable Development

ECO-EFFICIENCY

1 Reduced costs
2 Costs avoided (Design for Environment, Eco-innovation)
3 Optimal investment strategies

QUALITY MANAGEMENT

4 Better risk management
5 Greater responsiveness in volatile markets
6 Staff motivation/commitment
7 Enhanced intellectual capital

LICENCE TO OPERATE

8 Reduced costs of compliance/planning permits/licenses
9 Enhanced reputation with all key stakeholders
10 Influence with regulator

MARKET ADVANTAGE

11 Stronger brands
12 Customer preference/loyalty
13 Lower costs of capital
14 New products/processes/services
15 Attracting the right talent

SUSTAINABLE PROFITS

16 New business/increased market share
17 Enhanced shareholder value

The Business Case

What makes it all the more interesting is that business leaders are having to rise to this challenge at a time when capitalism is passing through one of those phases where the interests of shareholders are given absolute precedence over all other stakeholder interests. Short-term profit maximisation, in the interests of shareholders, has become an unquestionable mandate for Chief Executives and leadership teams – a mandate that they may seek to evade or amend only at their peril.

Demonstrating a convincing business case for improving social, environmental and ethical practice has therefore become a precondition: either prove that whatever it is that you want to do (beyond compliance with legal standards) will be in the interests of shareholders, or just don't do it. Fortunately (in one sense), so many companies were so badly run right up to the last decade that huge savings have been secured through relatively simple eco-efficiency programmes – controlling inputs (energy and raw materials), designing more efficient processes, managing waste arising and so on. Serious shareholder value has been delivered to the tune of billions of dollars every year simply by reducing those self-same environmental externalities – though one might legitimately ask what made it acceptable up until that point so egregiously to *destroy* shareholder value.

When the World Business Council for Sustainable Development first started putting together a proper business case for sustainable development in the early 90s, eco-efficiency, better risk management and a little bit of stakeholder engagement to secure one's "license to operate" was just about the full sum of benefits on offer. Since then a lot more attention has been devoted to some of the intangible benefits of better practice in these areas, as can be seen in the table on the left.

Not all of these potential benefits are applicable to every company: it all depends on which sector one is operating in, on the level of direct contact with consumers, on the inherent levels of risk entailed in different business activities, on legislative pressures and so on. In the hands of the business leader able to articulate a company's mission in the language of long-term value creation rather than short-term profit maximisation, the sum of these business benefits is more than adequate to justify radical improvements in social, environmental and ethical performance. And more than adequate to rebut the weakening rhetoric of the Milton Friedman school of economics – "The business of business is business" – with its dog-eared dogma of short-term profit-maximisation at all costs.

But if that's the case, why aren't more companies marshalling a more comprehensive and persuasive business case? Put to one side those that are still in denial, indifferent, or plain irresponsible, and focus instead on the much larger number of companies theoretically willing and able to do more, but finding the going tough.

One of the biggest problems companies face is that the investment community (analysts, fund managers and so on) remains ill-equipped to judge the significance of the measures such businesses have introduced. Those professionals are there, after all, to assess financial data and management quality; environmental and social responsibility usually remains impenetrable alien territory. This is inevitably compounded by the question of materiality. For any listed company in any of the world's financial centres, the sums of money they are dealing with are huge. With the best will in the world, even tens of millions of dollars saved through eco-efficiency programmes or better designed and safer products, may simply not make a difference in the kind of balance sheets the analysts are reviewing.

Many of these potential benefits would be a great deal more substantial if governments showed consistent resolution in their use of the price signal or other fiscal interventions. Ensuring that the prices people pay for things really do reflect their full environmental and social costs – "cost internalisation" – is one of those over-arching principles that all OECD governments (including the United States) have signed up to for decades with apparent enthusiasm. How else can consumers get the information they need in transparent markets to make the kind of rational decisions on which the efficacy of those markets depends? But when it comes to the crunch (which usually means making people pay more for products or services that have in effect been subsidised over decades by governments condoning continued cost externalisation), governments have proved weak and inconsistent. A continuing inability to secure genuinely level playing fields (with *all* competitors, anywhere in the world, required to internalise costs equally), pretty much guarantees that concerns about relative competitiveness will always trump concerns about the state of the planet.

All of which makes it a great deal harder to add genuine value for shareholders (while simultaneously "doing the right thing" from an environmental or social point of view) than would be possible in a more intelligently designed market economy. For some, this provides ample reason to avoid unnecessary risk and simply keep their heads down in that all-too-

"I don't believe ethical behaviour should depend on its paying. To suggest that doing right needs to be justified by its economic reward is amoral, a self-inflicted wound hugely damaging to corporate reputation...Doing right because it is right, not because it pays, needs to be the foundation of business. If we are to preserve the most effective mechanism the world has known for the provision of goods and services – that is the market economy with the public limited company its main instrument – then it has to be underpinned by principle. Financial failure can destroy individual companies. Moral failure will destroy capitalism."

Sir Geoffrey Chandler
– Former Senior Executive,
Royal Dutch/Shell, and Founder-Chair,
Amnesty International UK Business Group

comfortable compliance–driven zone. For others – as can be seen in the quote from Geoffrey Chandler – such difficulties are immaterial: for business ever to be trusted as a genuine partner in fashioning solutions to today's sustainability dilemmas, the *moral* reason for doing something should always take precedence over any number of commercial reasons – or indeed the lack of them.

Even the keenest of sustainability champions may find something a little unworldly in such an uncompromising, values-driven position. No senior executive is allowed to forget for long that, however much the company may value the full spectrum of its stakeholders, Stakeholder No. 1 is always the shareholder. The steady stream of investment analysts through one's corporate headquarters is ample reminder of this. But two things are abundantly clear even within those constraints: first, the vast majority of companies could still be doing a much more authoritative and persuasive job in working up what the specific business case is for them. The amount of research and serious analysis done on this remains pitiful. Second, without a values driver, even the most hard-edged and sophisticated business case is likely to founder. If there's really nothing more to a company's engagement on these issues than a cynical and manipulative belief that the sole justification for doing anything is because it underpins future profitability, then employees, consumers, the media and NGOs will rapidly mark it down as just another "business-as-usual" stratagem.

Confronting the Dilemmas

Unfortunately, this is by no means the sum of the dilemmas that companies must face up to when operating in markets that are poorly designed (in terms of failing to reward better performance on social and environmental issues), and perverse in the way they incentivise short term and continued cost externalisation. In many countries, companies must also wrestle with the conundrum of consumer ambivalence: whilst substantial majorities of people profess to supporting the idea of using their purchasing power in more environmentally, ethically and socially responsible ways, most do not follow this with action (other than a significant minority in OECD countries, particularly with something as well-established as organic food). It's only when more sustainable products are able to offer exactly the same value for money, reliability and quality that they become part of the consumer mainstream.

For many advocates of consumer power, that will sound unnecessarily downbeat. It's true, of course, that there are many inspiring examples of consumer power mobilising in defence of both the environment and of oppressed people, going right back to campaigns for dolphin-friendly tuna and CFC-free aerosols, and against apartheid in the 1980s. More recently, throughout Europe genetically modified (GM) crops have met a wall of resistance from consumers, notwithstanding the combined firepower of governments, many independent scientists and the whole biotech industry trying to persuade them that they're acting "irrationally". The record tells us, however, that such campaigns are much more likely to succeed when the issue is stopping bad things happening rather than making good things happen. Far larger numbers of consumers can be mobilised for the former than for the latter – which as far as companies are concerned makes this a somewhat problematic driver for change.

And there's a deeper worry that is rarely confronted by environmental or social justice campaigners. Many environmentally destructive activities and products seem to remain deeply attractive to the majority of consumers. At the glamorous end of "conspicuous consumption", which does so much to fuel mass consumer aspirations, environmentally-friendly technologies are not going to find it easy to deliver the ever-expanding choices involving speed, fashion, change, variety and luxury which the globalised affluent middle classes increasingly expect. At the more mundane level of mass consumption, there is as yet minimal consumer willingness to trade off the conventional consumer values of convenience and low price against enhanced environmental or social performance. Even if it is technically possible to combine environmental sustainability and economic growth, it is by no means apparent that consumers are currently prepared to choose the kind of economic growth that this implies.

A better understanding of what is now expected of consumers might be arrived at if consumers had more trust in big business. But survey after survey shows that levels of trust have plummeted over the last decade or more – a movement accelerated but by no means caused by the spate of governance and corruption scandals that have recently come to the fore in both the United States and Europe. Whether this is fair or not, the prevailing view (particularly in Europe) is that the majority of business leaders are overpaid, far too preoccupied with their own material wellbeing, and disconnected from the reality of most ordinary people's lives. Given that perception, the role of the business leader in helping people to understand the scale of the challenge becomes intensely problematic.

But it's not just in business that such dilemmas abound. Many NGOs are deeply conflicted when it comes to determining the appropriate role for business in civil society. On the one hand, they abhor the notion that business leaders seem to have some kind of privileged access to politicians, and are deeply critical of the special interest lobbying on which almost all multinationals spend such huge sums of money. On the other hand, they grudgingly look to the self-same companies to play a far more benign role in developing countries, often urging them to take on quasi-governmental roles in terms of education, healthcare, community development and so on.

Boundary Conditions

This has led to an increasingly lively debate about the respective roles of governments, business and civil society in shouldering the burden of transforming our patently unsustainable economies. Business organisations and trade associations are understandably nervous at seeing the woes of the world dumped on their members when their day-to-day reality (as we've seen) is so fundamentally constrained by the market conditions in which they have to compete.

In many countries, governments have exacerbated this blurring of responsibility by demonstrating increased reluctance to regulate as they once did for improved social and environmental standards. Though less influential today, the deregulatory fervour of the 80s and early 90s is still apparent in the way governments (and the international and multilateral bodies that take their mandate from these governments) continue to favour voluntary agreements, covenants and exhortatory bluster over either regulatory or fiscal intervention. At the same time, the scope for unilateral action by any one nation has been systematically diminished as sovereignty has been handed over to supranational bodies like the EU or the World Trade Organisation.

Yet for all the talk of governments "stepping back" from their traditional regulatory roles, and of businesses becoming disproportionately powerful, the degree to which the balance of power has really shifted is often exaggerated. It's absurd, for instance, to look to businesses to sort out chronic market failures, let alone some of the more grotesque dysfunctionalities in society caused by the continuing failure to distribute wealth more equitably, when those businesses clearly have no mandate whatsoever to intervene in such ways. The legal and fiduciary duties of listed companies are crystal clear in terms of what they owe their shareholders and the legislatures that set the laws of whatever market they are operating in. If those legal and fiduciary duties are held to be instrumental in causing companies to act irresponsibly (in favouring short-term profit maximisation over all other interests, for instance), then it is the task of governments with their democratic mandates to reframe them. Just as it's the task of governments to shape markets and set tax regimes in such a way as to serve the interests of citizens today without jeopardising the interests of generations to follow.

Radical Discontinuities

Few will envy our politicians as they pursue those tasks. The geopolitical signals are getting harder and harder to read as far as businesses are concerned. On climate change, for instance, the Kyoto Protocol remains unratified and largely unloved, with America still implacably hostile and Russia playing very hard to get. Even the EU, the Protocol's strongest advocate, can hardly claim to be setting the kind of example that might inspire others – with every member country apart from the UK and Sweden unlikely to meet its *binding* targets for reducing CO_2 and other greenhouse gases before 2012.

Yet the scientific consensus remains firm: in the words of the Intergovernmental Panel on Climate Change, any warming of more than 2°C during this century "is likely to prove extremely dangerous". And that means holding levels of CO_2 below 450ppm, which in turn means drastic cuts in emissions over the next fifty years. Ultimately, with or without the Kyoto Protocol, politicians will need to broker an agreement under which every citizen in the world, rich or poor, should be allocated an equal "share of the atmosphere's capacity" to absorb carbon dioxide without precipitating dangerous climate change. Allowing for continuing population growth, that works out at about 0.3 tons of carbon per head – less than one third of the current global average of a tonne of carbon per annum!

Against this backdrop, it's hardly surprising that we would appear to have taken our eye off the equally vexed question of what happens when the age of cheap fossil fuels comes grinding to a halt – as it assuredly must. The key date for assessing this is the point at which global oil production peaks; US production peaked in 1970, UK production in 2000/2001, Saudi Arabian oil is not due to peak until 2015. Geologists involved in the debate tend to incline towards an earlier date (around 2005) principally on the basis that overall discoveries of oil peaked back in the 1960s, with just one new barrel of oil being discovered today for every four that are consumed. However, economists incline towards a later date of 2015 on the grounds that there has always been more in the ground than the experts have historically predicted, and extraction techniques just seem to go on getting better and better. In forward planning terms, even 2015 is just around the corner. It's true that global production peaking is not, of course, the same thing as oil running out. Huge amounts of oil will still be pumped after that point – but on an inexorably declining basis. At that point, the price mechanism will inevitably kick in, and rising prices will extend the period of time that oil remains available for various uses in society. But the end of "cheap oil as we have known it" essentially means the end of that whole historic interlude in which cheap oil fuelled fast growth, high living standards, and the kind of "live for today, live for No. 1" lifestyles that have now become so destructive. This will be a crunch point for politicians and business leaders all around the world. Conventional economic growth and cheap oil have marched hand in hand for the best part of 60 years; within just a few years a decoupling will be inevitable.

With both climate change and oil depletion, equity issues inevitably loom very large. With something like climate change, solutions are not available on a national or even a regional basis: we are bound together as one people seeking to align our global economy within the tolerance thresholds of the global carbon cycle. Interdependence is not some "nice-to-have" ideal for the future, but a precondition of successfully navigating our way towards that future. By the same token, developing countries will understandably demand that the transition from the age of fossil fuels to the emerging solar age should not further disadvantage their economies or thwart the legitimate aspirations of their people.

These big resource/equity dilemmas are only rarely played into the current debate about globalisation, which in itself raises all sorts of questions about the resilience of current economic models. It's fair to say that most business people in the West (and particularly in the United States) remain somewhat bemused at the intensity of the furore about the relative pros and cons of an increasingly globalised economy. Given the indisputable benefits that most citizens of the OECD have enjoyed as a consequence of industrial progress over the last hundred years or more, it seems incomprehensible to them that there are now so many individuals and organisations implacably opposed to any further extension of that kind of economic progress. However, to describe those organisations campaigning against poverty, third world debt, abuses of human rights, corruption, environmental degradation, privatisation of the public commons, and the unaccountability of multinationals (to name but the most prominent of grievances) as an "anti-globalisation movement" is something of a misnomer. Most of these organisations are indisputably anti-corporate, and a rather smaller number are anti-capitalist, but all will acknowledge that the world is by and large a better place for improved global communications, for the internet, and for improved understanding between nations.

Nor is it any longer correct to argue that this is an exclusively negative movement, eloquent in its denunciation of literally countless abuses of people and planet, but incapable of coming to any kind of agreement as to what it actually stands for. The extent of the common ground on which they *all* stand is becoming clearer and clearer: increased decentralisation of power; global and national regulation of large corporations; community-based local enterprise as an antidote to international trade; and a passionate belief in "development-as-freedom" to borrow the core philosophy of the economist Amartya Sen.

There is consensus on one further point: that the role played in the global economy by multinational companies lies at the very heart of the problem. There is a powerful school of thought which argues that multinational companies have systematically increased their reach, scope and influence so that they are now *the* dominant social institution anywhere in the world. A number of books over the last decade have lucidly analysed the build up of corporate power, its progressive "take-over" of political and legislative systems (particularly in the United States, but now almost everywhere in the world), and the malign consequences of this for effective government.

By this radical critique, multinational corporations are seen to have slipped their constitutional leashes, to be accountable solely to their shareholders in whose interests profits must be maximised at all costs. For one reason or another, enough people are still sufficiently persuaded that this exercise of power (predominantly in the interests of a tiny minority of human beings) still best serves the interest of the vast majority.

Hence the call from NGOs (made most recently at the World Summit on Sustainable Development in 2002 by Friends of the Earth International) for a Global Convention on Corporate Accountability. Although most NGOs acknowledge that multinational companies are already achieving a fair amount through voluntary mechanisms, they do not believe that this can possibly go far enough. A new Convention would include mechanisms to obtain redress for any stakeholders adversely affected by the impact of multinationals. The Convention would identify clear social and environmental duties for all companies, which would include reporting on environmental and social performance in an accessible fashion, as well as imposing rules for consistently high standards of behaviour wherever corporations are operating in the world.

Leadership and Cultural Change

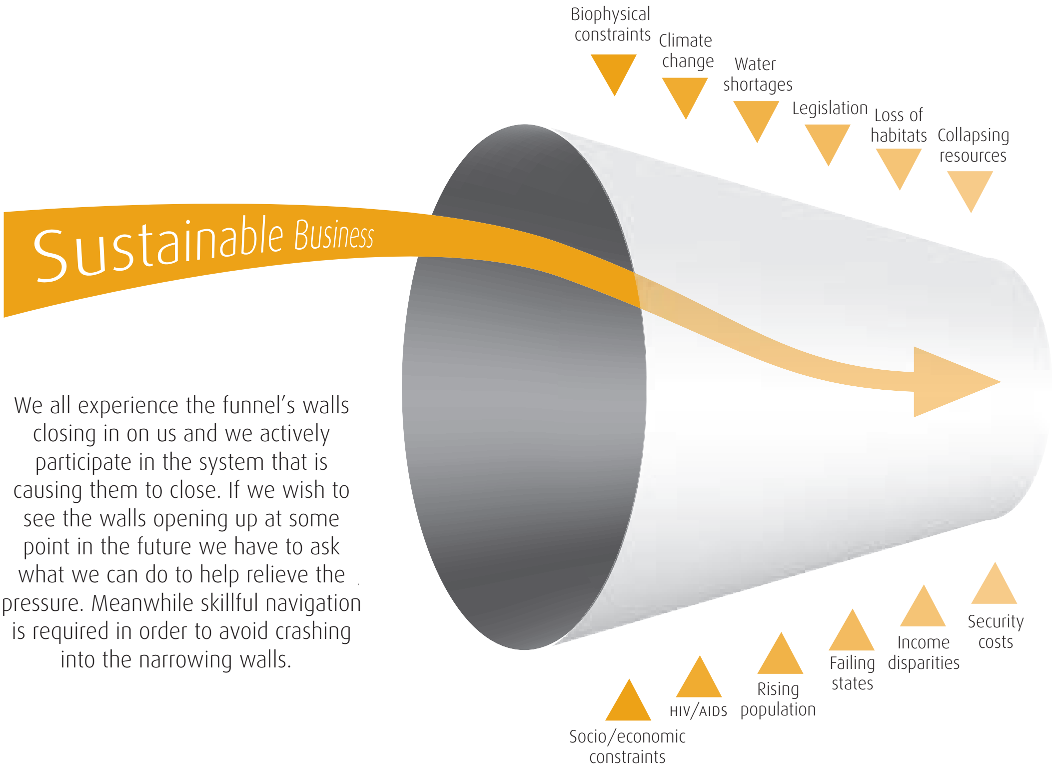
Most people who work for multinationals find these perceptions incomprehensible and profoundly insulting. Far from seeing themselves in the vanguard of an asset-stripping, culture-crashing, life-threatening juggernaut of globalisation, they unhesitatingly describe the extension of their influence across the planet as a "force for good", raising living standards, meeting wholly legitimate demands for new products and services, creating jobs, generating tax revenues, and more often than not, operating to higher standards (in terms of environmental performance and ethical behaviour) than is legally required of them in those countries.

So should this just be written off as one of those intractable dialogues of the deaf? To do so, as far as business is concerned, would be to assume that the current focus on corporate contributions (positive and negative) to securing a more sustainable world may have already peaked, and might decline from hereon in. There has long been a school of contrarian thought that seeks to persuade business leaders that this focus on the role of business is indeed no more than a "fashionable spasm", born of the anger of the 80s and the angst of the 90s – albeit a rather prolonged spasm!

By contrast, most experienced business commentators see a rising curve of heightened societal expectations of business, less forgiving investors, and gathering pressure for increased transparency and improved governance.

Add to that the incontrovertible reality that many of the key biophysical systems that underpin our economies will become increasingly stressed, and the strong likelihood that equity and distribution crises will impinge much more forcefully on both national and international political processes, and the room for manoeuvre available to global companies today can only become more constrained – as captured in the graphic of the "sustainable business funnel" used by The Natural Step and other sustainability frameworks.

The purpose of this graphic device is not to depress or disempower, but rather to remind business leaders that success in such a volatile world depends increasingly on being prepared for the worst as well as the best. Forewarned is



We all experience the funnel's walls closing in on us and we actively participate in the system that is causing them to close. If we wish to see the walls opening up at some point in the future we have to ask what we can do to help relieve the pressure. Meanwhile skillful navigation is required in order to avoid crashing into the narrowing walls.

forearmed. Securing that smooth line through the funnel, rather than constantly coming to grief, crashing into the walls of the funnel as they narrow in, already demands business vision and leadership. It would be naïve to assume this scenario to be less demanding in terms of the quality of leadership it requires.

Business Strategies

For many companies, it would be easier to make a truly convincing case for proactive engagement on environmental and social issues if their prevailing business model allowed for a more accurate reflection of these biophysical and socio-economic pressures. But only in a handful of companies involved in high profile, high risk or high opportunity sectors can one find evidence of that kind of strategic "mainstreaming". For the most part, both sustainable development and corporate social responsibility remain second order interests firmly fixed in the "must do", compliance-driven bit of the business brain rather than being driven by a more opportunistic sense of what it means to be "world class" in a fast changing world.

The terminology may not be helpful here. Corporate Social Responsibility (now increasingly shortened to Corporate Responsibility) has a moralistic overtone that some companies find irritating. Sustainable development is seen by many as an equally worthy and abstract concept, vulnerable to so many partial and conflicting interpretations as to raise all sorts of questions both about its usefulness and its rigour. Only rarely is sustainable development properly connected back to the much harder-edged science of sustainability (based on the laws of thermodynamics, evolutionary biology and systems thinking), often leaving it marooned in a sea of subjective and contested single issues. Around these two concepts swirls a fog of confusing jargon that grows by the month and seems to become more and more elitist.

But it would be wrong to be too downhearted at this undeniable state of confusion. It's little more than fifteen years since the pioneers in this field first started talking about "triple bottom line" accounting – a linguistic device that has helped hundreds of companies to start thinking in a much more integrated and strategic way about their wider responsibilities. The BEP's *Reference Compendium on Business and Sustainability* is one document that highlights the extraordinary profusion of new initiatives, new thinking and new practice. Many companies are increasingly geared to their different stakeholders, be they employees, consumers, host communities, business suppliers, or NGOs. This "stakeholder perspective" has been reinforced by the emergence of the Global Reporting Initiative, perhaps the most ambitious of all today's international efforts to develop a

Understanding the Five Capitals Model

The Five Capitals Model provides a useful means for conceptualising sustainable development. In terms of this model, the crisis of sustainability is seen to arise from the fact that we are consuming our stocks of natural, human and social capital faster than they are being produced. Unless the rate of consumption is effectively controlled, then vital stocks cannot be sustained over the long-term. With this in mind, businesses should seek to identify and implement practices that either increase the stocks of these capital assets – in other words living off the income rather than depleting the capital – or (to a limited extent only) that substitute one form of capital for another.

There are five types of sustainable capital from which we derive the goods and services that we need to improve the quality of our lives:

- **Natural Capital** refers to the natural resources (matter and energy) and processes that produce and deliver goods and services. They include renewable and non-renewable resources, sinks that absorb, neutralise or recycle wastes, and processes such as climate regulation that maintain life.
- **Human Capital** consists of people's health, knowledge, skills, motivation and capacity for relationships. All these things are needed for productive work, and the creation of a better quality of life. Human capital can be fostered through improving opportunities for learning, creativity, stimulation and enhanced health.
- **Social Capital** concerns the institutions that help us maintain and develop human capital in partnership with others. It includes such institutions as families, communities, businesses, trade unions, schools, and voluntary organisations. A critical component of social capital is the development of trust.
- **Manufactured Capital** comprises material goods, or fixed assets that contribute to the production process or the provision of services, rather than being part of the output itself. It includes, for example, tools, machinery, buildings and infrastructure.
- **Financial Capital** plays a critical role in our economy, enabling the other types of capital to be owned and traded, for example through shares, bonds or banknotes. Unlike the other types of capital, it has no intrinsic value itself, but is representative of natural, human, social or manufactured capital. Financial capital is the traditional primary measure – the "single bottom line" – of business performance and success.

common framework for identifying, measuring and reporting on matters of critical environmental, social and ethical concern.

Another framework which can help conceptualise sustainable development is the Five Capitals Model (see Box). In essence, this is designed to align our understanding of the state of the Earth and its people with some of the core tenets of capitalism, defining sustainability in terms of our collective capacity to maintain and enhance our stocks of natural, social, human, manufactured and financial capital. Such an alignment is critical if we are to harness the dynamism and universal appeal of market-based economics to the non-negotiable imperative of fashioning sustainable livelihoods for the six billion people with whom we currently share this constrained planet – and the nine billion with whom we will probably share it in the second half of this century.

What Next?

The idea of a "non-negotiable imperative" still comes as a bit of a shock to the inheritors of a two hundred year old model of growth and expansion that brooked no limits, recognised no constraints on the ambitions of humankind, and saw the natural world simply as land to be colonised, resources to be exploited, and wealth to be harvested and mined. In the equivalent of a geological nanosecond, we've moved from a world all but empty (in human terms) to half empty, to half full, and, soon, full to bursting. Whilst our numbers and our material aspirations continue to grow, nature's systems and resources remain finite, capable of providing us with the wealth we need only if we recognise the limits and regenerative capacities of those systems.

As many world leaders have pointed out in ironically eloquent speeches at a succession of global summits on the state of the Earth, this is by far the biggest challenge humankind now faces. And it will remain by far the biggest challenge all the way through to the end of this century. If we get it right, the genius and technological virtuosity of the human species will enable us to work *with* rather than *against* those natural systems, to fashion elegant, regenerative and genuinely sustainable ways of meeting human needs and aspirations. If we get it wrong, the consequences could indeed be dire. One way or the other, however, it's worth reflecting on the fact that the destination will be the same. For there really is no alternative for humankind other than to learn to live sustainably on this planet.

BEP Publications

BEP's publications focus on critical aspects of sustainable development from a business perspective. Through these documents, the BEP hopes to share with you stimulating, inspirational and, at times, provocative examples of how corporations are making sense of sustainable development.

From introductory overviews to provocative thought-pieces and specialist papers, BEP's publications offer constructive and imaginative support both to the expert and the sustainability initiate.

Background Briefings

BEP's *Background Briefings* provide senior executives with the practical building blocks to appreciate and address the emerging sustainability agenda – from ready reference guides to the key social and environmental issues and influential tools, guidelines and international initiatives, to briefings on specific techniques such as risk management, product stewardship and stakeholder engagement.

Thought Leadership

BEP's *Thought Leadership* papers offer a series of concise opinions from leading practitioners and thinkers. The essays confront conventional thinking and critically question whether the current response of business, government and civil society is adequate to address the challenges of unsustainability.

Functional Briefings

The *Functional Briefings*, produced in partnership with the World Business Council for Sustainable Development, provide a compelling case of the commercial opportunities and competitive advantage that may be gained by business functions from the integration of a sustainability perspective. Although designed for non-specialists, the briefings can also help sustainable development managers in introducing the topic to different functional teams.

Occasional Papers

Over its ten years of existence, BEP has provided an active and vibrant forum for debate through its Senior Executive Seminars and alumni network. This has resulted in a wealth of discussion, knowledge, experience and learning, which from time to time is captured in the form of occasional papers and reports.

For more information on BEP's publications, please contact a CPI office or see www.cpi.cam.ac.uk/bep

University of Cambridge Programme for Industry (CPI)

The Business & the Environment Programme is developed and run by the University of Cambridge Programme for Industry (CPI) - the University's department for professional development with a reputation for excellence in work-based workplace learning. Founded in 1988, CPI is the University's largest dedicated unit for professional and executive programmes, and is recognised as a leading provider in its field.

CPI defines its purpose as building the leadership capacity of business, governments and civil society to respond to contemporary societal challenges. Our work supports the mission of the University of Cambridge which is to contribute to society through the pursuit of education, learning and research at the highest international levels of excellence.

HRH The Prince of Wales's Business & the Environment Programme (BEP)

BEP is the premier executive learning programme on sustainable business. The aim of the Programme is to help organisations integrate the concepts of sustainable development into their business thinking and practice. Senior Executives' Seminars run four times a year in different parts of the world, and have helped over 900 business leaders understand both the challenges and opportunities of sustainable development. The Programme's active alumni network comprises some of the most senior decision makers in business and civil society worldwide and through its activities provides further inspiration, encouragement, support and advice to those wishing to help their organisations take a lead on sustainability issues.

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"As our awareness of the stark realities and consequences of environmental degradation grows, so do society's expectations of the role that business will play in finding solutions. It seems to me that there is an increasing need for business leaders to come together and grapple with these complex problems in the company of representatives from government and civil society, and with facilitation from expert practitioners in the field."

HRH The Prince of Wales April 2003

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