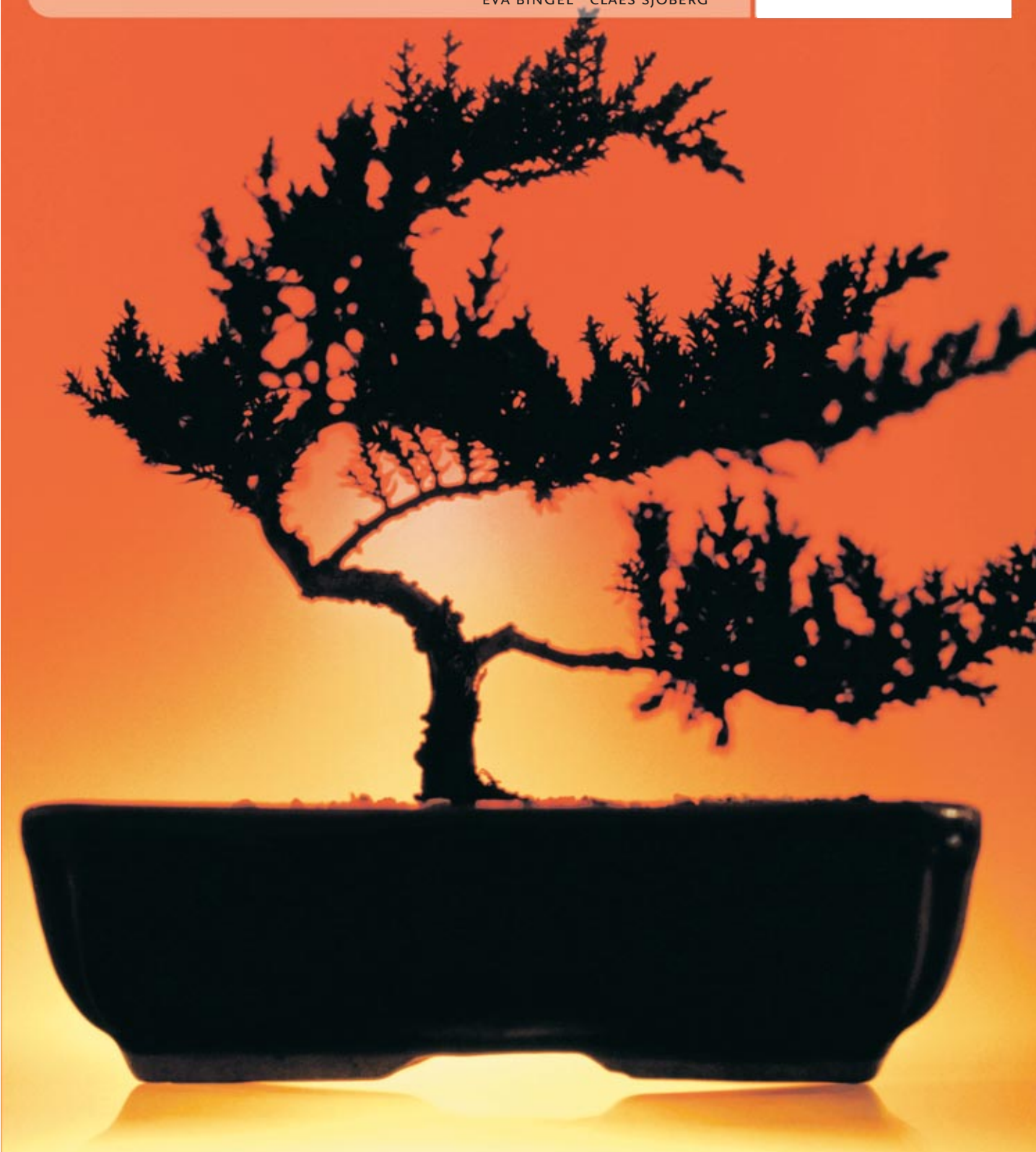
From Defensive to Proactive

Companies and Sustainable Growth

EVA BINGEL CLAES SJÖBERG

SVENSKT NÄRINGSLIV
CONFEDERATION OF SWEDISH ENTERPRISE



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Contents

Foreword

Corporate ethical, social and environmental responsibility is a frequent topic of public debate nowadays. This is an important and necessary debate. Business is the most important prosperity-creating factor in the world. Successful companies laid the foundations of the modern European welfare societies, and it is the constant evolution of business and industry, the development of new products and services to meet the demands of a changing market, that are shaping the future.

Thanks to companies and hard work, the lives of millions of people who previously lived in poverty have greatly improved. Today, corporate investment in developing countries greatly exceeds traditional development assistance inflows.

But development comes at a price. Early environmental debates were about the need to adjust production to the carrying capacity of the biosphere. Nowadays, the debate is about corporate social responsibility (CSR), especially with respect to working conditions in countries where human rights are not always respected.

The issue of business ethics has attracted much attention in recent years. The growing interest in ethics and corporate governance is a healthy sign. Naturally, criminal offences, such as fraud, and the culture of greed must be condemned and combated wherever they occur, whether in companies, in local government or in international organizations.

History has taught us that market economies are the most efficient means of organizing work and production. And in a market economy corporate social responsibility also has to do with confidence. No business is possible without confidence and no company can survive without doing business. This is the simple logic that induces most companies to invest substantial sums in building and maintaining confidence with their customers and with society as a whole.

This book is about the emergence of corporate social responsibility. It describes how and why companies have undertaken and enhanced their efforts to improve their social, environmental and ethical performance. It contains examples of the impressive efforts made by many companies to fulfil their social and environmental obligations. Such companies are committed to social responsibility, thus accepting their share of our common responsibility for sustainable development.

This book would never have been written without the experience, knowledge and network of contacts that Claes Sjöberg has acquired during his years as an environmental journalist, editor-in-chief of the MiljöRapporten newsletter and founder of *Tomorrow Magazine*. His co-author, Eva Bingel, with her long experience of journalism, and Charlotte Sjöquist, who designed analytical models and contributed business development expertise, also played an important part in the production of the book.

I would also like to thank all the representatives of companies who contributed to the project with their experience, know-how and interest. Special thanks, too, to Ingela Bendrot,

Sustainable Development Manager at the Confederation of Swedish Enterprise, who originally suggested the book.

The conclusions and views expressed in this book are those of the authors, not of the Confederation of Swedish Enterprise. But we consider it important to raise awareness about companies' efforts with regard to CSR and welcome a wider debate on the subject.

Companies are good at identifying opportunities and solving problems. That is why they have a key role in efforts towards sustainable development. Let us see the opportunities, and let us solve the problems!

Stockholm, December 2003

Ebba Lindsö
Director-General, Confederation of Swedish Enterprise

1. From denial to commitment

What is it that induces companies, voluntarily and without the need to comply with regulatory requirements, to issue sustainability reports, carry out costly certifications of environmental management systems or sponsor schools in the third world? After all, none of these is integral to normal business activities.

The reason is that companies do not operate in a vacuum. They must respond to changes in the market. Companies that do not, and history is full of them, are doomed. When values change, companies change too. Given public interest in environmental issues, global justice and ethical behaviour, companies must address these issues.

An increasingly open global economy puts new demands on companies. It is in their own interests to add 'good values' to their brand, which also means avoiding anything that might hurt the brand.

It is no longer sufficient for companies to be profitable or create jobs. They must also assume greater social responsibility, protect the environment, promote integration etc. Few companies are in a position to meet all the demands made by sustainable development. The forte of most business leaders is in things like shareholder value, investor relations and economic indicators. What, then, must companies do to comply with all the new demands, codes of ethics and manifestos issued by one international organization after another, from the OECD to Amnesty International? The best approach is probably to view such demands in the context of market signals. To succeed in the marketplace, companies should respond to the demands of both the market and public opinion. Responsiveness is what sets proactive companies apart.

A ZERO GOAL

In early September 2002, Phil Watts, Group Managing Director of Royal Dutch/Shell, the energy group, and Chad Holliday, CEO of the Du Pont chemical group, sat down before 600 specially invited guests in the conference room of one of Johannesburg's largest hotels. The biggest event ever staged by the UN, the World Summit on Sustainable Development, was in progress, attended by some 50,000 participants from all over the world. The two speakers were there as representatives of two transnational companies that had been challenged to generate sustainable growth and had accepted the challenge.

In the middle of his speech Chad Holliday took out a square white placard and held it up. He turned it from one side to the other so that the whole audience could read it: 0 %. What did he mean? Chad Holliday explained that this was the goal for the giant chemical group: zero environmental impact.

Du Pont was severely criticized in the mid-1980s for its production of Freon, a suspected cause of the depletion of the stratospheric ozone layer. Today, the company has extremely high

ambitions when it comes to implementing sustainable development. To take one example, it is making every effort to develop synthetic products based on biological materials instead of the petroleum-based products currently in use. Du Pont also has an extensive social responsibility programme. The group has made systematic efforts in safety and health at work and safety issues in production. It has been so successful that in just three years it has managed to build up a consulting business with an annual turnover of $100 million to help other companies with safety and health at work.

SHELL BUILDS RELATIONSHIPS

Phil Watts spoke a few minutes later. He was in Johannesburg as Managing Director of the Royal Dutch/Shell Group, but also as President of the World Business Council for Sustainable Development, a coalition of about 160 member companies that works on issues relating to business and sustainable development. Phil Watts waved a book at the audience that the Council had published for the UN conference called Walking the Talk. The book describes practical action taken by companies. At a press conference Phil Watts was asked about the effects of the criticism of Shell a few years before for its behaviour in Nigeria and its plans to dump the Brent Spar platform in the North Sea. Was it because of this criticism that Shell had changed course and now claimed to promote sustainable development at all levels of its business activities?

The answer was diplomatic and politically correct. According to Phil Watts, Shell has nothing to be ashamed of as regards its behaviour in Nigeria. He said that the criticism of the perfectly legal attempts to dump the disused platform came as a surprise, but the company dealt with the issue well. However, he did admit that Shell was influenced by the public debate. He said he was convinced that the energy industry is entering a new era in which companies can no longer depend on oil and gas alone. He also said that a global company must make sure that its operations are good for the local population in economic and social terms. This is why Shell invests billions of dollars in renewable energy technologies and why it wants relationships with environmental groups and human rights activists.

CRISES OF CONFIDENCE HAVE AFFECTED CORPORATE CULTURE

Du Pont and Shell, two of the largest companies in the world to have taken decisive steps to combine sustainable development with profitable business operations, have both experienced crises of confidence that have strongly impacted their corporate cultures. We'll get back to this in later chapters.

The authors of the book have worked for many years as journalists, both on Miljö-rapporten, which is Scandinavia's foremost publication for environmental professionals, and

on the international magazine *Tomorrow – Global Sustainable Business*. In this book, we reveal why more and more companies are taking corporate social responsibility seriously.

We examine the following questions:

- What induces companies to shift from a defensive to a proactive stance?
- How can sustainability be measured?
- What incentives are there for sustainable growth?

The first six chapters deal with why companies have moved from a defensive stance to a proactive approach to sustainable development. In chapter 7 we discuss what is potentially the most important force for change towards a better environment: technological innovation. Chapter 8 is about measures of sustainability, and the last two chapters deal with the incentives for sustainable growth.

SUSTAINABLE GROWTH

The term 'sustainable growth' is a refinement of the term 'sustainable development', which entered the language via the report of the World Commission on Environment and Development (the 'Brundtland Commission') in 1987, where it was defined as follows: "Humanity has the ability to make development sustainable – to ensure that it meets the needs of the present without compromising the ability of future generations to meet their own needs." In a nutshell: the productive capacity of ecosystems must not be damaged by overexploitation or emissions of harmful substances. Development must have due regard for social aspects and must benefit people by giving them employment, education and opportunities for a better life. Economic factors must also be considered. Companies must be profitable to enable growth, investment and the introduction of new, environmentally sound and more efficient technologies.

The demands made by all three dimensions – social, environmental and economic – must be met before we can talk about sustainable growth.

EFFORTS TO ACHIEVE GROWTH HAVE CREATED PROSPERITY

'Sustainable growth' is more appropriate than 'sustainable development' in the context of business. It is the striving to achieve growth that creates prosperity. Thanks to successful companies, the lives of hundreds of millions of people who previously lived in extreme poverty have greatly improved. Some people still associate growth with pollution and social inequity. This is outmoded. Growth is not a zero-sum game, in which increased prosperity in one part of the world inevitably leads to increased poverty in another. Today, economic

THE THREE DIMENSIONS OF SUSTAINABLE GROWTH

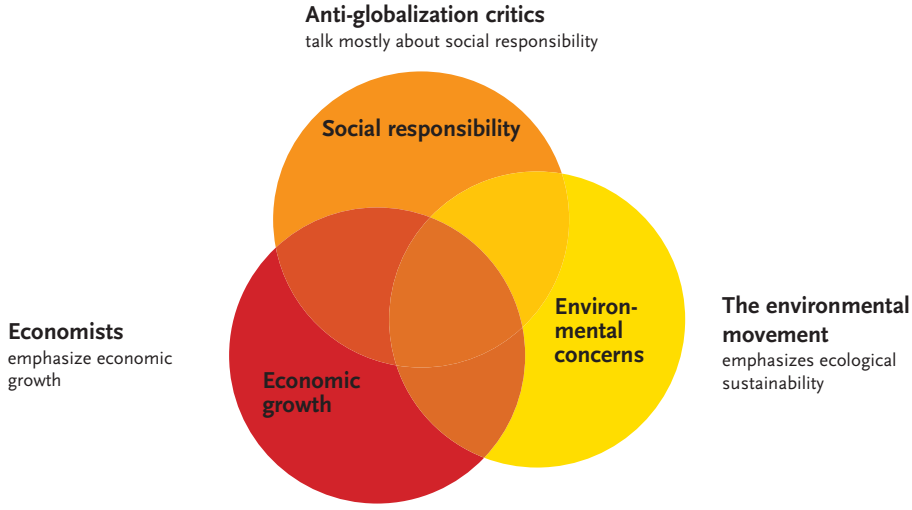


FIG 1
Different stakeholders emphasize different dimensions of sustainability. If development is to be sustainable, all three dimensions must be given equal attention. No matter how environment-conscious a company is, it will not be sustainable if not profitable.

CORPORATE SOCIAL RESPONSIBILITY — CSR

Corporate Social Responsibility (CSR) is one of the latest buzzwords used in connection with companies' efforts to achieve sustainable development. It is so new that, unlike 'sustainable development', no generally accepted definition exists.
This definition is used by the World Business Council for Sustainable Development (WBCSD):
"CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large".
Corporate social responsibility may include anything from adopting business ethics codes to subsidizing drugs for the third world. Several large pharmaceutical companies now supply drugs at a fraction of Western prices to make it possible to combat AIDS in Africa, where hospitals and patients could not otherwise afford to buy antiretroviral drugs.

growth can go hand in hand with reduced environmental impact. And growth is necessary. The majority of the world's population still lacks access to clean water, electricity, decent housing and quality education. Over one billion people will move to towns and cities in the next decade, and enormous efforts will have to be made just to create sustainable urban environments with adequate housing, transport and energy supplies.

CLOSED-LOOP FACTORIES AND CLEAN VEHICLES

We need growth in our part of the world too, to satisfy constantly increasing needs for health and care services and education, and to finance the transformation of industry. Investments are needed to build factories with closed-loop systems, to produce the zero-emission vehicles of the future and to promote sustainable agriculture.

Will terms such as 'corporate citizenship' be forgotten in a few years? Probably not. What we are witnessing is a new role for business; already, many proactive companies have shown that it is possible to combine environmentally sound production with social responsibility, ethical conduct and healthy profit. As is always the case with new ideas, this has not happened without conflicts, and the process has moved forward step by step, or in waves, for several decades.

2. From environmental debate to corporate governance

Developments in sustainability have progressed in waves. The first came in the 1960s, the second in the 1980s and the third in the mid-1990s. We are currently witnessing a fourth wave, which actually started in the 1990s, but gathered full momentum only after 2000. The issues that emerged during the first wave have given way to issues such as transparency and corporate governance. There is nevertheless a connection.

THE FIRST WAVE – THE AWAKENING

The contemporary environmental debate dates back to the early 1960s. This was when the first signs that something was wrong appeared: yellow hammers and other seed-eating birds started to disappear. It gradually became clear that there was also a decline in the number of birds of prey and that seals were experiencing reproductive problems. Toxins such as mercury, PCBs (polychlorinated biphenyls) and DDT were identified as the causes. This gave rise to environmental legislation and the establishment of environmental authorities. Sweden was one of the first countries to respond, and the Swedish Environmental Protection Agency was set up as early as 1967.

The UN Conference on the Human Environment in Stockholm in 1972 may be called the peak of the first wave, focusing on the problem of emissions in the industrialized world. It was the first time that environmental problems were discussed as a matter of international concern.

The oil crisis in 1973 and The Limits of Growth, a report to the Club of Rome, gave the Western world cause to ponder for the first time whether natural resources really are infinite. Subsequently, it became clear that the fears voiced by the Rome Club were exaggerated. On the other hand, new environmental threats emerged, such as climate change and depletion of the ozone layer.

COMPANIES INVESTED IN FILTERS AND EMISSION CONTROL

Environmental problems are, however, mainly related to harmful emissions of certain substances, so companies invested in filters and other emission control equipment prescribed by the authorities.

Most companies were very defensive about environmental problems during the first wave. They denied their existence for as long as possible and did only the absolute minimum required. However, after several environmental accidents – some with disastrous consequences – the chemical industry changed tack and adopted the environmental, health and safety programme Responsible Care.

THE SECOND WAVE – COMPANIES ACCEPT ENVIRONMENTAL RESPONSIBILITY

After the 1970s and 80s, when many environmental accidents occurred and public debate focused as never before on environmental issues, companies started to adopt a much more

active approach to systematic, offensive environmental management. This new approach was manifested when a number of leading international companies established the Business Council for Sustainable Development prior to the UN Conference on Environment and Development in Rio de Janeiro in 1992. This organization still exists, now called the World Business Council for Sustainable Development (WBCSD).

The Rio Conference was a landmark, and business was identified as an important player in efforts to solve global environmental problems. The conference adopted Agenda 21, An Action Plan for the 21st Century.

Companies realized that dialogue is constructive and that environmental risks may also bring business risks. During this period more and more companies showed that environmental efforts may incur costs but also save money, and can even earn money. Companies were started to take advantage of the business opportunities offered by the environment.

ENVIRONMENTAL MANAGEMENT SYSTEMS USED BY TENS OF THOUSANDS OF COMPANIES

As regards pro-environment activities, business went into top gear after the Rio Conference in 1992. An international environmental management standard – ISO 14000 – was developed at unprecedented speed. Within a matter of years, environmental management systems were introduced in tens of thousands of companies all over the world.

The focus of the second wave shifted to the environmental impact caused by products. There was a growing realization that many environmental problems relate to economic and lifestyle factors, especially energy use.

New concepts such as eco-efficiency, function selling and dematerialization, which all have to do with increasing resource efficiency, emerged.

THE THIRD WAVE – GLOBAL SUSTAINABILITY

The third wave, which was not primarily driven by environmental issues but more by social and ethical demands on business, appeared in the late 1990s. Global sustainability, corporate social responsibility (CRS) and corporate citizenship were terms coined during the third wave. It was recognized that we live in a globalized economy and a world in which people are learning about what is happening in other countries thanks to the Internet and global media groups. Following the collapse of the Soviet Union in 1989, it was recognized that market economies are vastly superior to plan economies for creating prosperity and a good living environment. People came to regard business as an increasingly important global force.

CRITICS OF GLOBALIZATION TARGET MULTINATIONAL COMPANIES

But a backlash followed, highlighting companies' behaviour in areas such as genetic modifi-

FIG. 2.

EVENTS, DEBATES AND CRISES AND CORPORATE RESPONSES

1962
Rachel Carson's book "Silent Spring", about the risks associated with chemical pesticides.

1967
Sweden becomes one of the first countries in the world to set up a government agency for the environment, the Swedish Environmental Protection Agency.

1969
The Swedish Environmental Protection Act enters into force.

1972
The Limits of Growth, a report to the Club of Rome, warns that natural resources will be exhausted.

1972
The UN Conference on the Human Environment in Stockholm signals the start of international environmental cooperation.

1973
The first oil crisis.

1979
The nuclear accident at Three Mile Island.

1979
The Convention on Long-Range Transboundary Air Pollution.

1984
Thousands killed and injured as a result of a leakage of methyl isocyanate (MIC) at Union Carbide's factory in Bhopal, India.

1985
The chemical industry launches the Responsible Care programme for environmental, health and safety performance.

1985
The French secret service sinks the Greenpeace ship Rainbow Warrior in a New Zealand harbour.

1985
Discovery of the ozone hole over the Antarctic.

1986
The Chernobyl nuclear disaster.

1987
The Montreal Protocol on Substances that Deplete the Ozone Layer.

1987
Our Common Future, the report of the World Commission on Environment and Development, is published.

1989
Volvo appoints an internal environmental auditor.

1989
Agreement on a common Nordic environmental label, the Swan label.

1990
Norsk Hydro becomes the first company to publish an environmental report.

1991
The International Chamber of Commerce (ICC) presents a Business Charter for Sustainable Development with 16 principles for sustainable management.

1992
Lloyd's insurance market reports for the first time on climate-related damage and losses.

1992
UN Conference on Environment and Development in Rio de Janeiro.

1996
Final approval of an ISO standard for environmental management systems.

The awakening

The first UN Conference on the Human Environment in Stockholm in 1972 was an alarm bell for many people in the industrialized world. Companies started investing in emission control equipment. The first wave grew in strength as a result of several serious accidents.

KEYWORDS:

LEGISLATION AND TECHNOLOGICAL SOLUTIONS

Companies accept environmental responsibility

The second wave grew after the discovery of the ozone hole and gained momentum in connection with the UN Conference on Environment and Development in Rio de Janeiro in 1992. Business took a leap forward as regards environmental responsibility after the Rio Conference. International efforts were launched to produce a standard for environmental management, and this soon resulted in the ISO 14000 series. The focus shifted from emissions to products, and to the consumption and use of products. Emission control equipment was already installed and so interest now switched to the products that came out of the factory gate. The talk was now of emissions from non-point sources.

KEYWORDS:

CONSUMER POWER, MARKET, STAKEHOLDER DIALOGUE

1997
After the Brent Spar and Nigeria crises, Shell publishes an open, self-critical report, Profits and Principles.

1997
The Global Reporting Initiative.

1998
A sustainable forestry standard, based on the Forest Stewardship Council's (FSC) certification guidelines and criteria, is approved by the FSC.

1999
Intense discussion of genetically modified organisms (GMO) in Europe, especially in the UK.

1999
Environmental activities win higher priority in the EU. The Treaty of Amsterdam, which provides for integration of the environment into all policy areas, enters into force.

1999
Violent demonstrations at the World Trade Organization (WTO) conference in Seattle.

1999
UN Secretary-General Kofi Annan launches the Global Compact, a partnership to promote government-corporate cooperation.

2001
The Stockholm Convention on Persistent Organic Pollutants (POPs), which prohibits the use of 12 chemicals, is signed by 127 countries.

2002
The first ratifications of the Kyoto Protocol.

2002
The UN holds its largest conference ever, the World Summit on Sustainable Development, in Johannesburg.

2002
The Global Reporting Inititative issues guidelines on sustainability reporting.

2002
Accounting scandals in the USA – e.g. at Enron and Worldcom – increase the pressure on companies to work on ethics, internal control and social responsibility.

Global sustainability

Environmental management was integrated into everyday operations in many companies during the third wave. There was much discussion of corporate power and initiative in an increasingly globalized economy. Brands came under attack from critics of globalization. Many companies responded by publicly reporting their performance not only with respect to the environment but also to social issues. The term sustainable development began to be widely used. It was widely accepted that sustainable development was about economic growth just as much as about environmentally sound production and social welfare.

KEYWORDS:

VALUES, SOCIAL RESPONSIBILITY

Corporate governance and corporate social responsibility

During the fourth wave, scandals at companies like WorldCom, Enron, ABB, Arthur Andersen have increased pressure on business to address internal control, ethics and corporate governance. Companies must, through self-regulation, codes of conduct and in other ways, develop management systems that work and are accepted as credible. The regulatory framework for reporting is also being tightened in both Europe and North America. Increasing importance is now attached to companies' environmental and social responsibility, which in turn are linked to financial performance and responsibility to owners and investors.

KEYWORDS:

TRANSPARENCY, GOVERNANCE, ETHICS

cation, exploitation of third world labour and human rights. Attention was drawn to the huge inequities in the global economy.

Critics often targeted big companies, especially multinationals. Those most vulnerable to such criticism are companies close to the consumer and very dependent on their brands, although brands are increasingly important in many other sectors too. The change of direction became especially obvious at the UN World Summit on Sustainable Development in Johannesburg in 2002. Global justice was the dominant theme of the summit, while environmental issues played second fiddle.

BRANDING EVER MORE IMPORTANT

For businesses, the environment, ethics and social responsibility are largely about branding. Environmental protection activities are about making production environmentally sounder, and are more technical, but ethics and social responsibility, which are intimately connected with corporate governance, are management issues.

Many companies joined the Global Compact, an initiative launched by Kofi Annan, Secretary-General of the UN, during this wave. This is, in Annan's own words: "a global compact of shared values and principles, which will give a human face to the global market". Nine principles have been adopted so far, six of which relate to human rights and three to the environment.

FOCUS ON PRODUCTS

While the introduction of environmental management systems gave a strong impetus to companies' environmental activities during the second wave, the main impetus during the third wave was product stewardship. Importance was now attached to all three dimensions of sustainable development – environmental, social and economic. One typical example of this is the Global Reporting Initiative: a number of companies have, together with environmental organizations, research institutions and human rights groups, formulated recommendations for how companies should report their performance with regard to sustainable development.

THE FOURTH WAVE – CORPORATE GOVERNANCE AND THE "GOOD COMPANY"

The fourth wave started in the early 1990s, when responsibility to shareholders became a frequent topic of discussion. The reason for this was the poor financial performance of a number of large Western companies. The criticism focused on weak board leadership and the need for stronger corporate governance. Institutional shareholders interested only in short-term results were part of the problem. But the debate accelerated after the collapse of Enron and scandals in companies such as Ahold, Swissair, Worldcom, Arthur Andersen and ABB.

THE RISE OF CIVIL SOCIETY ORGANIZATIONS

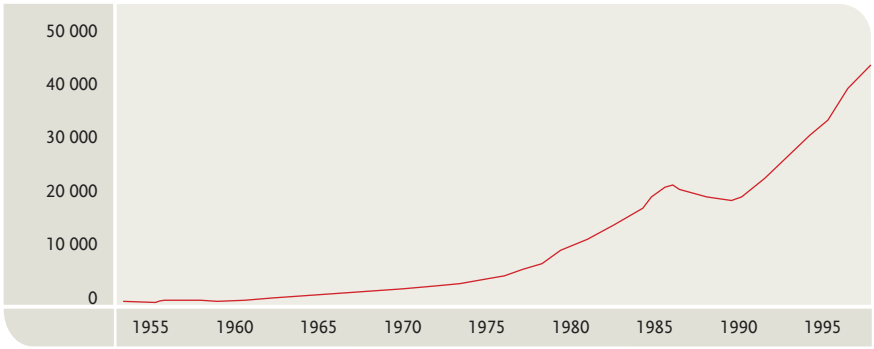


FIG 3
Civil society is exerting ever-greater influence on the behaviour of companies. The number of NGOs registered by the Union of International Associations has more than doubled since 1985. According to the Union's statistics, there are now more than 45,000 NGOs in the world whose activities relate to human rights or the environment. Informal estimates indicate even higher figures, perhaps as much as a million groups that could be defined as NGOs.
SOURCE: UNION OF INTERNATIONAL ASSOCIATIONS, 1999

Now everybody – business leaders, the media, politicians – is keen to discuss corporate governance. Responsibility and transparency are the catchwords. Now that people have realized that some company directors have enriched themselves in secret and cooked the books to defraud the stock market, the credibility of the market economy itself is challenged.

CORPORATE GOVERNANCE CONCERNS MORE AND MORE PEOPLE

Today, when so many invest in shares or mutual funds to supplement pensions, company management is no longer an affair for a small group of owners. Companies must, through self-regulation, codes of conduct and in other ways, develop management systems that work and are accepted as credible.

During the fourth wave, companies' environmental and social responsibilities are merging with their economic performance and responsibility to owners, customers, suppliers and employees. Now we can really see why there are three dimensions to sustainability. Even those who are most interested in the economic performance of companies realize that the indicators and reporting principles used in connection with social and environmental responsibility are also relevant to an assessment of the company's general status.

This development is still in the early stages, but the criterion for a proactive company is that it accepts social responsibility, that its operations are environmentally sound and that it is managed in such a way as to ensure sound finances and ethical conduct.

3. From doomsday to eco-realism

Thanks to a far-sighted decision by the management of MoDo, the Swedish pulp and paper company, the bay outside its Domsjö sulphite pulp mill is nowadays suitable for bathing. Domsjö was the first pulp mill in the world to close its bleaching plant. Marie Berglund, the company's environmental auditor at the time, planned to demonstrate the event by spending the night in a sleeping-bag in the plugged discharge pipe. Work environment and safety regulations put a stop to this idea, but a matchbox she placed inside the pipe was still intact the next morning.

Today you can swim in the middle of Stockholm thanks to a decision by the city's politicians back in the 1950s to introduce wastewater treatment. The air in Swedish towns and cities is easier to breathe than 30 years ago. In many cases, district heating has replaced dirty oil-fired boilers. Catalytic exhaust emission control and cleaner fuels have made cars cleaner. Emissions from industry have dropped dramatically, and factories operated as closed-loop systems may soon be a reality.

INDUSTRIAL EMISSIONS WILL SOON BE HISTORY

The nature of environmental problems has changed over the years. While they used to be in the form of belching chimneys and stinking drainpipes in factories, they are now more related to lifestyles and consumption patterns, at least in the industrialized world. Once local, they are now global. And more difficult to deal with.

To put it simply, environmentally harmful emissions from factories are history: emission control equipment has been installed and industrial companies are continuously working on environmental optimization of their production processes. They do this just as much for efficient resource utilization, i.e. economic logic, as for environmental reasons.

Many earlier doomsday scenarios have not materialized. The industrialized countries have solved many of the most serious environmental problems much faster than anyone could have imagined.

This may be illustrated by a flashback to March 1988, when a conference entitled Our World in 2010 was held in Stockholm. It dealt with several environmental problems and the possibility of solving them within the next 20 years. The conference was arranged by IVL Swedish Environmental Research Institute Ltd. and made a significant impact by raising awareness about environmental issues in companies and other organizations.

IVL arranged a follow-up conference in March 2000 entitled Our World in 2010 – Are We On Track? IVL performed an analysis under the leadership of Research Director Peringe Grennfelt of what had happened since 1988 and made new forecasts.

In his presentation Grennfelt noted that the environmental efforts pursued in 1988 were exclusively related to pollution. The authorities told industry what to do, and industry usually had a negative attitude to these demands. Just over a decade later, environmental activities

in industry had undergone a veritable revolution. The same applies to attitudes to the term 'environment': in 1988 it was usually associated with threats, but in 2000 it is more often associated with opportunities, including business opportunities.

ACIDIFICATION IS DECREASING

Acidification was one of the main themes of the 1988 IVL conference and a Swedish case study that was presented at the Conference on the Human Environment in Stockholm in 1972 was revisited. Sulphur emissions in Sweden had decreased in accordance with the most optimistic scenario from 1972. Sulphur emissions have continued to fall since 1988, and in 1997 concentrations were only 8% of those in the early 1970s. See fig. 4.

On the other hand, it has proved much more difficult to address acidifying emissions of nitrogen oxides. But the picture is not as gloomy as in 1988. See fig. 5. Nitrogen oxide emissions fell by 36% between 1987 and 1997, although an increase was predicted in 1988.

According to IVL's research and model calculations it will, however, take several decades for acidified land and water areas to be restored to their condition at the end of the 19th century.

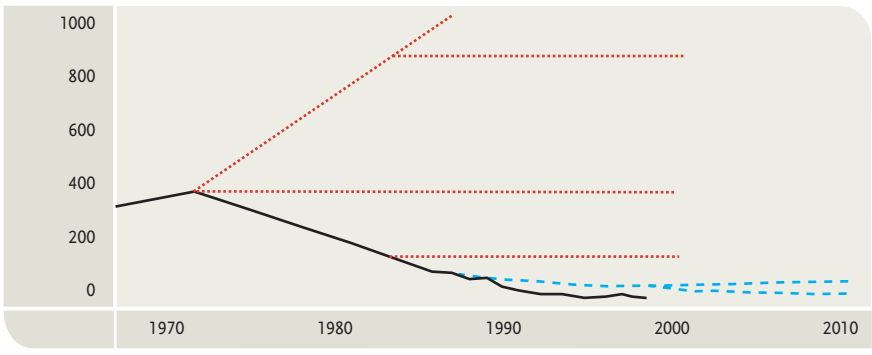
THE OZONE HOLE CAN BE CLOSED

The ozone hole was discovered only three years before the IVL conference in 1988. There was still uncertainty at that time about its causes. Nevertheless, the evidence convinced a large number of states to sign the Montreal Protocol on Substances that Deplete the Ozone Layer (i.e. CFCs, chlorofluorocarbons).

A start was made almost immediately on phasing out the production of CFCs (see fig. 6),

SULPHUR DIOXIDE EMISSIONS IN SWEDEN

'000 tonnes of sulphur per year



The red dotted lines represent scenarios 1, 2, 3 and 4 adopted by the UN Conference on the Environment in 1972.

The blue line represents scenarios 1 and 2 presented at the IVL Conference in 1988.

The black curve shows emissions of acidifying sulphur dioxide in Sweden during the period 1965-97.

FIG 4

SOURCE: GRENNFELT ET AL., IVL 2000

NITROGEN DIOXIDE EMISSIONS IN SWEDEN

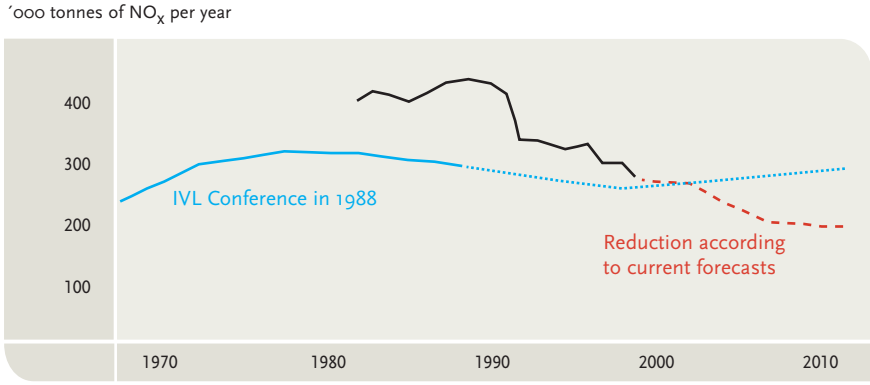


FIG 5
It has proved more difficult to reduce emissions of nitrogen oxides (NO_x), which contribute both to acidification and eutrophication, compared with sulphur dioxide and other substances. Nevertheless, emissions have decreased faster than forecast by IVL in 1988. Emissions of NO_x are estimated to have dropped by 36% between 1987 and 1997.
SOURCE: GRENNFELT ET AL., IVL 2000

which the IVL researchers had not predicted in 1988. Instead, their scenarios envisaged continuing growth in production at the rate of 3% per year or a freeze on CFC emissions from 2000, although the latter scenario was dismissed as completely unrealistic.

In 2000 Peringe Grennfelt observed that it was the unrealistic scenario that was closest to the truth! The production and use of CFCs has fallen rapidly since 1987 and it is only a matter of time before they are no longer used at all.

Fresh ozone is formed all the time in the earth's atmosphere, but it is a slow process. It will therefore take some years before the phase-out of CFC production will make an impact in the form of a continuous ozone layer all over the earth.

OPTIMISM – DESPITE REMAINING PROBLEMS

There is therefore cause for some optimism as regards the international community's ability to address global environmental problems. But this does not guarantee a rosy future.

The situation is not the same all over the world. It is less promising regarding emissions of the greenhouse gas carbon dioxide or the dissemination of organic environmental toxins.

Persistent bioaccumulative substances, i.e. substances which accumulate in food chains and consequently in the human body, are among the chemicals and environmental toxins mentioned most frequently in discussions of human health. The best-known examples are DDT, PCBs and dioxins.

GLOBAL PRODUCTION OF CFCs 1950-1996

'000 tonnes per year

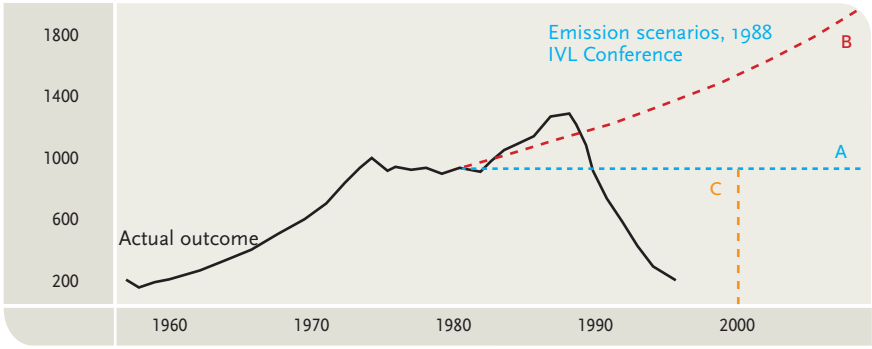


FIG 6
At the IVL Conference in 1988, three years after the discovery of the ozone hole, three scenarios were discussed: B, which assumed a continuing increase in the use of CFCs by 3% per year; A, which assumed that the use of CFCs would be frozen at the current level until 2000, after which they would be phased out; C, which assumed that CFCs would be phased out after 2000. Scenario C was dismissed as completely unrealistic. Ten years later we saw that this scenario was closest to reality.
SOURCE: GRENNFELT ET AL., IVL 2000

DDT and PCBs have been banned in Sweden for the last 20 years, and releases of dioxins are limited by better control of the combustion temperature in connection with the incineration of waste. Concentrations of these toxins have started to decline. But at the same time, concentrations of other chemicals and toxins, such as brominated flame retardants, have increased. PBBs (polybrominated biphenyls) and PBDEs (polybrominated diphenyl ethers) are those most commonly used, and they are very similar to PCBs in terms of their chemistry. Flame retardants are used in textiles or electrical appliances. Ever-higher concentrations of brominated flame retardants have been measured in everything from breast milk in Stockholm to fatty tissues in polar bears. Low-brominated flame retardants such as PBBs and PBDEs disturb the hormone balance and cause liver cancer in mice, but it is not yet certain how they affect humans.

However, the publicity surrounding brominated flame retardants has induced several companies to substitute other substances or discontinue the use of such substances altogether. A ban has been proposed in Sweden and is being discussed at EU level. Sweden's textile industry stopped using PBBs as long ago as 1989 and PBDEs in 1998, and companies such as Skanska, TeliaSonera and Ericsson have anticipated legislation and imposed bans on all brominated flame retardants in production.

BROMINATED FLAME RETARDANTS IN BREAST MILK

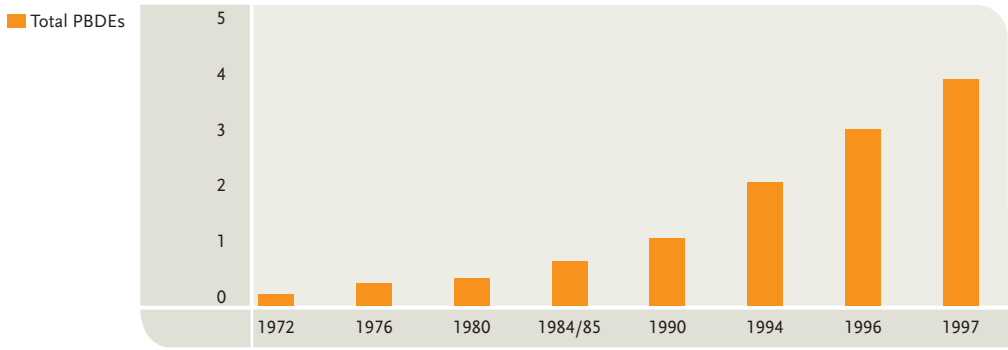


FIG 7
While levels of some organic environmental toxins such as PCBs and DDT have dropped, others have risen. One of these is brominated flame retardants. Concentrations of PBDEs in the breast milk of women in Stockholm have increased sharply since the 1970s.
SOURCE: D. MEIRONYTÉ, K. NORÉN, Å. BERGMAN 1999

THE ENVIRONMENTAL SITUATION HAS IMPROVED LOCALLY – BUT NOT GLOBALLY

The environmental situation in most Western countries has improved substantially in the last 25 years, despite a widespread impression that it has deteriorated. This improvement would never have happened without the active commitment of companies to environmental improvement both in production processes and in the products themselves.

Nor would this have been possible without legislation, economic growth and, not least, democracy. There is a clear connection between economic growth and a cleaner environment.

This book concentrates on the situation in Scandinavia and other highly industrialized democracies. At the same time, the environmental situation is totally unacceptable in many third world and former communist countries, where modern environmental legislation is either non-existent or not applied. Eight of the world's ten cities with the worst air pollution are in China.

A great deal needs to be done at the global level, while many regional and national improvements have been dramatic. It is perfectly possible to reduce virtually all kinds of emissions to levels that are not harmful to life-supporting systems in the biosphere. This will only happen, however, if industry is geared towards sustainable growth and global democratization progresses.

AIR POLLUTION: GOING DOWN AND GOING UP

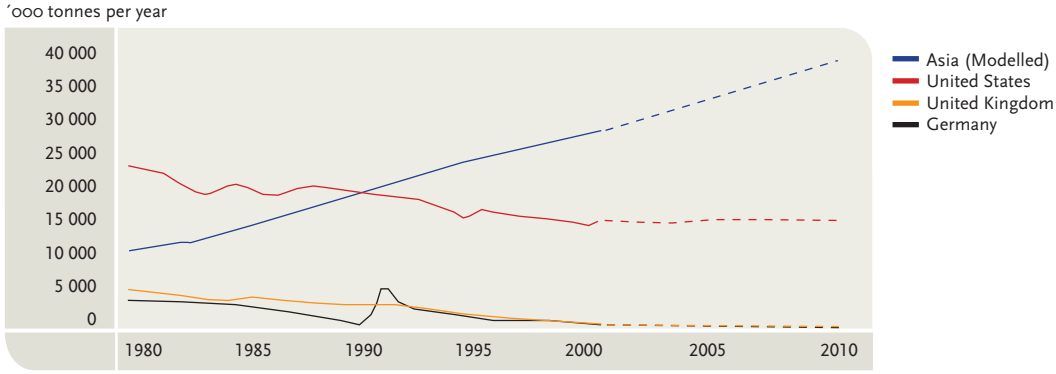


FIG 8
There are two contradictory trends for air pollutants and emissions. They are decreasing in advanced industrial countries, but increasing in many developing countries. In Europe, emissions of sulphur oxides have fallen by 75% since 1980. In Asia, however, they are likely to triple during the period 1980-2010 unless measures are taken.
SOURCE: EMEP; MCDONALD, 1999. TOMORROW´S MARKETS AND THEIR IMPLICATIONS FOR BUSINESS, UNEP, WRI, WBCSD

Sustainable growth is not a static state, but a process that leads to a reduction of environmental impacts and eventually to a situation in which societies live and produce goods and services within the constraints dictated by ecosystems. This transformation is already underway and this book describes some of these developments. It is time to scrap the doomsday visions of the environmental debate in the first wave after the environmental awakening. The time is now ripe for eco-realism. This means that we will always, both now and in the future, have to live within the constraints of the environment and in the knowledge that nothing disappears and everything circulates. This must be recognized in connection with all human production and activities. But we no longer need fear that the world will come to an end.

4. From defensive to proactive

Companies often engage in active sustainability activities in response to a crisis. Critics of business claim this as proof that companies make changes only when forced to do so. This is a simplistic view. It is normal for crises to trigger change, whether in our daily lives, in politics or in organizations. Crisis often makes change necessary. Many proactive companies have suffered crises of confidence. The changes that are made in response eventually lead to a reduction of environmental impacts, acceptance of greater social and ethical responsibility and, ultimately, a new corporate culture. One can even talk about 'necessary' crises.

EARLY CRITICISM IS OFTEN THE FIRST STEP TO A LEADING MARKET POSITION

Many of the companies and industries that have made most progress towards sustainable growth once experienced such crises. One example is the severe criticism levelled at chemical companies during the environmental debate in the 1980s. They responded with the Responsible Care programme, a voluntary system for improving environmental performance, transparency, employee welfare and public health.

Several of the world's large chemical companies, 20 years were criticized for lack of concern for the environment, are now ranked high in sustainability indexes. The same applies to some of the largest oil companies, which previously refused to admit that carbon dioxide emissions might affect the climate, but today invest billions of dollars in new energy technologies and research into new energy-bearers such as hydrogen. And of car makers that opposed new legislation on exhaust emission control in the 1970s and 1980s, but have recently pushed the EU towards cleaner fuel standards. There are many examples of how intense criticism of companies has led to change – not strange considering that companies and organizations are designed to respond to market signals.

PROFESSIONAL BUYERS ARE THE MOST DEMANDING

Change is most rapid when the demands come from customers. This is also true in the environmental sector. In Sweden it is often the business-to-business sector that makes the most substantial demands.

In the latter half of the 1980s, however, environmental demands usually came via environmental organizations, for example the demands (made by the Swedish Society for Nature Conservation) for chlorine-free paper and more environment-friendly detergents . This led to consumer demands which in turn influenced the retail trade and prompted major changes in the leading Swedish retail chains – ICA, Coop and Axfood.

Today, professional buyers of business-to-business goods and services set the toughest standards. A case in point is ecolabelled electricity, i.e. electricity generated from renewable resources. At first, energy companies were sceptical about 'green electricity'. Sweden's leading energy company, Vattenfall, claimed that all their electricity, including that from nuclear

power, was 'green' in the sense that nuclear power generation does not involve carbon dioxide emissions.

But the tune changed when large electricity customers such as the Arla dairy group and the Swedish State Railways made the same demands. Arla and the State Railways demanded green electricity so they could live up to their own environmental policies. The trend is for high environmental standards set by large companies to be adopted by smaller or associated companies. Some major players have drawn up lists of banned chemicals, while others require subcontractors to be environmentally certified. Many companies require declarations for the products they buy detailing the various environmental impacts in all stages of the product's life cycle.

When Volvo launched its S80 car a few years ago it carried an environmental declaration, although few private customers had asked for it. But Volvo noticed a strong demand for environmental declarations for heavier vehicles such as trucks and buses. The companies that bought them were, in turn, under pressure from their customers – transport buyers.

CONSUMERS EXPECT BUILT-IN QUALITY

Scandinavians and Europeans in general take a great interest in the environment. Nevertheless, studies show that very few people are prepared to pay more for a product simply because it is environmentally sound or produced in accordance with certain social criteria. The main reason is that sustainability has become a built-in quality. Consumers expect companies to make products that are neither harmful to the environment nor produced by exploited labour. Companies today are aware of this and consequently impose standards on their subcontractors, as well as requiring information, performance declarations and other guarantees so they can meet customer expectations.

HUMAN RIGHTS – A CORPORATE RESPONSIBILITY?

Increasingly intense debate on globalization has led to a sharper focus on human rights. Multinational companies established in countries where corruption is widespread and serious violations of human rights occur, risk criticism even for crimes committed by states or dictatorships. Claiming that they are not responsible for the activities of subsidiaries or subcontractors does not help. The media, consumer groups and human rights activists spotlight such companies, targeting the well-known brands.

The UN conventions on human rights are part of international law. But states, not companies, ratify UN conventions and protocols. However, since much of international humanitarian law is incorporated into national legislation, companies are directly responsible for complying with the relevant provisions. International human rights law is applicable to companies if it is incorporated into regional and national legal systems.

It is difficult to estimate the costs for complying with human rights obligations, but there is no denying the relevance of the issue. Businesses do not normally commit human rights violations themselves; repression, torture and murders are carried out for political reasons. But the mere suspicion that a company, by virtue of its presence, contributes to such violations may damage its reputation. Responsible companies cannot afford to ignore human rights issues. The best course is to adopt a policy and implementation procedure for human rights and recognize that this is necessary in order to protect reputation, brand and legitimacy.

From defensive to proactive – an analytical model

Crisis management routines, including response to environmental alarms and accidents, follow a pattern. This also applies to response to the increasing demands concerning social responsibility, child labour, exploitation of third world labour and ethnic diversity.

As we have seen, companies often change as a result of a crisis. During phase I companies are defensive, taking a more reactive attitude during phase II and in phase III engaging in close interaction with society as a whole, becoming proactive and defining their role as 'corporate citizens'.

THE FIRST PHASE – THE DEFENSIVE COMPANY

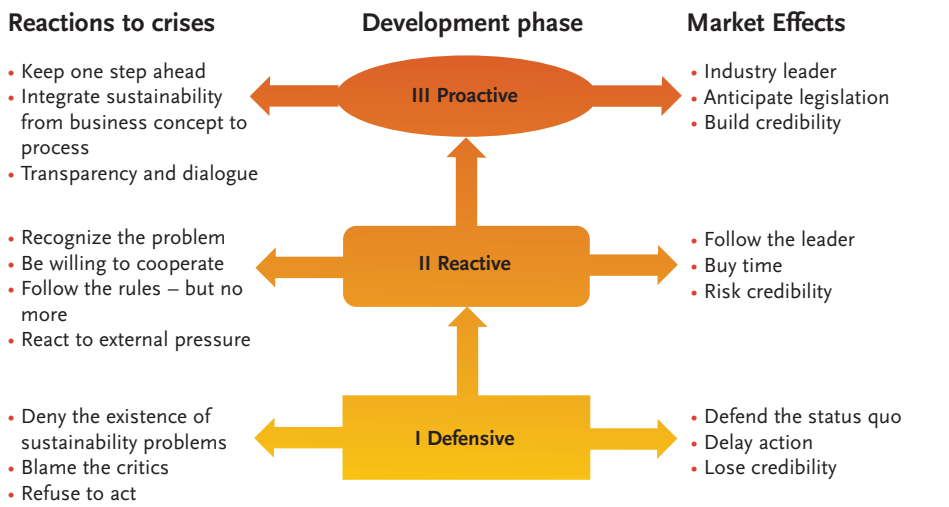
The first phase is denial; companies either do not recognize the problem or play it down. Companies that adopt a defensive stance become locked in endless disputes and in the end are anyway forced to change production methods or make other changes. Defensive behaviour is seldom successful, but this does not mean that companies should accept all demands made by non-governmental organizations (NGOs) or politicians. On the contrary, demands relating to the environment or sustainability are seldom based on scientific evidence, but on opinion, and do not always even serve the best interests of the environment or sustainability. But in a market affected by such an initiative, companies must react, and a defensive approach is seldom successful.

THE SECOND PHASE – THE REACTIVE COMPANY

Responding to crisis, companies tend to be passive in the first, defensive phase and then enter a new phase in which they address the problem and start cooperating with supervisory bodies. Even companies that have not experienced a crisis keep track of other companies and make the necessary changes. During this phase companies are usually still reactive, i.e. they do not act until they come under pressure, usually from outside. This is the most common approach, and many companies never get beyond it.

FIG 9

AN ANALYTICAL MODEL FOR CORPORATE BEHAVIOUR



Companies do not necessarily do anything wrong during this second phase. They comply with regulatory frameworks and usually do everything asked of them. Many in the business community will claim that this is the only possible approach and that it is up to the authorities to impose the necessary frameworks. The burden of having to decide how to respond to controversial environmental alarms based on uncertain scientific evidence is too heavy for individual companies, the argument goes. (And how are companies expected to protect human rights under a dictatorship?) This may be a reasonable attitude with respect to environmental and health risks. It is difficult even for large companies to decide whether to modify production processes in response to alarms about chemical substances, for example, or whether the alarms are exaggerated or even incorrect.

However, when it comes to human rights, endorsement of the values enshrined in the Universal Declaration of Human Rights of 1948 must be a minimum. Failure to apply rules concerning safety at work or the right to organize in accordance with the OECD's guidelines or the ILO's core conventions cannot be accepted.

BRANDS MUST BE PROTECTED

A purely reactive stance also poses problems. Companies must, for example, take into account the need to protect their brands or the possibility that stock markets can lose confidence in a matter of minutes. They must consider their employees and customers, the 24-hour media, and everyone else who expects responsible conduct. A reactive stance is often inadequate for meeting external demands. So even if companies are not strictly under obligation to observe the principles of sustainable development or integrate ethical standards into their activities, many do so nevertheless.

THE THIRD PHASE – THE PROACTIVE COMPANY

Companies committed to sustainable growth have concluded that the environment and social performance must be addressed in the same way as economic performance. They realize that they are dealing with extremely sensitive information and that speed and skill in dealings with markets, investors, the media and other decision-makers are vital.

These companies have entered the third phase. They have adopted a proactive stance in matters relating to sustainable growth. The important thing is no longer crisis management, but preventive action so that the company is correctly positioned when the next issue arrives.

Example: The defensive company

DU PONT AND THE OZONE CRISIS

A classic example of defensive behaviour on the part of a large company was what happened when the first reports about depletion of the stratospheric ozone layer appeared in the mid-1980s. US chemicals company Du Pont was the world's largest manufacturer of CFCs (chlorofluorocarbons), which it sold under its own Freon brand. For years Du Pont denied that CFCs were the main reason for the ozone depletion that had been discovered by scientists, in particular the ozone hole over the Antarctic.

The company publicly criticized scientists who claimed that CFCs were responsible for breaking down ozone molecules in the atmosphere. It did everything in its power to defend its production and sales of Freon, which was mainly used as a refrigeration medium in refrigerators and air conditioning systems. This was no sideline; sales totalled about $1 billion a year. After a board meeting in early 1988 Du Pont reversed its policy. The board had been informed of the findings of recent studies by a group of atmospheric chemists who considered it probable that the chlorine in CFCs was directly responsible for depletion of the ozone layer. The board decided to recognize the problem and to start phasing out all CFC

production immediately. Du Pont was the first chemical company in the world to start phasing out production, and this was the signal for the rest of the industry to follow. Later, most countries undertook to start phasing out CFCs immediately in accordance with international conventions.

Today, production of CFCs is very low. Many countries have introduced systems for disposing of substances in refrigerators etc. when they are scrapped. The intense debate over Freon prompted a change in the culture of the entire Du Pont group.

As in many chemical companies, the Du Pont culture was science-oriented. At that time scientists disagreed over whether chlorine really caused depletion of the ozone layer or whether it was merely a natural variation. The decision taken by Du Pont's board entailed huge economic consequences, and it was based not on proven scientific data – solid proof is uncommon – but on concern for public opinion and accepted values.

Du Pont has continued along this path. Like many companies that have faced crises, its corporate culture has undergone radical changes. Internal environmental activities started in earnest, and the company now devotes substantial resources to social issues, which are another important component of sustainable development. Du Pont is one of the world's leading companies in developing the concept of sustainable growth, i.e. continuous reduction of emissions and energy and resource use combined with economic growth. The official objective of all production for Du Pont is zero environmental impact. The group has invested heavily in research to replace fossil products such as oil, currently used as raw materials for the production of many synthetic products and chemicals produced by the company. Du Pont aims instead to use renewable biological materials that are cheap, efficient, available and biodegradable. The objective is for 25% of sales to be based on products made from renewable biological materials by 2010. Du Pont's systematic sustainability activities have also been noted by analysts. In May 2003 Du Pont was ranked the top chemical company by the Dow Jones Sustainability Index (DJSI), which is based on an annual review of economic, social and environmental performance.

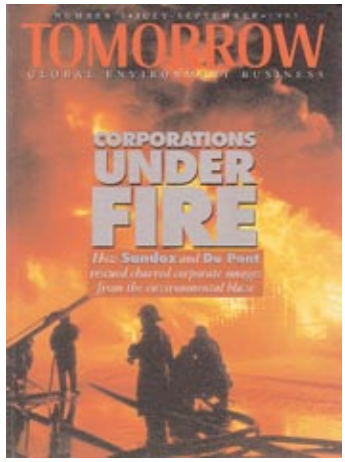
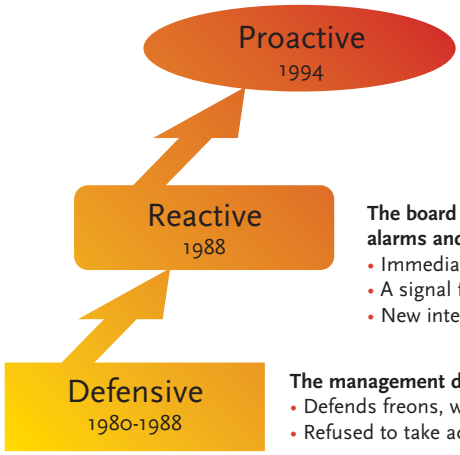


FIG 10
Tomorrow 1993, a theme issue: The management of Du Pont frankly admits the major impact of the debate about freons on the company's culture

FIG 11

PHASE 1. THE NECESSARY CRISIS – DU PONT'S RESPONSE TO THE OZONE ALARM



Radical change of culture from science orientation to society at large.
- Integrates environmental and social issues with economic growth into sustainable growth.
- Reduces emissions and consumption of energy and resources.
- The goal is 'zero', i.e. zero environmental impact.

The board admits the problem and reacts to new alarms and market pressure.
- Immediately starts phasing out production of CFCs.
- A signal for the rest of the industry to follow its lead.
- New international agreements and rules are complied with.

The management denies that freons harm the ozone layer.
- Defends freons, which account for revenues of over $1 billion.
- Refused to take action for many years.

FIG 12

From defensive to proactive. In 2003 *Forbes magazine* described Du Pont's efforts to produce new biodegradable and efficient materials to replace dependence on fossil-based raw materials.

Example: The reactive company

SKANSKA AND THE HALLANDSÅSEN TUNNEL

An example of reactive behaviour is Skanska's response to the toxic spill that occurred in connection with the construction of a tunnel through the Hallandsåsen ridge in southern Sweden in 1997. Skanska, one of the world's largest construction companies, was contracted for the project by the National Rail Administration. In order to deal with the leakage of water in the tunnel Skanska was instructed by the Rail Administration to use a sealing agent called Rhoca-Gil. The sealing agent seeped into a stream and poisoned a number of cows that had to be destroyed. The scandal attracted enormous attention in the Swedish media. The workers who handled the sealing agent also showed various neurological symptoms linked to acrylic amide. For a time the spill caused great concern among local residents and those responsible were subsequently charged.

The toxic spills around Hallandsåsen are sometimes mentioned as an example of a large company neglecting its environmental responsibility, but it is not so straightforward. Instead, the incident is typical of what can happen when a company adopts a reactive attitude.

The construction industry was a late starter as regards environmental and sustainability activities. But Skanska was one of the first large construction companies in the world to apply systematic environmental analysis.

By 1997, when the spill occurred, Skanska had a relatively sophisticated environmental policy and had recruited a number of environmental specialists. The board and management had also made a commitment to environmental responsibility. One of the reasons things went wrong is the structure, culture and practices of the construction industry. In the pharmaceuticals and auto industries, for example, precise controls and methods are applied before new substances are introduced into production. The slightest mistake can have serious consequences in terms of medicine-related injuries or tens of thousands of recalled vehicles.

The construction industry is different. A company such as Skanska has hundreds of subcontractors and thousands of production units, i.e. building sites. Its organization is very decentralized, and traditionally most decisions are taken in the workplace. The environmental policy adopted by Skanska centrally had not been properly communicated to the organization or publicized locally. As for most construction projects, the schedule was tight and Skanska had been instructed by its client, the National Rail Administration, to keep costs down. The Administration had rejected the more costly alternative of sealing the tunnels with cement.

When the alarm sounded Skanska blamed the supplier of the sealing agent and claimed it had not been told the agent could poison water. The manufacturer answered that the agent had been used in other tunnel construction projects without any reported damage. However, the flows of water in those cases were nothing like as high as in Hallandsåsen, and much smaller quantities of the sealing agent had been needed.

The sealing agent was permitted in Sweden, but the safety precautions for its use were not applied by those in charge of the construction work in the tunnel.

All the blame was put on Skanska at first. Skanska's behaviour during the first few days after the incident was confused and incoherent. Management left it to the local personnel to handle the crisis. Local staff tried to play the incident down, which provoked angry response. However, once top management realized the full import of what

FIG 13

WHY THERE WAS A MEDIA FURORE OVER THE TOXIC SPILL IN HALLANDSÅSEN

It happened in Bjärehalvön	This is a part of Sweden where many decision-makers spend their summer holidays and an area famous for scenic beauty.
It made a visual impact	Unlike other modern environmental scandals, this one made a visual impact, with dead cows and death's head labels on the sealing compound packaging.
Glaring differences – a field day for the media	On the one side there was a large company, and on the other small farmers and the local population. For the media, this was heaven-sent — what better than a story about ordinary people being sat on by a powerful company
Skanska failed to accept responsibility	Initially, Skanska shifted the blame to the sealing compound supplier. Not a successful way of winning public sympathy.
Skanska got off to a bad start	Skanska was ill-prepared, and its early information about the incident was confused and contradictory, mainly because the management had not realized what had happened.

had happened it took fast and effective action.

The spills in Hallandsåsen attracted so much attention in Sweden because of a number of interconnected factors. Although the incident was obviously serious, the environmental effects appear not to have been lasting, nor do the workers in the tunnel appear to have suffered any chronic injuries.

The way Skanska took a completely new approach after the publicity of the first week, when it accepted its responsibility, started issuing proper information and took control of the situation, is typical of a reactive company. Unlike Du Pont, which took several years to change its attitude, Skanska acted resolutely after the initial confusion.

A great deal has happened at Skanska since the toxic spill in Hallandsåsen. The company has made great efforts to avoid similar crises in the future. One member of the management team now has immediate responsibility not only for the environment but also for sustainable development as a whole.

Today, Skanska is one of the Swedish companies listed in the Dow Jones Sustainability Index (DJSI) (see chapter. 8). Skanska topped the construction market sector rankings in May 2002 – another example of how a crisis can be the impetus for sustainability.

FIG 14

PHASE II. CHANGES IN SKANSKA´S CORPORATE CULTURE AFTER THE TUNNEL CRISIS

Example: The proactive company

HOW ELECTROLUX COPED WITH ITS COOKER CRISIS

A good example of proactive behaviour is the response of white goods manufacturer Electrolux to the alarm over toxic emissions from new cookers in 1998.

Quick decision-making allowed Electrolux to avert a serious crisis of confidence. The company came through the crisis well, albeit at a total cost of about €3.5 million.

On Wednesday, February 18 the Swedish media published stories about cookers emitting a toxic substance, methyl isocyanate (MIC), the first time they were turned on. This substance had become known to the public after the appalling gas disaster in the Indian town of Bhopal in 1984, when large quantities leaked out from a chemical plant, killing thousands of people. The emissions from the cookers were much smaller – only a few millionths of a gram – so the story caused a nagging sense of worry rather than actual fear of poisoning. Nevertheless, the incident provoked huge headlines, and Electrolux's management, environmental department and information team experienced some hectic days before it was over.

It had started when researchers at the Department of Occupational Medicine at Lund University in southern Sweden discovered, more or less by accident, that small quantities of MIC were leaking from oven cookers they were testing. This occurred only the first time they were turned on. It was soon discovered that the MIC originated from insulation material.

A person at the Electrolux plant in Motala, where the cookers were made, was told about these findings in early February. The plant contacted the supplier of the insulation material, Gullfiber, but they were unable to verify the information. Electrolux asked the Lund researchers to repeat the tests, which they did on February 14-15. Once again they detected emissions of MIC. Internal investigations revealed that the insulation material was used at 7 of 10 Electrolux plants around the world – as well as by other manufacturers of cookers.

The article about the toxic emissions immediately attracted the attention of the rest of the media and the story spread. Electrolux called an emergency meeting at its head office in Stockholm. Several top managers participated, including managing director Michael Treschow and environmental manager Per Grunewald. Various scenarios were discussed. One was that the concentrations might turn out to be so low that there was no risk to human health so no measures would need to be taken. Another scenario was the opposite: the concentrations of the substance might involve health risks and the authorities might force the manufacturer to replace the insulation. A third scenario was that studies to verify the effects would be time-consuming, and that in the meantime, Electrolux would be eaten alive by the media.

The management team decided to act fast and adopted the following plan at 3.00 p.m. on 18 February:

- No cookers containing the relevant insulation material were to leave Electrolux plants.
- Instructions would be sent to dealers to switch on all the cookers that had already been delivered, to release the MIC.
- Electrolux would replace the insulation material in future products.
- A crisis team was set up to work round the clock to inform Electrolux's own organization and the media.

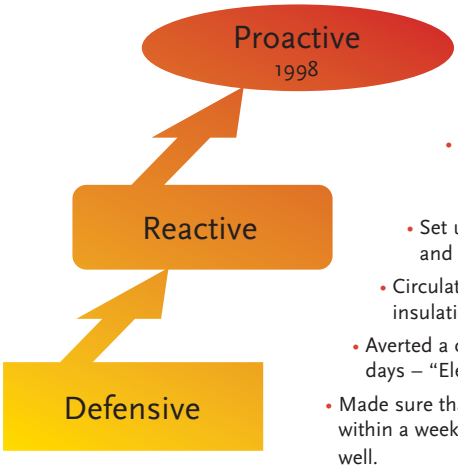
In the afternoon and evening of 18 February the press, radio and TV started calling Electrolux for comment. Environmental manager Per Grunewald gave interviews presenting the company's plans to stop production immediately and replace the insulation material.

Media reports on the evening of 18 February and the next day announced: "Dangerous poison in cookers". Reports by international news agencies such as Reuters and AFP were on the same lines.

Two days later, the media started reporting that Electrolux was now taking measures, and shortly after that, interest died down in Sweden. In Norway, the TV2 television station linked MIC emissions to a sharp increase in allergies, and this was what

FIG 15

PHASE III. PLANNED CRISIS MANAGEMENT – ELECTROLUX´S COOKER CRISIS



How the management acted proactively.

- Accepted responsibility for health and environmental issues.
- Initiated external and internal investigations in response to the first alarm.
- Held a crisis meeting and adopted an impact analysis and action plan on the same day that the first critical article was published.
- Set up a crisis group for planned, open communication and internal and external routines.
- Circulated a credible, proactive message: "Production halted, insulation replaced".
- Averted a crisis of confidence. Media interest cooled after two days – "Electrolux taking necessary measures".
- Made sure that the product/process was environmentally safe within a week. Subsequently, all other products were analysed as well.

the Norwegian media concentrated on. The management of the Norwegian subsidiary had not received all the information from head office in Stockholm and was unable to immediately deny the reports.

By 21 February the media storm had died down. During the following week all plants in the Electrolux group that made cookers changed the insulation material. Electrolux shares fell by €0.70 immediately after the news broke, but recovered when it became known that Electrolux had taken appropriate measures.

The economic consequences for Electrolux were substantial. The cost of changing the insulation material was estimated at €2.75 million. Production losses and adjustments were estimated at just under €800,000. Overall cost was therefore about €3.5 million in an industry where margins are notoriously low.

Michael Treschow, Electrolux's managing director at that time, said in an interview for the Miljörapporten newsletter that the action taken was the only option.

"Our credibility as an environmentally proactive company was at stake. Consumers must never have cause to doubt that we take health and environmental issues extremely seriously."

The cooker crisis prompted Electrolux to review products made by other subcontractors to prevent a recurrence.

FIG 16

HOW ELECTROLUX RESOLVED THE CRISIS

Accepted responsibility	Electrolux avoided an extended media and public criticism mainly because it accepted overall responsibility, even though the material that emitted MIC came from a subcontractor. Consequently, the company could not be accused of ducking blame.
Replaced the offending material	The prompt decision to replace the material avoided media follow-up, for example interviews with researchers on potential health threats from the emissions.
Was well-prepared	One advantage from the company's point of view was that it was given prior warning of the research findings. This gave it a few days to analyse what had happened and plan a solution, unlike the toxic spill incident in Hallandsåsen, when Skanska had no idea of the risks associated with the sealing compound.
It had crisis management exercises	Electrolux's management had previously practised crisis management. Routines were in place and people knew what to do.
Learned the lesson of the debate on CFCs	Electrolux had previously been criticized in connection with the CFC debate at the end of the 1980s, and Greenpeace dumped rusty refrigerators outside the company's head office in Stockholm. Electrolux had learned what to expect and how media and the public react.

Proactive behaviour calls for analysis

COMPANIES MUST ACT ON UNCERTAIN INFORMATION

Companies consist of people. Most people react to criticism by defending themselves, and this is the natural reaction in a company. However, a well-functioning company is a learning organization that analyses what is going on in the world and plans for the future. This is another reason a proactive approach to the environment and sustainable development is gaining ground.

Notice, however, that in the examples mentioned here the companies had not broken any laws. The incident in Hallandsåsen is the exception that proves the rule. The Swedish representative of the French chemical supplier was convicted of an offence against the Chemical Products Act and Skanska of offences against the Work Environment Act.

In the case of Du Pont, CFCs had not yet been banned and although they were controversial in scientific circles, use was perfectly legal. When Electrolux replaced the insulation in the cookers it was not because the extremely low concentrations of MIC were prohibited by Swedish law. Companies must act on information even if it is uncertain.

It used to be simpler. All businesses had to do was to comply with the limit values that had been set, and if a substance was harmful it was banned or regulated. Today, companies very rarely make changes solely in response to directives from supervisory authorities or legislators. On the contrary, they tend to phase out the use of substances or modify production processes on their own initiative – far from usual in the past. Increasingly, decisions are taken by the markets, since companies must monitor customers' wishes, public opinion, brand protection, the media, investors and other stakeholders.

This is a positive development, even though it means that decisions are taken without the public always knowing whether the result is going to be beneficial or not.

Business activities in the field of sustainable development seldom have anything to do with legislation. They are a response to environmental, social and ethical requirements that have emerged in complex interaction with other actors, and every company must make its own decisions, often with incomplete information.

Companies that opt for a proactive approach must be good at gathering intelligence to help them identify future problems.

INFLUENCES ON COMPANIES´ BEHAVIOUR WITH REGARD TO THE ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

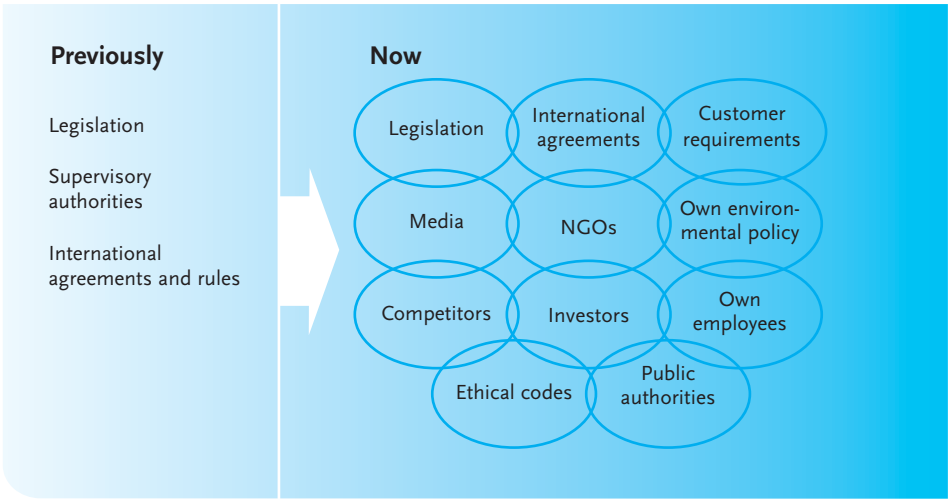


FIG 17
Nowadays, company behaviour is influenced by more factors than ever before. Previously, it was enough to maintain close contacts with public authorities, either on the company's own initiative or through its trade organization. Today, the situation for the environment and sustainable development is much more complex and it is more difficult for companies to know how to act.

Example: Analysis and dialogue

SHELL AND BRENT SPAR

One of the most heated environmental debates in Europe in the last 10 years followed Shell's 1995 announcement that it planned to dump a decommissioned oil platform, Brent Spar, in the sea off the coast of Scotland. Greenpeace launched a campaign against the company, and after several months of criticism from the media, politicians and other opinion-formers, Shell abandoned the idea. The platform was towed to Norway and dismantled.

It is not generally known that Shell had carried out a careful environmental impact analysis and concluded that dumping the platform in a deep trench would make the least environmental impact. The plans had been examined and approved by the British environmental authorities.

But Shell ignored, or did not realise that the authorities are no longer the only dialogue partner when it comes to the environment and sustainable development.

Intensive campaigns were conducted in many European countries in the mid-1990s to persuade the public to take their glass bottles to recycling centres and to wash their empty milk cartons. Against this background, the idea that one of the world's 10 largest companies would be allowed to dump a rusty platform in the sea was obviously doomed.

Yet, as in the cases mentioned above, the company was not doing anything illegal. On the contrary, Shell had complied with existing legislation to the letter. Needless to say, Brent Spar made a profound impact on the corporate culture at Shell.

But it was not only the Brent Spar fiasco that changed the company. Shell's oil extraction operations in Nigeria were just as important, and this time human rights were at stake. There were numerous conflicts in the 1990s that had to do with a Shell subsidiary's operations in Nigeria. The major conflict was about regional compensation for the extraction, which was mainly from the Niger Delta. The pipeline system was sabotaged repeatedly, sometimes by local groups who hoped this would help them to get compensation for the damage caused by the operations, sometimes by contracting firms hoping for clean-up contracts.

The Movement for the Survival of the Ogoni People demanded $10 billion from Shell in royalties and compensation. They also demanded political independence and ownership rights to the oil on their land. Shell withdrew from the area. In 1995 a number of leaders of the Ogoni people were executed by the military regime in Nigeria, attracting enormous international attention. Several international NGOs demanded a boycott of Shell, which was accused of failing to actively protect human rights.

Even though the notoriously blood-stained military dictatorship in Nigeria was responsible for the executions, and Shell had

withdrawn from the conflict area two years before, the severest criticism was levelled at Shell.

The company reconsidered its approach to sustainable development. Shell now calls itself an energy company, not an oil company, and invests large sums in renewable energy and the development of new energy-bearers such as hydrogen as future substitutes for fossil fuels. Shell has also made a major commitment to environmental and social issues and seeks to play a constructive social role. In Nigeria and other poor countries it now seeks to increase the participation of the local population. The aim is to increase family incomes by supporting family businesses and improving their prospects of receiving loans, as well as helping to improve health care, education and extension services for farmers. Shell also cooperates with NGOs such as Human Rights Watch. Shell now claims that sustainable development will be the guiding principle for the company's operations all over the world.

Shell was rated best energy company by the Dow Jones Sustainability Index in May 2003.

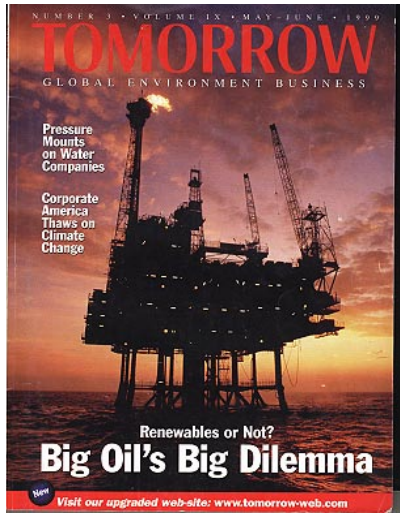


FIG 18
The public debate on climate change, the environment and social responsibility has influenced several energy companies apart from Shell.

STAKEHOLDER DIALOGUE WHEN LEGISLATION FAILS TO POINT THE WAY

Now that regulatory frameworks no longer provide comprehensive guidance, companies have developed various methods for keeping track of developments in the area of environment and sustainable development. One method is stakeholder dialogue.

This means that one or more companies invite environmental organizations, consumer groups, human rights activists or other interested parties to give their views, criticize and propose changes. At the same time the company or companies have the chance to explain their operations in greater detail and discuss directly with their critics instead of via the media.

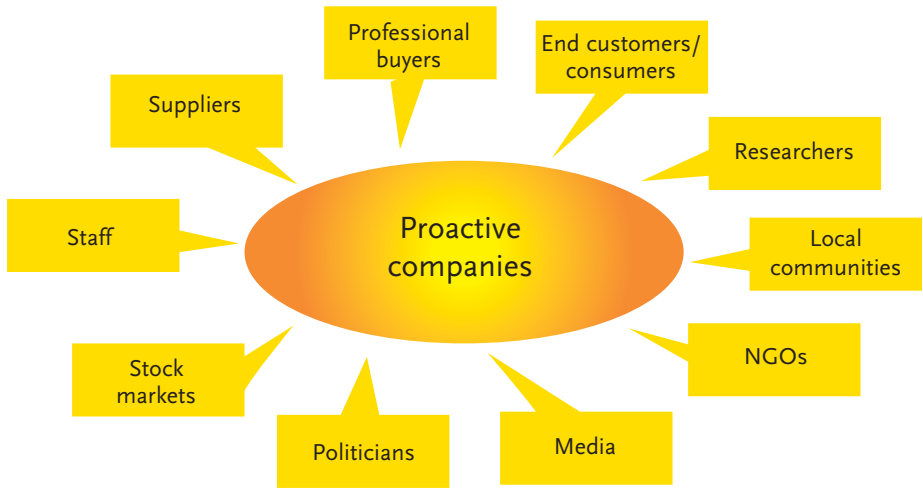
The method has become increasingly popular and has been used by hundreds of companies in Europe in the last few years. One of the pioneers was the chemical company Dow Europe, which launched a dialogue with a number of environmental groups, residents living near their production plants, local politicians and others back in the early 1990s.

Dow Europe told its stakeholder partners about its environmental policy, which includes a commitment to lower the environmental impact of its operations by reducing emissions step by step. The company was doing much more in each country than required by the national authorities. Dow Europe also promised to report its statistics on an annual basis, even if it failed to meet its targets.

The company's aim was to create more understanding locally for both its operations and

FIG 19

INTELLIGENCE ANALYSIS AND STAKEHOLDER DIALOGUE



its environmental policy, which was considerably more stringent than the regulatory requirements.

INTELLIGENCE ANALYSIS TO KEEP TRACK OF THE PUBLIC DEBATE

Other companies have used the same method. The Novo Group, a Danish biotechnology group, was also a pioneer. Heated debate about genetically modified organisms was fuelling demands to ban research and the implementation of new knowledge. The company approached a number of NGOs. The purpose was to increase understanding of genetic research and also to enlighten its own employees on the general public's views about genetic technology. Hardworking, highly specialized researchers normally expect only other researchers to understand what they are talking about. But the management at Novo wanted to make sure that their experts also familiarized themselves with the broader public debate. For Novo, a proactive approach to these issues was also a way of justifying the company's research and its commercial applications.

Previously, environmental legislation was usually the result of a long scientific process of careful studies and environmental impact analyses. Today, European politicians need to respond more quickly to public anxiety and demands, which sometimes result in legislation based on political rather than scientific judgments.

Several European and Nordic companies, such as IKEA, Electrolux, ABB, Fortum, AstraZeneca and Sydkraft, have adopted stakeholder dialogue as a practical method. Companies are looking for new ways to predict controversies and their effects on markets and products.

It is increasingly common for the leaders of major environmental organizations such as Greenpeace and the World Wide Fund for Nature to meet business leaders for informal talks. Companies are also establishing contacts with human rights groups such as Amnesty International.

STAKEHOLDER DIALOGUE CAN LEAD TO CONCRETE ACTION

One good example of how such talks and contacts can lead to concrete action is the Marine Stewardship Council's programme to combat the depletion of fish stocks. The Council was set up jointly by Unilever and the World Wide Fund for Nature.

The World Wide Fund for Nature (WWF) has long been concerned about the frequent reports of the collapse of fish stocks because of overfishing and a failure to limit fishing quotas. Unilever, which has a large food division that processes and sells frozen fish, was also worried about the shortage of fish, especially cod. So together with the WWF the company developed the Marine Stewardship Council programme, under which the entire supply chain

from catching the fish to the finished consumer product is certified to ensure that it is based on sustainable fisheries.

The forestry industry had earlier developed the Forest Stewardship Council (FSC), a method for certifying sustainable forestry, along the same lines. It is now possible to buy timber, paper and other forest products produced by sustainable methods and FSC-certified.

The method used to develop the FSC was a kind of stakeholder dialogue. The FSC, which was an international standard but had very few members, took off only after several large Swedish forest companies joined. Apart from the forest companies, trade unions, environmental organizations, the Sami (the indigenous population of northern Scandinavia and Finland) and other local inhabitants also enrolled. The participants were keen to ensure that all three dimensions of sustainable development – environmental, social and economic – were taken into account. Certification is not restricted to considerations of biological diversity and the environment – just as important as profitability are the wishes of the local population. (Read more about the FSC on page 50.)

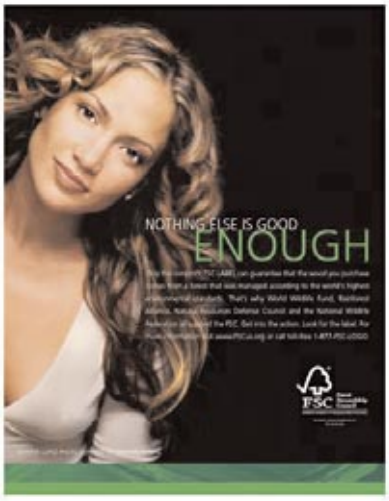


FIG 20
Jennifer Lopez advertising FSC-certified forests.
SOURCE: FOREST STEWARDSHIP COUNCIL, USA

Certification of forestry and marine resources is an example of the voluntary initiatives undertaken by companies, often in interaction and dialogue, but sometimes also in the face of hostility from other stakeholders.

The advantage of the method is that it can sometimes generate a market need, in which case it acts as a strong incentive for sustainable development. The function of companies in a free market economy is to meet customers' needs. If there is a demand for sustainability-certified timber or paper, you may be sure that companies will supply it. The same philosophy was adopted by Unilever and the World Wide Fund for Nature when developing the MSC. A sufficient number of customers demanding fish products that are sustainability-certified is a strong incentive for ensuring that fishing is not based on ruthless exploitation of fish stocks but on sustainable methods.

MARKET ECONOMIES CAN ALWAYS ADJUST TO NEW DEMANDS

The business community does not speak with one voice when it comes to sustainable development. Companies vary greatly in their policies and conduct. The strength of a market economy lies in its dynamic force and the thousands of decisions made by companies in response to market signals. Competition and efforts to continuously improve products and

production, and thus increase profitability, have made it possible for more people to enjoy a standard of living they previously could only dream of.

Market economies have achieved more rapid economic growth as well as an improved environment and better social development. The greatest improvements result from competition between companies. Environmental improvement is virtually automatic thanks to the constant development of new technologies. Almost without exception, these new technologies provide better environmental performance since they are more resource- and energy-efficient.

Economic competition makes it possible to produce goods at more reasonable prices and thus increase prosperity. A new development is the expectation that companies also ensure that their products do not have an adverse environmental impact. Production is expected to benefit society and contribute to social development and active, ethical corporate governance.

Recent developments indicate clearly that companies are capable of adjusting production and creating new products and processes to meet these new demands.

PROACTIVE COMPANIES ARE CONSTANTLY CHANGING

A proactive company assumes a larger share of responsibility for the environment, for its employees and for other areas affecting the local community, and is not a static organization. Even companies that accept a large share of social responsibility can – and often must – close factories and fire employees. In fact, proactive companies are perhaps quicker than others to detect market shifts and adjust their production accordingly, which is liable to involve structural changes.

'Creative destruction', an expression coined by economist Joseph Schumpeter, is one of the most important elements of a functioning market economy. Growth and prosperity are created when obsolete structures are abandoned and uncompetitive companies are forced to close. Creative destruction is also crucial to the shift to sustainability. But proactive and responsible companies will be expected to comply with the principles of social responsibility when they lay off workers and close plants.

CRITICISM OF CORPORATE SOCIAL RESPONSIBILITY (CSR)

The EU, the OECD and the UN have all drawn up programmes and guidelines for CSR in recent years. Business organizations such as the World Business Council for Sustainable Development and the Prince of Wales Business Leader Forum bring large companies together to persuade them to subscribe to the principles of CSR. But this is criticized in some

quarters. One of the severest critics is David Henderson, a professor of economics and former head of economics and statistics at the OECD. In his book Misguided Virtue he voices doubts about what he regards as programmatic ideas about corporate social responsibility. He sees the most important role of companies in society as being profitable, thus creating conditions for development. There are, he says, many risks when companies are forced to collaborate with special interest organizations and NGOs that question the right of companies to make a profit – the basic principle of capitalism – or support activists who want to regulate companies and the economy with the ultimate intention of undermining the market economy.

Collaboration with activists may be good PR for companies in the short run, says Henderson, but in the long run all business leaders must realize that their contribution to society consists in making sure that their companies are properly run and make a profit.

NEW GLOBAL POLITICAL CORRECTNESS

Mauricio Rojas, a Swedish-Chilean social commentator and member of parliament, also criticizes the ideas on which CSR are based. When the first Swedish edition of this book was discussed at a seminar in Stockholm, he suggested that the opponents of a free economy have regrouped and are trying to overthrow capitalism from within. The aim of many grassroots movements is to take companies hostage and make them comply with their demands. The rationale for this radical anti-capitalist criticism is, according to Rojas, that business per se is socially irresponsible and should not be allowed to exist unless it meets vague demands for responsibility. Rojas charges that this view has been widely accepted even in circles that cannot be called hostile to business. It has become a platform for a new global political correctness.

The main social responsibility of a company is to organize society's resources efficiently. Businesspeople and capitalists should not assume the role of legislators, politicians, social welfare officers or teachers.

INDICATORS NEED TO BE DEVELOPED

There is no denying that discussions about CSR are often full of empty rhetoric. The authors of this book are nevertheless convinced that, as a result of credibility crises met and overcome, there is a more advanced role waiting for proactive companies in the globalized economy. There is no denying the need for profits even when corporate performance is measured against economic, social and environmental parameters ('triple bottom line'); but companies should accept more responsibility, thus generating lasting, sustainable growth. The critics are right to the extent that CSR is a new concept and there are still too few adequate definitions of reporting and indicators.

5. The forest industry: from environmental exploiter to industry of the future

Typical of the enormous impact of environmental requirements on an entire industry is the example of the forest industry, which in Sweden has been completely transformed in the last 30 years. The industry accounts for substantial export revenues and is Sweden's largest export earner. But profits used to be at the expense of pollution of the local environment. Foul-smelling smoke poured out of the chimneys of the pulp and paper mills and the surrounding lakes and streams were awash in stinking crud. Today, the industry has cleaned up its act.

Since the early 1970s Sweden's pulp mills have reduced their emissions to air and water by over 95 per cent and are now the most environmentally sound in the world. Now, the industry is renowned for its ecologically sound management and commitment to the environment.

Sweden's pulp and paper industry committed itself early to environmental protection as well as to extensive industry-wide environmental research. This started as a response to environmental legislation introduced in Sweden at the end of the 1960s and the establishment of the Swedish Environmental Protection Agency. At the outset, these efforts were undoubtedly spurred by environmental legislation. Market-driven processes and stakeholder influence emerged much later, at the end of the 1980s.

ENVIRONMENTAL ORGANIZATIONS SET THE AGENDA

In the mid-1980s deformed fish were found outside pulp mills. Chlorine gas was the culprit. Together with wood residues the gas formed stable organochlorine compounds, including extremely toxic dioxins. Environmental organizations such as Greenpeace and the Swedish Society for Nature Conservation launched a campaign against chlorine and its use in pulp bleaching in particular. Politicians and environmental authorities acted by tightening parameters for the release of chlorinated compounds.

The debate on chlorine made an impression on the markets, particularly the German market, vital to Sweden. Suddenly the major German newspaper and publishing houses wanted chlorine-free paper. One reason was a Greenpeace action in January 1991; the organization printed a copy of *Der Spiegel*, which it called *Das Plagiat*, on chlorine-free paper. The aim was to persuade German publishers and newspapers to use chlorine-free paper. In the autumn of 1992, *Der Spiegel* and other newspapers decided to use only totally chlorine-free paper (TCF).

A SCEPTICAL INDUSTRY OPENED ITS EAR TO THE MARKET

Sweden's pulp and paper industry was largely sceptical and dismissed the Greenpeace-led chlorine campaign as 'hysterical'. Chlorine emissions had already been dramatically reduced

and that the campaign was seen to be about yesterday's problems. But after a period of hesitation the industry responded to the new market signals. A rapid product development phase followed.

New processes, especially extended cooking, were introduced. Extended cooking reduced the need for bleaching and opened the door for environmentally sounder bleaching techniques. In 1994 all bleaching with chlorine gas had been phased out at Sweden's paper mills; releases of organochlorine compounds, measured as AOX (absorbable organic halogens), were sharply reduced from 10 kg to 0-0.2 kg per tonne of pulp between 1970 and 2000.

THE GREENING OF THE FOREST INDUSTRY

New processes and technologies made possible further steps to completely closed bleaching plants. The next vision is that pulp mills become net producers of biofuels and 'green electricity'. The prestigious Ecological Pulp Mills research programme aims to help pulp mills play a leading part in reducing emissions of carbon dioxide, a major greenhouse gas villain. The programme is funded by the Foundation for Strategic Environmental Research (Mistra), which distributes €22-28 million every year for research aimed at solving environmental problems.

The forest industry is ideal for the ecologically sustainable society. Its inputs are renewable resources and forest growth in Sweden exceeds timber removal. The industry could produce all the energy it uses and more. Emissions from forestry will soon be a thing of the past; closed bleaching plants already exist and closed-loop plants should soon appear. Nevertheless, the forest industry still has a long way to go before it can be sustainable.

FROM EMISSION REDUCTION TO A HOLISTIC APPROACH

The focus has shifted from local emissions to a holistic approach. Today, all the stages of the production chain are evaluated and improved from an environmental point of view – especially products developed on the 'more-with-less' principle, for example stronger and lighter packaging board. Transportation accounts for a significant proportion of the environmental impact made by the forest industry. Several companies have tried to minimize this impact, switching to low-sulphur bunker fuel or, like Stora Enso, with a completely new transport system that has yielded major efficiency and environmental gains. (See the example below).

SUSTAINABILITY CERTIFICATION FOR FORESTRY

The forest industry's tradition of collaborating with the research community and authorities contributed to the introduction of the Forest Stewardship Council (FSC) certification system in Sweden. Once the major environmental problems had been solved, discussion shifted to

SULPHUR – EMISSIONS FROM PULP AND PAPER MILLS

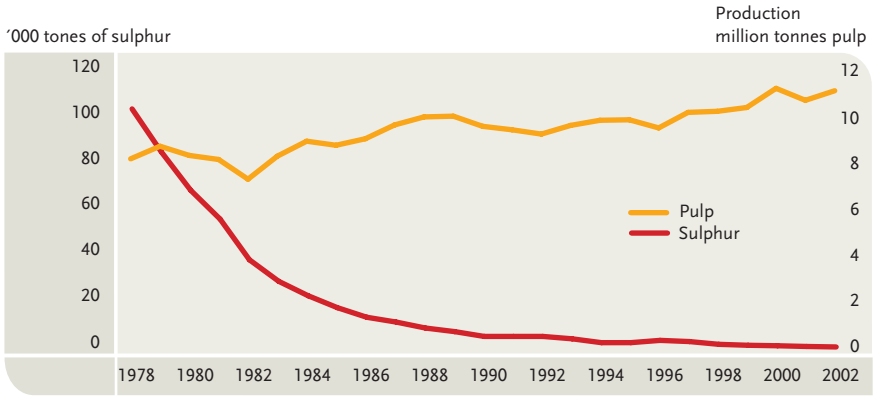


FIG 21

Although pulp and paper production have increased, emissions of sulphur compounds, which contribute to acidification of land and water, have fallen drastically since the 1970s. This is mainly because oil has largely been replaced by biofuels such as waste liquor, bark and other tree residues.

SOURCE: SWEDISH FOREST INDUSTRIES FEDERATION

DISSOLVED ORGANIC SUBSTANCES (COD) – DISCHARGES FROM PULP AND PAPER MILLS

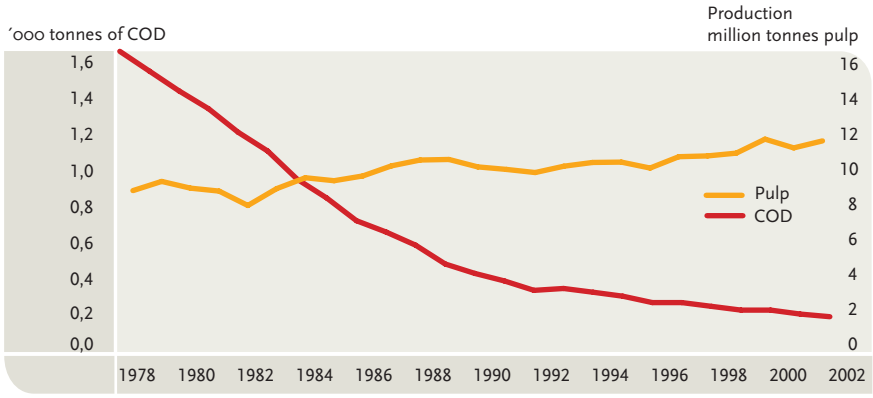


FIG 22

The discharges consist of dissolved wood substances. Chemical Oxygen Demand (COD) is a measure of the amount of oxygen needed to break down the material. Discharges of organic substances caused dead zones in lakes and streams outside mills. Discharges have been reduced by 80% since the late 1970s by increased recirculation (closed processes) in the mills and the installation of purification equipment despite an increase in the production of pulp and paper.

SOURCE: SWEDISH FOREST INDUSTRIES FEDERATION

CHLORINATED ORGANIC SUBSTANCES — DISHARGES FROM PULP AND PAPER MILLS

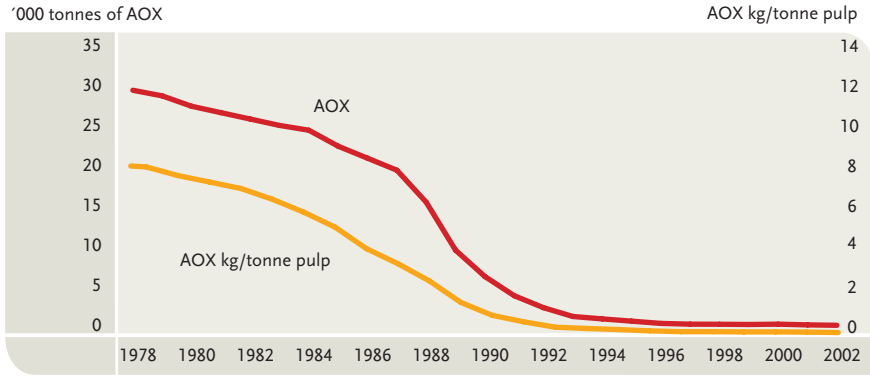


FIG 23
Discharges of chlorinated organic substances, measured as AOX, from pulp and paper mills have fallen by 97% since the mid-1980s. This has been achieved by new cooking and bleaching technologies
SOURCE: SWEDISH FOREST INDUSTRIES FEDERATION

forestry practices. How were forests managed? Did companies give due consideration to biological diversity and to the public's need to use forests freely? What were the needs of the local population or of reindeer husbandry among the Sami?

The international FSC was established in September 1993 in Toronto on the initiative of environmental organizations, foresters and indigenous organizations from 25 countries. The FSC system is based on voluntary certification of responsible forest management following 10 principles.

The system started slowly, but discussion of forestry techniques in the United Kingdom and other markets important to Sweden's forest industry spurred Swedish interest. Companies were attracted by an internationally approved system. An FSC working party was formed in Sweden in February 1996 to design a standard for the greening of Sweden's forestry sector. The group included representatives of environmental organizations, forestry, the National Union of Swedish Sami, trade unions, timber buyers and processing industries.

A BREAKTHROUGH IN SWEDEN — AND THE WORLD

After two years of negotiations, disagreements and defections, a Swedish FSC standard was adopted in February 1998. The defectors included Greenpeace and the private forest owners. Unlike the large companies, private forest owners have no tradition of negotiating with stakeholders such as trade unions and the environmental movement. Nor could they accept some

FSC-CERTIFIED FORESTS IN THE WORLD

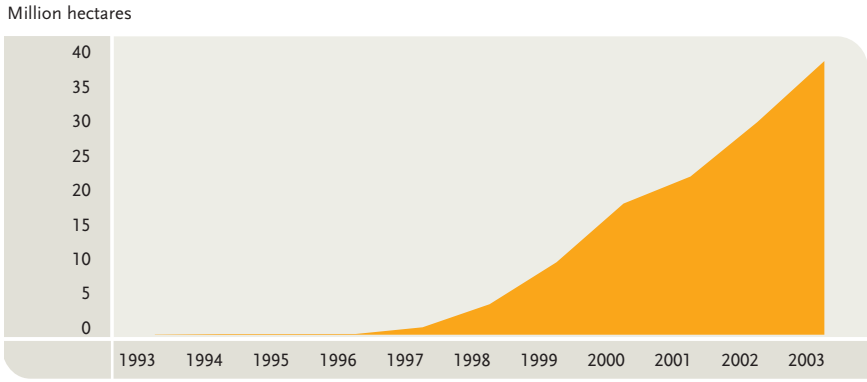


FIG 24
45% of productive forest (about 10 million hectares) in Sweden is certified in accordance with Forest Stewardship Council (FSC) criteria. Altogether, 38 million hectares of forest in 55 countries were FSC-certified in April 2003.
SOURCE: FSC

PEFC-CERTIFIED EUROPEN FORESTS

Countries	Million hectares of forest
Finland	21,91
Norway	9,35
Germany	6,44
Austria	3,92
Sweden	2,2
Czech Republic	1,89
France	1,74

FIG 25
Pan-European Forest Certification was established in 1999 and is used mainly in connection with private forestry. Over 47 million hectares of 100 million hectares owned by the participating forest owners in a number of European countries are PEFC-certified.
SOURCE: PEFC

of the FSC's terms, particularly as regards the rights of the Sami.

However, the FSC agreement received sufficient backing for a breakthrough in Sweden. It is worth mentioning that the FSC is more than an environmental certification system. It is based on all three pillars of sustainable development: economy, society and environment. The FSC wants forestry to be profitable, but also face social concerns and the environment.

The breakthrough for the FSC in Sweden impacted the rest of the world. Swedish forest companies are amongst the world's largest, and once they had accepted sustainable forestry it was easier for other countries to join.

PRIVATE FOREST OWNERS WENT THEIR OWN WAY

Private forest owners in Sweden and Finland did not join the FSC, but recognized the importance of environmental certification. They launched their own, rival certification system: the Pan European Forest Certification Council (PEFC). Companies in eleven European countries are currently members. The PEFC was launched in 1999, and 40 million hectares of a total of about 100 million hectares of productive forestland in these countries are already PEFC-certified.

Both systems are based on third-party certification, i.e. compliance is assessed by an independent assessor. The crucial difference is that the FSC's criteria were a result of cooperation between various interested parties, while the PEFC's criteria were defined by the forest owners themselves.

Example: Södra Cell produced chlorine-free pulp for customers

In 1991, Södra Cell's group management made an important and difficult strategic decision: to produce TCF (totally chlorine-free) pulp – i.e. without chlorine dioxide in the bleaching process. There was no scientific proof at that time that TCF pulp was more environment-friendly than ECF pulp (Elemental Chlorine-Free), bleached without chlorine gas but with small quantities of chlorine dioxide.

Södra Cell's decision was a response to pressure from environmental lobbyists and the growing demand for chlorine-free paper, especially in the important German market, and it involved an investment of tens of millions of euros. Södra Cell defied a tradition of consensus in the industry, and the step was unpopular. Other companies had declared it impossible to produce TCF pulp of sufficiently high quality. Södra Cell's next step, launching TCF pulp under its own name and brand as Z (for 0% chlorine) pulp, shook the industry. Nothing like this had ever happened in the history of the Swedish forest industry and Södra Cell's management was badmouthed by other companies in the domestic pulp and paper industry.

DEFYING TRADITION

Creating a brand based on a typical bulk product and selling it using environmental

FIG 26
Thanks to intensive marketing and consistent use of environmental arguments, Södra Cell managed to increase its European sales of totally chlorine-free (TCF) pulp.

arguments was not only a violation of industry practice but also considered impossible. But Södra Cell's venture proved very successful.

The company also did something that no other company in the industry had ever done; it started communicating directly with end users. Instead of talking to only paper manufacturers, Södra Cell targeted marketing directly at wholesalers, printing works and other paper users such as large newspaper groups, publishers and catalogue producers.

The proportion of TCF pulp on the European market rose from 1% in 1991 to 20% in 1993, much of this produced by Södra Cell. The company also managed to sell its Z pulp at prices 10-20% higher than other pulp – at the height of a recession.

According to Södra Cell, Z pulp generated €90 million in extra revenue during the first five years, goodwill. The extra revenue disappeared later, however. It appears difficult, except in the innovative phase, to charge higher prices for products that meet environmental and sustainability requirements. Customers soon expect producers to assume environmental responsibility (and any additional costs this may involve). Södra Cell's competitors also started to produce chlorine-free products. But the story of Södra Cell and Z pulp is a good example of market-driven processes replacing or supplementing the minimum requirements of environmental legislation.

Example: The FSC is good for business – to start with

AssiDomän played a leading role in the FSC process in Sweden and had its forests certified at an early stage. AssiDomän could offer both sawn timber and pulp from FSC-certified forests, so the company was able to increase its market share, especially in the United Kingdom but also in Japan.

In 1998 several large British timber buyers switched from Finnish suppliers to AssiDomän. Unlike the Finns, AssiDomän offered FSC-certified timber. Certification also kick-started the company on the Japanese market. Starting from scratch in 1996, sales to Japan accounted for 7% of total sales two years later.

AssiDomän initially charged 6% extra for its FSC-certified timber and an extra $30 per tonne for FSC-labelled pulp. Experience suggests, however, that in the long run the market is not willing to pay a higher price for sustainability-certified forest products. Customers, especially large business-to-business customers, stipulate minimum certification requirements, which are subsequently a condition for contracts. Besides, the area of forest that is either FSC- or PEFC-certified, or certified by both, is increasing. Holmen was the first company in Sweden to have its raw material certified by both systems to make it easier to meet market demand.

Example: Rail and sea transport have improved Stora Enso's environmental performance

Stora Enso was one of the first companies in the world to introduce certified environmental management systems, both EMAS (the EU Eco Management & Audit Scheme) and ISO 14001. Today, 90% of the group's production plants are certified. For Stora Enso this has led to a more holistic approach to environmental issues, and often to new and unconventional solutions. For example, in 2000 the company moved outloading operations from factory gates in Sweden to Zeebrugge, Belgium.

The process started when environmental analysis in connection with the introduction of environmental management systems identified transport as a major source of environmental impact. Studies indicated an urgent need to reduce energy use and emissions from transport throughout the production chain.

At the same time, traffic on Europe's roads was becoming increasingly difficult. Trucks loaded with goods frequently stood still on gridlocked motorways and streets.

Stora Enso's shift from road to rail transport had both environmental and economic reasons. The company has also developed a new system for transporting products from its plants in Sweden to customers in Europe and other parts of the world. The transport system, called Base Port, is based on the integration of rail and sea transport. Specially designed containers are transported by rail to the port in Gothenburg and loaded onto ships. These ships are constructed for automatic loading and unloading and can be operated even in bad weather without having to lash down and secure cargo. The three ships used by the company are equipped with catalytic converters and run on low-sulphur fuel. They go to Zeebrugge, where the containers are loaded onto railway wagons and sent onwards.

SLOW BUT PUNCTUAL

The trains and the boats are designed for slow speeds to cut fuel costs. Slow transport might seem an outmoded idea, but with a system that is on the move all the time – unlike trucks stuck in traffic jams – speed is not a problem. According to Stora Enso, slow but constant movement makes planning easier. Schedules are accurate and Base Port has actually reduced lead time from production to the customer. Slow but punctual, in other words. Base Port has helped to reduce emissions of carbon dioxide by 50% and nitrogen oxides by 70% per tonne of products transported from the plants to customers. The system has also reduced transport costs by €15-20 million a year since its launch in 2000.

In 2001 the group's goods transports totalled 63 million tonnes. In terms of volume, Stora Enso is one of Europe's largest transport buyers.

6. From environmental engineers to sustainable leadership

The development of companies can be described in different ways, one of which is the role of environmental managers. The duties, roles and status of environmental managers reflect a company's commitment and approach to sustainability issues.

In the old days there were no environmental managers, not to mention sustainability managers. There were engineers with titles such as Quality Manager, or, as times changed, Work Environment Manager or Environmental Engineer. They were promoted from operational positions in the line organization or were specialists assigned to central staff.

Up until the early 1990s environmental issues were dealt with by specialists, but they are now increasingly left to generalists, especially economists and communicators. Over the years, the focus has become increasingly strategic and outward-looking. Environmental managers act as catalysts and initiators, while environmental programmes are implemented by line organization managers.

Nowadays companies normally have environmental managers, as well as increasing numbers of executives with titles like Director of Environment and Social Responsibility and Vice-President Sustainability. Another big change is that group managements see the environment, social responsibility and sustainable development as high priority issues. More and more, the environmental manager or equivalent is included in the group management team or reports directly to management.

ENVIRONMENTAL MANAGERS IN THE MANAGEMENT TEAM

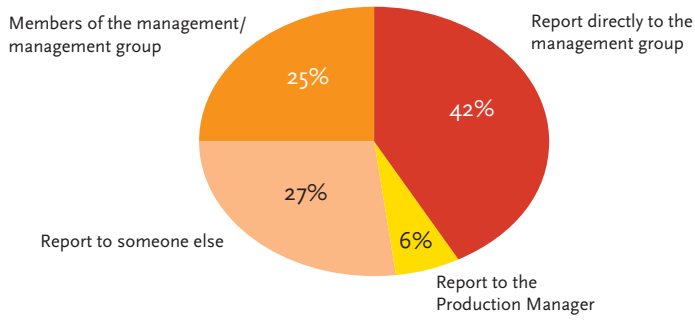


FIG 27
The Swedish Association of Environmental Managers sends an annual questionnaire to its over 300 member companies to assess various aspects of environmental activities. In 2002, 67% of environmental managers replied that they were either members of or reported directly to the management group.
SOURCE: NMC 2002

THE BIGGEST POLLUTERS WERE THE FIRST TO CHANGE

The first environmental managers were appointed in the early 1980s, almost exclusively in the forest and chemicals industries. There, pollution had long been highly visible, so the sectors were in the eye of the public and the authorities. Several major accidents in various parts of the world persuaded the industries, the chemical industry in particular, that it was time to prioritize environmental and safety measures.

The next generation of environmental managers showed up in the engineering industry. Their responsibility often extended to areas such as life cycle analysis and environmentally sound product development. Retailers and companies close to the consumer also started to appoint environmental managers, frequently economists and/or communicators. Their most important task was to ensure that the brand was not tarnished by environmental scandal.

Environmental managers in companies seriously committed to sustainable growth are now directly involved in business development based on the business opportunities offered by sustainability. They are no longer responsible merely for environmental audits, but also for helping companies develop new products and services that meet market demands for social and environmental responsibility. They are no longer limited-responsibility environmental specialists, but are involved in the future development and direction of companies.

ENVIRONMENTAL PROTECTION ACTIVITIES HAVE BECOME "CORPORATE CITIZENSHIP"

The following examples describe how four companies – IKEA, Novo Nordisk, ITT Flygt and Volvo – dealt with what initially were environmental problems, but now also extend to sustainable growth. In all these cases issues that were once dealt with by specialists gradually became the responsibility of management and were incorporated into the principles for the company's operations and interaction with the rest of the world. Today, the environment is just one dimension of sustainable growth alongside social justice and economic development.

FROM ENVIRONMENTAL ENGINEER TO VICE-PRESIDENT SUSTAINABILITY

Decade	Title	Tasks/areas of responsibility
1960s	Engineer	• Dealing with production stoppages
1970s	Work Environment Engineer Quality Engineer	• Dealing with work environment problems • Improving product quality • Reducing production defects and negligence • Responsibility for environmental assessments
1980s	Environmental Manager (specialist)	• Environmental audits • Environmental optimization of production (reducing emissions)
1990s	Environmental Manager (generalist)	• Spokesperson on environmental matters • Environmental optimization of products • Responsibility for life cycle analyses • Introduction of environmental management systems • Environmental supply chain management
2000s	Vice President Environment & Social Responsibility Vice President Sustainability Vice President Corporate Social Responsibility	• Protecting and building brands • Intelligence analysis and stakeholder dialogue • Guaranteeing that subcontractors take responsibility for the environment and respect fundamental human rights • Responsibility for ensuring that the company actively promotes CSR

FIG 28
The range of tasks and areas of responsibility entrusted to environmental managers also reflects companies' approach to environmental issues. New tasks and areas of responsibility have been added over the years. The fact that a person has a Vice President Sustainability title does not mean that there are no environmental engineers. There are, and there are also many other engineers with specialized tasks in the fields of product development, external communications, etc.

Example: IKEA – Crises shaped a "Teflon company"

IKEA, the home furnishing company, has in a few decades grown into a group with 75,000 employees and an annual turnover of about €11 billion. Company founder Ingvar Kamprad has created an extremely cost-conscious corporate culture that has made it possible for ikea to supply furniture and other home equipment at prices that competitors can rarely match. One reason for its low prices is that IKEA often uses suppliers in low-cost countries such as China and India. But IKEA's goal is to sell cheap, but also high-quality products made with due regard for social, environmental and health concerns. Crises that the company has overcome in the last 15 years concerning the environment, health and social responsibility, have also had significant impact on its corporate culture. The crises involved potential health risks associated with some of its products and allegations that one of IKEA's suppliers used child labour.

In the last few years IKEA has acquitted itself so well in the heated debate on multinational companies and globalization that Newsweek dubbed it the "Teflon multinational". The staff has learned from the crises and close contacts have been established with NGOs, and the company has also introduced a Code of Conduct to ensure that suppliers meet environmental and social standards.

FORMALDEHYDE IN BOOKSHELVES

It started in Denmark, which had introduced legislation limiting formaldehyde emissions. In the autumn of 1985 two consumer programmes on Danish television revealed that some of IKEA's furniture exceeded limit values. The programmes were illustrated with pictures from the IKEA catalogue with the items labelled 'Banned for sale'.

There was a public outcry. Thousands called IKEA wanting to return furniture. The news spread all over the world and appeared in newspapers as far away as Singapore.

Russell Johnson, quality manager at the time, says this brought home to him for the first time that IKEA was a global company. A graduate engineer, he had been quality manager for two years. Now he had to deal with an environmental problem.

Formaldehyde cropped up again two years later, this time in Germany. Emissions of formaldehyde from the 'Billy' bookcase exceeded the German limit – very serious in health-conscious Germany.

FIG 29
Newsweek describes how smart companies – like IKEA – beat anti-globalization critics at their own game.

This time Russell Johnson had two assistants. For two years, they worked on the formaldehyde problem. It was an issue for the entire industry, but IKEA copped most of the blame. IKEA contacted the chipboard, glue and chemical suppliers to find a solution.

This was the first deliberate step taken by IKEA towards environmentally sound product development.

THE IKEA CATALOGUE AND POLLUTION IN POLAND

IKEA was still not immune to problems and criticism. Shortly after the first formaldehyde crisis, people started asking questions about IKEA's annual catalogue. IKEA had just proudly announced that it was the world's most widely circulated free publication. Someone calculated the number of trees that had to be cut down to produce it. This time, criticism was about wasteful use of resources.

In addition, the paper in the catalogue was made from chlorine-bleached pulp, so IKEA caught some of the blame for environmental problems in the Baltic Sea that were mainly caused by the pulp and paper industry.

The crisis peaked in the spring of 1989. A TV station and a regional newspaper charged IKEA with "actively contributing to pollution in Poland."

IKEA had been buying furniture from Polish manufacturers since the early 1960s. At the time, Swedish furniture makers who did not like IKEA's low-price profile were boycotting the retailer. Now articles and TV news features carried grim pictures from Pozna, where a furniture factory poured out black smoke and a filthy lake bubbled with methane gas. At a press showing of a new IKEA furniture collection, group president Anders Moberg was accused by the media of responsibility for Poland's environmental problems. Following this incident, Russell Johnson was asked for a survey of environmental problems that might affect IKEA – and to draft an environmental policy.

THE FIRST STAKEHOLDER DIALOGUES

In autumn 1990 the IKEA management drew up an environmental action plan for its catalogue. The following spring, Johnson invited Greenpeace to help IKEA in printing the 1993 catalogue. It would be distributed in the autumn of 1992, on totally chlorine-free (TCF) paper.

In the environmental action plan adopted in 1992, IKEA committed to cooperation with various environmental organizations. Russell Johnson had already launched what would subsequently be known as stakeholder dialogues.

Soon after the Rio Conference in 1992 Johnson took part in an international conference on boreal forests. There, he met people from Greenpeace and the World Wide Fund for Nature (WWF). They kept in contact over the years, deepening and formalising the relationship.

IKEA, Greenpeace and the WWF now work together on programmes to conserve

old-growth forest and to ban the logging of endangered wood species in rainforests.

Ten years after the initial NGO contacts, IKEA had almost 20 forest officers on the payroll, even though IKEA does not own forests itself. Their job is to see that the company meets its commitments on sustainable forestry.

ENVIRONMENTAL TRAINING FOR STAFF

IKEA's management became increasingly aware that the organization needed to know more about the environment.

IKEA staff would all get basic environmental training. This was essential if the company's environmental policy were to generate measurable results. Training is now intranet-based and interactive. All new staff now take an environmental and social affairs training course.

CHILD LABOUR

IKEA also suffered a rude shock on a social issue. A 1994 TV documentary entitled The Carpet revealed appalling environmental conditions and child labour among carpet makers in Pakistan. IKEA was mentioned as one of the companies buying carpets in the region.

The purchasing organization had to take a crash course in child labour and about how carpets were made in distant communities. Ignorance was widespread both at IKEA and among the self-appointed children's rights experts in the media.

Everybody involved reacted emotionally, expressing revulsion and condemning child labour. IKEA turned to the ILO (the UN's International Labour Organization) for assistance in formulating a clause banning child labour in its purchasing contracts.

New allegations subsequently surfaced about child labour and exploitive working conditions. Some of the charges were false, but some were true. In spite of contracts and control systems, children were still involved in carpet manufacture.

SAVE THE CHILDREN AND UNICEF

To avoid the need for emergency measures in response to each fresh revelation, IKEA made a thorough study of child labour with the help of the major international human rights organizations. After talking to Save the Children and UNICEF, IKEA realized it was necessary to address the root causes of child labour, i.e. poverty and lack of education. The company devised a motto: "Always act in the best interest of the child".

It is easy to condemn child labour. But only a couple of generations ago, it was normal for children in poor families in Europe and North America to help put food on the table. This is still the case in some countries where IKEA operates.

In 2000 IKEA started contributing to a UNICEF project in the north of India where several suppliers were located. The project aims to create alternative learning centres to help thousands of children enter the regular school system. The project involves 500 vil-

lages with a total population of 1.3 million.

Women and mothers are involved through self-help groups. These groups help them find access to cheap credit. This helps find gainful employment to pay some of their debts – the main reason they let their children work instead of going to school.

UN and local authority involvement in such projects will, IKEA believes, ensure the projects survive even if IKEA should leave the region.

THE GREAT BEAR HUNT

The year was 1997. After three years of preparation, IKEA's new concept was about to be unveiled. It was a completely new area: Children's IKEA. Preparations were rigorous. IKEA even had a 'children's school' guided by experts on children's play and development needs, and backed by an arsenal of studies.

Three months before the world launch, alarm bells went off: somebody at IKEA discovered that the eyes of the cuddly toys provided could easily be pulled off! The soft stuffed toys that were the symbol of the new campaign, were now seen as a health hazard: small children could choke on the plastic eyes.

Sales and deliveries of the animals were halted immediately. IKEA launched an advertising and media campaign recalling all the animals already purchased; the campaign was named "The Great Bear Hunt". IKEA sent a manager to India to talk to the supplier. When he got to the supplier company, previously working at full capacity with a workforce of 600, the factory was empty. Six hundred breadwinners in poverty-stricken northern India were now without jobs.

IKEA acted fast. Designers and product developers were sent from Älmhult in Sweden to India to prepare a range of products for children within a week, using the skills and materials already in place in the factory.

The result was a range of imaginative soft toys, many of which became bestsellers, including a heart-shaped cushion with cuddling arms and hands. This became the symbol for the campaign, which was launched on schedule.

SOCIAL AWAKENING AT IKEA LEADS TO IWAY

The bear hunt experience also made the segment manager personally aware of IKEA's social and ethical responsibility for suppliers' employees.

On subsequent trips to Asia he studied working conditions in supplier factories with fresh eyes, discovering substandard work and safety environments.

He reported to management. A discussion followed over whether or not IKEA should locate production in developing countries. This subsequently resulted in a strict code of conduct for company relations with suppliers.

Meanwhile, external pressure was mounting. More and more multinational brand-building companies were under

attack by trade unions and anti-globalization groups.

It took more than a year to adopt the Code of Conduct, generally referred to as IWAY (the IKEA Way of Purchasing Home Furnishing Products). The code lays down the minimum requirements that must be met by suppliers with regard to social conditions, the work environment, child labour, the environment and forestry.

Almost all IKEA's 1,600 suppliers were briefed on IWAY. IKEA Trading, the group's purchasing organization, has a key role in making sure that suppliers satisfy the requirements. Internal IKEA auditors train IWAY inspectors at IKEA Trading and carry out control audits. Independent auditors carry out external checks.

A CONSTANTLY GROWING ORGANIZATION FOR ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

IKEA's social and environmental organization is constantly growing. When Russell Johnson was faced with the formaldehyde crisis in 1985, nobody at IKEA was explicitly responsible for the environment. By the beginning of the new millennium, there were many with responsibility for social and environmental affairs. A manager with general responsibility for matters relating to sustainable development reports directly to group management. More than 60 staff work full-time on environmental issues, as well as another 300 whose main duties are the environment and social responsibility.

IKEA today has a relatively small central staff unit dealing with CSR, but a large and constantly growing network for social and environmental affairs. And the environment and social responsibility are being integrated into day-to-day business operations.

IKEA'S STRENGTH IS ITS VISION

IKEA sees its great strength in the vision of founder Ingvar Kamprad: "To create a better everyday life for the majority of people". When this was formulated in 1976 the main target group was consumers, but extending it to a wider constituency has not been a problem. Today, it relates to everybody: customers, employees, subcontractors and society as a whole, including the environment.

"This vision gives our lives a meaning beyond the money we earn, and it provides a strong incentive for me and for my colleagues", said Anders Dahlvig, President and CEO of the IKEA Group, speaking at the Greenpeace Business Conference in London in late 2001. The theme of his speech was "Can you do good business while being a good business?" Dahlvig had no hesitation: 'yes'.

FIG 30

THE CREATION OF A "TEFLON MULTINATIONAL"

A stable foundation of values	IKEA is built around the values associated with the enterprise culture of provincial Sweden: be cost-conscious, do things your own way and be willing to learn from others (i.e. to imitate the best). These values permeate the company — which is why executives usually fly economy class. Waste is bad!
Dialogue and collaboration with NGOs	IKEA has been unusually willing to work with environmental and human rights organizations. Stakeholder dialogue was adopted early on at IKEA, so it was natural to look to Save the Children and other human rights organizations when the child labour problem emerged.
Protecting the brand by being honest	IKEA's products are aimed at a mass public (according to its founder Ingvar Kamprad, people with 'thin wallets'), so its brand is the company's most valuable asset. If customers start to doubt IKEA's integrity, this could prove very costly. IKEA openly admitted the problem with the defective stuffed animals and was equally frank about the difficulty of dealing with the child labour problem.
Building a robust organization	IKEA realized that there are seldom simple solutions to environmental or social problems. This is why the company has built up a robust organization to deal with these matters. The staff is small but its network is large.
Committed owners and management	The personal commitment of the IKEA founder, Ingvar Kamprad, has been decisive in giving the environment and social justice high priority. Present CEO Anders Dahlvig has lavished attention on CSR issues within the company. IKEA is not stock exchange-listed and is still operated basically in accordance with the vision and priorities of its founder.

Example: ITT Flygt became a Global Reporting Initiative model

In late 1994, ITT Industries carried out an environmental, health and safety audit of its subsidiary, ITT Flygt. The result was disastrous. The internal auditors concluded that ITT Flygt had the worst performance of all group companies.

Everyone at ITT Flygt was surprised. The managing director at the time protested that ITT Flygt was doing a good job as regards health, environment and safety. The problem was that there was no documentation. ITT Flygt is a pump manufacturer, the kind of company that almost intuitively does everything right when it comes to sustainable development. Its production is located in places where it has operated for many years. Taking care of the local community and looking after staff have always been second nature, since without skilled workers ITT Flygt would not be able to manufacture a single pump.

Besides, the company's products have positive associations. The pumps supply people with drinking water or drain and treat wastewater or threatening floodwater. This aspect was skilfully exploited by marketing managers at ITT Flygt at the early 1990s.

STRUCTURE, DOCUMENTATION AND COMMUNICATION

So the internal auditors' report came as a shock. Environmental work that so far had been based on intuition and common sense now had to be structured. ITT Flygt appointed an Environment, Health and Safety Manager and a Corporate Environment Manager. The latter was Magnus Enell, previously with the Swedish Environmental Research Institute (IVL) and also a researcher for major World Bank projects. Enell's task was to ensure that the owners' requirements for documentation of environment, health and safety activities were met. ITT Flygt's management also wanted the Swedish plants to be certified according to the international environmental management standard ISO 14001 as soon as possible. This was done by 1997. The process was swift as all the groundwork had already been done. The information was available and all that was needed was to package it.

A GRI PILOT TESTING COMPANY

ITT Industries, which had a good environmental reputation, was invited to be one of the test companies for the Global Reporting Initiative project. The project was launched in late 1997 by the non-profit organization Ceres (Coalition for Environmentally Responsible Economies) and the Tellus Institute (host to the Boston division of the Stockholm Environment Institute). See fact box next page.

ITT Industries, earlier concerned about ITT Flygt's apparent failure to implement

any health, environment and safety arrangements, could now ask ITT Flygt and its environment manager to represent ITT in the GRI project. In spite of the auditors' report, ITT Flygt seemed now to have made more progress in this area than any other company in the group.

ITT Flygt was selected in 1999 to be one of the pilot companies for the GRI guidelines for sustainability reports, i.e. voluntary public reports on companies' performance in environment, health, safety, gender equality, justice, social responsibility and economic sustainability. These are referred to as 'triple bottom line' reports.

Until then, ITT Flygt had not been concerned with sustainable development, but now prepared a sustainability report using the first draft of the GRI guidelines. Magnus Enell then used the report as the basis for an analysis.

The result was a surprise. It showed that ITT Flygt already fulfilled most of the criteria. The company had no difficulty in meeting the GRI requirements; most of the necessary measures had already been taken. But the economic, environmental and social dimensions had not been integrated, and, above all, there was a lack of proper communication.

And communication – i.e. information and stakeholder dialogue – is what the GRI is all about. ITT Flygt and Enell have continued to be active in developing the GRI guidelines.

The Global Reporting Initiative

The Global Reporting Initiative (GRI) was launched in 1997. The United Nations Environment Programme (UNEP) joined the GRI as a key partner shortly after, together with companies, accounting firms, environmental and human rights organizations and trade unions all over the world. Over 1,000 participants representing hundreds of organizations are members of the GRI network today. The GRI is independent and is a regular UNEP collaboration centre and also collaborates with Global Compact, the platform initiated by UN Secretary-General Kofi Annan.

The GRI aims to develop and disseminate an accepted framework for voluntary reports on companies' economic, environmental and social performance, i.e. what are known as sustainability reports. Already, over 2,000 companies all over the world publish voluntary reports, many increasingly similar to sustainability reports, alongside the compulsory financial reports. The GRI wants sustainability reports to become routine and, by being comparable, stringent and verifiable, be as credible as conventional financial reports.

The GRI Steering Committee presented its first draft guidelines for reports in 1999. After the pilot testing of the original draft by 21 companies, two revised drafts have been released, the last one in May 2002.

Example: Novo Nordisk moved stakeholder dialogue up to management level

Novo Group, the Danish pharmaceutical and biotechnology group, is a pioneer in the integration of stakeholder dialogue into the business process, and one of the companies that has made most progress. A subsidiary, Novo Nordisk, has also positioned stakeholder dialogue under top management. The previous environmental manager, Lise Kingo, was appointed Senior Vice President, Stakeholder Relations in 2002.

BUT FIRST A CRISIS

But as with most other pioneers in sustainable development, the company first had to face a crisis. Novo Group is one of the world's leading manufacturers of insulin and industrial enzymes, and the crisis had to do with enzymes.

In the 1960s demand for enzymes exploded after the discovery that adding enzymes to detergents helped break down dirt and grime. Enzymes, previously strictly industrial products, were now welcomed as a new concept by consumers.

The success lasted until 1972, when Ralph Nader, the American consumer advocate, warned that the enzymes in detergents were allergenic. Although no scientific proof was forthcoming, the damage was done. Novo's revenues from sales of enzymes were halved, and it took several years for the company to recover.

CONTACTS WITH NGOS

The company realized the importance of contacts with environmental and consumer movements as well as with end users. Instead of letting the detergent industry face the music on its own, Novo launched a campaign to restore consumer confidence in enzymes.

Later, when new crises appeared, the company was better prepared. In the late 1980s, animal rights activists protested against animal experiments and environmental groups raised concerns about the risks associated with genetic engineering.

This time the spotlight was on Novo Nordisk's production of hormones and insulin. The company had learned its lesson and invited environmental and animal rights activists to discussions.

By the early 1990s the foundation was laid for a stakeholder dialogue system.

FIG 31
Tomorrow magazine wrote an article about Lise Kingo in connection with the company's major effort to improve stakeholder dialogue. In 2002 she was appointed Vice President and put in charge of stakeholder relations.

This dialogue has become an increasingly important tool for management. Environmental manager at the time was Lise Kingo, who had a degree in comparative religion, which was probably significant when the company geared up its stakeholder dialogue.

ROUNDTABLE TALKS

For the first few years the company invited major environmental organizations to take part in annual roundtable talks, later institutionalized in the Novo Nordisk Stakeholder Dialogue Forum, a key element of the company's current sustainability activities. Two of the main topics in 2002 were socially responsible investment and stem cell research.

The dialogues help to build confidence and spread understanding of matters important to the company. But the talks are even more important as a way of detecting changes in society and the market.

It was thanks to talks with stakeholder groups that Novo Nordisk realized early that genetic modification and biotechnology would be extremely controversial. So the company was one of the first to set objectives and a policy for bioethics. Thanks to its openness and willingness to inform the public and discuss genetic engineering, Novo Nordisk's expertise was called upon when in 1997 the Danish Consumer Council wanted to disseminate information about genetically modified food.

FROM DIALOGUE TO PARTNERSHIP

Many companies are content to entrust environmental issues to line managers; Novo Nordisk has instead upgraded the status of these issues by forming a new unit, Stakeholder Relations, with the previous environmental manager in charge.

Novo Nordisk is also convinced that long-term profitability is dependent on stakeholder confidence. To build this confidence Novo Nordisk is now moving from dialogue to fully-fledged partnership. The process requires great openness, but also clarifies the company's relationship to stakeholders and its impact on society.

FOOTNOTE

The Novo Group consists of the sister companies Novo Nordisk, which manufactures drugs, especially for diabetes care, and Novozymes, which manufactures industrial enzymes, mainly for the detergent industry. The Novo Group has adopted a framework of rules specifying the approach of both its subsidiaries to environmental and social issues. One example is that stakeholder dialogue is now compulsory for these activities.

THE NOVO NORDISK LEARNING CURVE

FIG 32
The management of Novo Nordisk often use this curve to demonstrate the process of addressing issues – from the initial impulse from stakeholders, to framing the company's response, and, as the learning curve rises, to fully integrating the response into business processes. For example, health and safety issues are well integrated into the business, whereas assessing the company's socio-economic impact is an emerging issue.

SOURCE: NOVO NORDISK SUSTAINABILITY REPORT 2002

Example: Volvo's environmental commitment led to its takeover by Ford

A new executive post was set up at Volvo at the end of the 1980s. Sigvard Höggren became the company's first environmental manager. The use of the word 'manager' was an innovation, since environmental responsibility in Sweden was previously assigned to lower-level engineers.

By appointing an environmental manager, Pehr Gyllenhammar, president of Volvo at the time, was making a point, both internally and to the world: the company now considered the environment a priority area. Gyllenhammar was interested in social issues and realized early that companies would have to raise their environmental standards and accept social responsibility.

ENVIRONMENT, QUALITY AND SAFETY BECOME CORE VALUES

The environment became one of Volvo's core values together with safety and quality. Volvo was perhaps the first car manufacturer in the world to designate the environment a core value, launching a process that won the company international renown.

But at home in Sweden, Volvo was criticized by environmental organizations. Substantial solvent emissions had been detected at the Torslanda plant, and critics wondered why Volvo was not doing anything about it if the environment was a priority. Anna Lindh, the leader of the Social Democrat youth wing at the time (later environmental minister and then foreign minister), asked questions at Volvo's annual general meeting. Gyllenhammar hit back at her during a live news broadcast, which led to indignant editorials about Volvo's 'double standards'.

Criticism simmered down when Volvo reduced emissions substantially at the Torslanda plant. The company made a systematic review of all the materials in its cars, checking for potential problems when the cars were recycled. However, the main environmental impact of motor vehicles is not in manufacture or recycling, but in operation. So focus shifted to engine performance and emissions. According to the company itself, Volvo is now the only car maker in the world that can supply cars to markets with the strictest emission standards, i.e. California's emission standards and Euro 4, a similar standard for the EU, in force in 2005.

PRODUCED THE FIRST HYBRID CAR

Volvo produced the first hybrid vehicle, combining an electric engine and an ordinary combustion engine, in the early 1990s. The car toured the world and was displayed at motor shows. But never reached commercial production. But Volvo knew that stringent environmental requirements would prove a major challenge for the auto industry. The

first carmaker to launch a commercial hybrid car was Toyota, which scored with the Prius.

The environment was one of the main reasons for the sale of Volvo Cars to Ford. Volvo's group manager Leif Johansson divulged this at an environmental conference at Columbia University, New York, when Volvo celebrated the tenth anniversary of its Environment Prize in 1999: "Volvo was the 23rd largest carmaker in the world. There was no number 24. We concluded that it would be very difficult for us, as the world's smallest independent car manufacturer, to develop sufficiently environment-friendly engines and materials.

"This was one of the main reasons why we decided to sell the company to Ford", said Leif Johansson in response to a question at the environmental conference "A Planet at Risk – A Partnership at Work" in New York.

Volvo gave up trying to go it alone in the race to make the environment-friendly vehicles of the future — a race in which carmakers are investing billions. Toyota, DaimlerChrysler, Ford, Volkswagen and the other giants are developing fuel cell propulsion systems and hybrid engines. This is costly, since apart from hybrid vehicles, there is still no market. Volvo's management was right to conclude that this phase would call for gigantic investments in new kinematic chains and technologies. In this process, new owner Ford is playing a very active role.

The process launched by Volvo in the 1980s continues. It is no longer a question of environmental action, but embraces the broader concept of sustainable development. Starting in 2000, environmental reports were replaced by annual Corporate Citizen Reports.

7. New technology is green

Industry is driven by an urge that seems to have nothing to do with the environment but nevertheless often has environmentally beneficial effects. It is the urge to constantly develop new, more competitive technological solutions. The motivation is the desire to produce cheaper and better products. If a company can produce more for the same price, it can earn more, or – more commonly – it can lower the price and increase market share and consequently its profit.

This process attempts to make production and products more resource-efficient and cost-effective. Raw materials cost money and so does energy, hugely. Companies serious about pro-environment activities call this eco-efficiency – often expressed as 'more with less'. The aim is to create added valued with less input and less environmental impact. Eco-efficiency is the cornerstone of the philosophy of the World Business Council for Sustainable Development (WBCSD), the largest and most influential of international business organizations involved in sustainable development.

The environmental awareness that has emerged in the last 30 years has affected the corporate sector and influenced business operations and planning. Many environmental problems up to the late 1980s were about wasteful use of resources, such as emissions of residues that could not be used in production and which transformed into environmental problems when released into nature.

Today, much of this waste has been eliminated, at least in the advanced industrial countries. The aim used to be, and often still is, to find ways of neutralizing residues, just as nature itself does. Now, the focus has shifted from production to the products themselves, although this is true mainly of the industrialized world. Developing countries still wrestle with any number of 'first-wave' problems.

INCENTIVE 1: REDUCING PRODUCTION COSTS

Electricity-intensive companies in the steel, cement, pulp and paper industries have worked hard at saving energy in their processes.

In these companies, energy costs account for as much as 40% of total production costs. There is strong incentive to improve production efficiency. They have also had sufficient financial strength to afford the latest technology; investment in the best available technology requires a good financial base.

INCENTIVE 2: PRUDENT RESOURCE MANAGEMENT

The focus of technology and process development has been on waste and on continuously getting more out of input goods, both finite resources such as oil and metals, and renewable raw materials such as wood.

There is tighter competition for renewable raw materials, for example wood. Energy companies are increasingly keen to use biofuels, while the traditional forest industry is looking to use wood and cellulose for products other than timber and paper.

PACKAGING BECOMES LIGHTER

The packaging industry has long been the target of criticism, and in the 1980s packages were associated with refuse mountains and wasted resources. Consequently, the industry was among the first to introduce life cycle analysis to answer critics and prepare development of environmentally optimized packaging.

However, this required cooperation both downstream and upstream throughout the production chain. There has been collaboration between Tetra Pak, one of the largest packaging manufacturers, and Stora Enso on optimization of materials. This has resulted in milk cartons made of board that is 20% lighter than 20-30 years ago. Materials have been saved and environmental impact at the transport stage reduced.

MORE PACKAGES FROM THE SAME AMOUNT OF WOOD

Numbers of packages per unit of wood

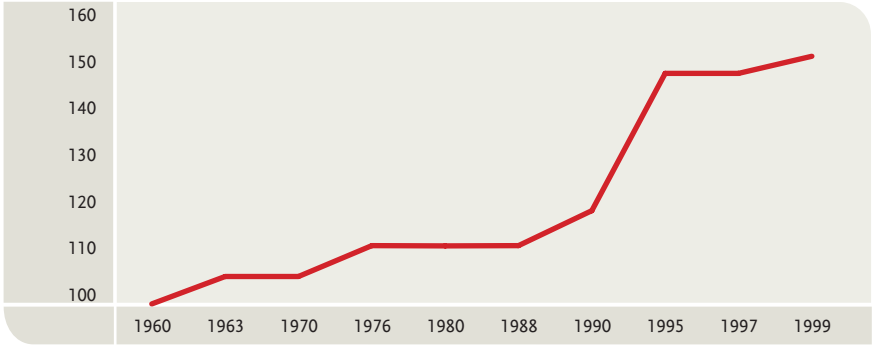


FIG 33
Thanks to successful product development, it was possible in 1999 to produce 50% more packages (in this case milk cartons from Tetra Pak) from the same amount of wood compared with 1960.
SOURCE: STORA ENSO

INCENTIVE 3: MARKET DEMAND AND REGULATION

It is now recognized that the environmental impact from using products is much greater than from manufacture. Especially with vehicles and white goods. In both cases, use accounts for between 70 and 90% of their total environmental impact, from the extraction of raw materials to manufacture, use and final disposal or recycling.

TRENDS AND COUNTERTRENDS

Consumer interest in fuel-efficient cars has increased along with rising gasoline prices. It has been possible to reduce body weight thanks to high-tensile steel, and within about 15 years, it is realistic to expect savings of about 30% of material and weight. However, the trend towards heavier four-wheel drives and more comfort (e.g. air conditioning) raises energy use and cancels out some of the gains.

TECHNOLOGY PROCUREMENT AND REGULATION LEAD THE WAY

A similar trend affects white goods, but since it is more difficult for consumers to compare the cost of energy used by a refrigerator with the cost of running a car, market pressure has not been as noticeable.

ENERGY INDEX FOR REFRIGERATORS AND FREEZERS

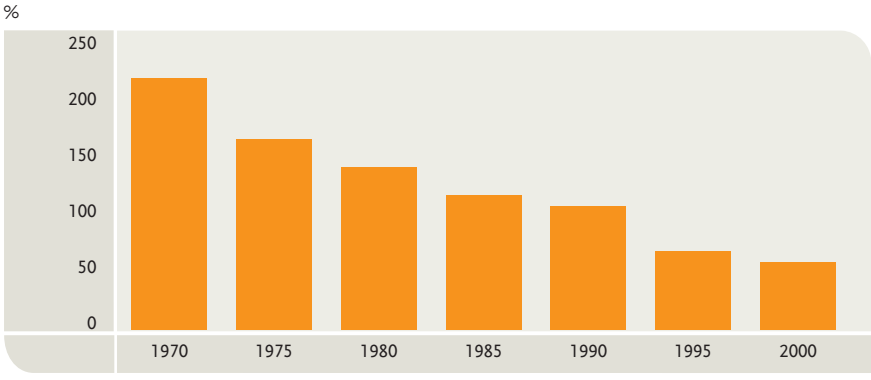


FIG 34
The figure illustrates how Electrolux's refrigerators and freezers have become increasingly energy-efficient. 100% was the mean value for energy use for all refrigerators and freezers on the European market in 1993. The bars in the diagram show the mean values for Electrolux's refrigerators and freezers.
SOURCE: ELECTROLUX

NEW WHITE GOODS MEET 25% OF THE EU KYOTO COMMITMENT

Leaps in technology are not always necessary to achieve radical reductions in carbon dioxide emissions. Significant improvements can be achieved with technologies already available.

Electrolux, admittedly with self-interest, calculates that replacing all old white goods with modern energy-efficient ones would help the EU meet 25 % of its climate commitment under the Kyoto Protocol. The EU is committed to reducing its carbon dioxide emissions by 8 % by 2010 compared with 1990 levels.

For white goods, technology procurement and regulation have had a greater effect. The EU energy label, for example, has proved a useful tool for Electrolux for marketing environmentally cutting-edge products. Energy labelling has triggered an increase in the demand for energy-efficient white goods. Electrolux has also benefited from the Energy+ programme organized by energy authorities in 10 European countries and designed to encourage the development of energy-efficient products. Electrolux has entered some of its most energy-efficient products, which has helped to boost sales.

INCENTIVE 4: RESEARCH AND TECHNOLOGICAL DEVELOPMENT

Rapid progress is being made in research into areas such as information technology and nanotechnology, as well as 'the new biology'. Appropriately used, these technologies have enormous potential for developing products and services that can reduce environmental impacts and increase prosperity and welfare.

INFORMATION TECHNOLOGY

The supercomputers of the 1980s are comparable in power to the personal computers now be found in most homes — which will in turn soon be made obsolete by small pocket computers. Computer power is being built into both products and materials in the form of miniature processors. Internet and wireless telephone systems are now ubiquitous in the industrialized world. IT can help optimize resource management widely, for instance in logistics and production planning.

Information technology is increasingly important for the simulation of processes and systems. Simulating biological processes may make it possible to ultimately phase out animal-testing, for example.

FUTURE SERVICES WILL BE ELECTRONIC

Service production is becomingly increasingly important, and thanks to developments in information technology more and more services are electronic, including on-line marketing,

whether of physical products or electronic sales and distribution of films, music and software. This also applies to bank and agency services and computer-based education. The environmental advantage is in the reduction of office, warehouse and store space and consequent energy savings. Electronic services also reduce the need for travel.

THE NEW BIOLOGY

Molecular biology and genetic engineering are in dramatic development. We are seeing completely new opportunities for plant and animal breeding. Crops that resist certain pesticides are already in production. The next step will be to add genes to crops to make them resistant to fungus and insect attacks, reducing pesticide use.

Genetic engineering may help develop living chemical factories, i.e. plants or microorganisms that can produce high concentrations of desired substances such as hydrogen (for fuel) and plastic raw materials.

NANOTECHNOLOGY

Research into materials has increased our understanding of the structure of materials down to atomic and molecular level. Nanotechnology offers the prospect of creating materials with new and desirable properties, used in the future to produce drugs and food products in improved ways.

Nanotechnology, it is hoped, will be able to achieve artificial photosynthesis by imitating the way plants produce energy. This will allow production of hydrogen gas using sunlight.

PROGRESS IN THE POWER INDUSTRY

Great progress has been made in the power industry in the last few decades. Constant increases in efficiency have made it possible to extract more energy from raw materials. For electricity production, this means generating more power out of every tonne of natural gas, oil, biomass or any other energy raw material.

Power transmission is still an area where energy losses are substantial, but great technological progress has been made recently. New technologies help energy companies reduce losses and produce more energy for customers.

SOLAR AND FUEL CELLS

The same trend can be seen in the renewable energy technology sector. Ångström Solar Center, a major Swedish research programme, has developed cheap and highly efficient solar cells. Both elements are necessary if the technology is to be used on a large scale.

The thin film technology developed at the Ångström Laboratory has moved from

laboratory to pilot scale. A first step towards industrialization was taken in 2003 when the Swedish government and private financiers established the Solibro company to build a test facility. There are also high hopes for fuel cells, which produce electricity with minimal environmental impact. Billions of dollars are invested yearly in fuel cell development by the world's large engineering companies. Leading car makers such as Ford, DaimlerChrysler and Toyota are developing fuel cell propulsion systems to replace the combustion engine. Using hydrogen as an energy bearer, vehicles will emit nothing more noxious than steam. Although commercial breakthrough will take some time, practical trials are under way; the technology will ultimately vastly reduce environmental impacts in the transport sector.

Example: Function selling

The term function selling was coined by the environmental department at Electrolux in the mid-1990s. It means selling a service instead of an appliance: mown grass instead of a lawnmower, refrigerated food instead of a refrigerator, clean laundry instead of a washing machine, a heated and ventilated office instead of energy, etc.

The manufacturer retains ownership of the product/appliance, while the user pays for the service, either per wash or per volume of refrigerated food or per kilometre driven. It is a form of leasing.

The latest and most environmentally efficient products can always be supplied. Another advantage is that the manufacturer/owner has a strong incentive to develop products that have a long life and are easy to repair, upgrade and recycle, while also being resource-efficient. However, function selling has not achieved its anticipated success in the consumer market. Electrolux offered washing machine services paid for per wash, the billing appearing on the consumer's telephone bill, but without success. Electrolux says it chose the wrong area for the pilot programme – the small, rural island of Gotland in the Baltic Sea. Electrolux wants the next try-out in a big city such as London or New York.

The success of function selling depends on the maturity of consumers, or at least on the insight that quality of life has nothing to do with owning things like cars, washing machines and refrigerators.

Function selling by energy companies, supplying heating based on different energy sources such as electricity, oil or gas, has proved more successful.

Function selling is expected to take off in Sweden when producer responsibility for the recycling of end-of-life products is extended to more product groups.

NEW TECHNOLOGY DELIVERS LESS ENVIRONMENTAL IMPACT

Virtually all new technology is green in the sense that it makes less environmental impact than the technology it replaces. It is difficult to say which factors have contributed most to the environmental improvements in the industrialized countries. Legislation is important as

FIG 35

NEW TECHNOLOGY IS GREEN

Improved resource efficiency	Energy-saving	Technological breakthroughs
• **New, smarter technologies** that help to produce lighter products and increase the capacity of computers, mobile telephones, CD-ROMs etc	• **Construction of energy-efficient** and climate-friendly buildings using energy conservation techniques, renewable energy sources, heat recovery, control engineering, energy-efficient construction etc	• **The new biology, including genetic engineering,** can lead to higher yields, reduced use of agricultural chemicals and reduced hunger
• **New electronic services,** e.g. online retrieval, sale, distribution and storage of information, are replacing products. Banking, brokerage and educational services are also provided via the Internet	• **Development of cost-effective,** sustainable and flexible local energy systems	• **The development of 'living chemical plants',** i.e. plants that can produce raw materials, e.g. for plastics
• **The development of resource-efficient** and sustainable management of energy and materials, including raw materials, helps to reduce emissions ("more with less")	• **More efficient power stations,** including thermal power stations	• **Nanotechnology makes it possible** to create new materials with tailor-made properties
• **New information technology** optimizes resource management, e.g. logistics and production planning	• **New transmission technologies** reduce energy losses	• **High-efficiency solar and fuel cells** lead to an environmentally sound electricity supply

are public opinion and the media. Fiscal incentives and disincentives have pushed development, as have customer demands and changing markets. But technological advances, driven by economic motives, play a more significant part in improving the environment than we think.

Example: Smart Internet solutions instead of physical appliances

Dematerialization may be defined as efforts to reduce resource turnover by substituting services for products. Telecom companies have shown great interest in the idea.

A study carried out by the Swedish telecom company Telia shows that its TeleSvar answering service provides the same function as an answering machine but with less environmental impact from manufacture, transportation and operation of the product and the disposal of end-of-life equipment. As regards energy use and contribution to the greenhouse effect, environmental impact is up to 800 times less than that of an answering machine. Eight hundred thousand TeleSvar customers save as much electricity as used to heat 2,300 houses for a year. Telia claims that if half a million people who now use answering machines switched to the Internet service, carbon dioxide emissions would drop by 2,000 tonnes by year. Telia has also developed a virtual telephone switch to replace a stationary switch. The Internet-based switch can be used by an unlimited number of users and provides a wider range of services.

For users, costs are lower and service is better. In environmental terms the service reduces the use of natural resources. As regards the greenhouse effect, environmental impact is only one-third that of stationary switches.

Telia says that a major advantage is the reduction of travel volume. And apart from reducing the greenhouse effect, this reduces nitrogen dioxide emissions and consequently smog. And there is no electronic scrap to dispose of.

Example: New technology creates business logistics systems

Technological development, often driven by motives that have nothing to do with the environment, has produced business logistics systems based on IT and GPS, with substantial efficiency and environmental gains when used by shipping and transport firms.

Example: Video conferencing and teleconferencing reduce the need for travel

A new trend is for companies to adopt a travel and conference policy, for both business and environmental reasons. After the terrorist attacks on the World Trade Centre many companies have cut back on travel, using video- and tele-conferencing instead. Tetra Pak saved €1.7 million in a year this way. Ericsson saved almost €330,000 in a single week. Substituting video conferencing for travel also helps reduce emissions of carbon dioxide and allows employees to spend more time in their workplace and at home with their family — much appreciated by many.

ELECTRONIC MARKET-PLACES HELP FILL THE VACUUM

Trucks transporting goods on Europe's roads are on average only 70% full. Filling the other 30% would produce a profit of €20 billion. The environmental load would also be reduced by 20% per tonne of goods.

This is the business idea thought up by the founders of Delego.com. It has built up an Internet-based marketplace for transport services. Transport firms register online, report destinations and unused space. These data are then matched against transport buyers' needs.

Delego.com records environmental data for all vehicles and their fuel, making it possible to offer transport buyers an environmental index and accurate calculations of the environmental impact of individual transports.

SCHENKER MANAGES TELIA'S LOGISTICS AND INVENTORIES

Telia is among many companies that have re-focused on their core activities in the last few years. Today, all Telia's logistics activities in the form of inventories and transportation are outsourced to Schenker. The goal was shorter lead times and cost savings. It turned out that the environmental gains were also substantial.

Schenker uses IT to minimize its stock inventories, coordinate transports and plan routes. It also uses environmentally efficient vehicles and fuels, so exhaust emissions from Telia's transport flows have been radically reduced. Carbon dioxide emissions have been reduced by more than a quarter with similar or higher reductions of other emissions.

8. Measuring sustainability

Benchmarking is now a commonplace business tool. Its purpose is to compare a company's performance with other companies. The more efficient a company is at producing goods and services, the more profitable it can be. Learning from competitors is second nature in successful companies. This also applies to corporate social responsibility (CSR). As already mentioned, current sustainability activities have evolved in response to crises and public debate. Naturally, it is not necessary to experience crises and be spotlighted in public debate; it is enough to note what happens to other companies and to draw appropriate conclusions.

CSR ACTIVITIES MUST BE COMMUNICATED

Companies that have made progress towards sustainable growth realize the need to report on this progress, both internally and externally. Raising awareness in their own organization is particularly important. But employees must understand and apply the principles of CSR. Organizations must also dialogue with many different stakeholders, such as suppliers, NGOs, public authorities, politicians, stock markets, etc.

REPORTS AVAILABLE ON THE INTERNET

Previously, companies issued environmental reports, now often called sustainability reports or Corporate Citizenship Reports. Development is rapid in this area. For reports to be comparable with those produced by other companies, the same indicators should be used, industry-wide. However, this is seldom the case. Nevertheless, it is normally possible to assess a company's commitment to CSR by reading its sustainability report, usually accessible online.

ETHICAL FUNDS MEASURE PERFORMANCE

Now that companies are publishing more and more information about sustainable growth and CSR, stakeholders, consultants, other companies and NGOs can compare the performance of various companies. And increasingly, mutual funds invest in companies that perform well in this area. Large investors – pension funds, trade unions and religious organizations – tend to set ethical standards. They apply rules to ensure that investments respect human rights, proper working conditions and business ethics (i.e. policies on bribes and corruption). Companies keen to attract investors who set ethical standards must spell out their commitment these issues.

Some companies report on their sustainability performance in their annual reports, while others issue separate environmental and sustainability reports.

DIFFERENT ENVIRONMENTAL AND SUSTAINABILITY REPORTS

Although environmental and sustainability reports became mainstream only in the mid-1990s, there is already a variety of types. The first reports were little more than brochures full of clichés about the company's social and environmental responsibility. But now, some reports are as thick as books with quantities of indicators, especially key performance indicators on everything from emissions of greenhouse gases per unit of production to assessments of the company's role in the social cohesion of the local community.

Three main types may be distinguished (see fig. 36): factual reports, based on guidelines; communicative reports, which are easier to read; and process-oriented reports intended mainly for internal consumption. Companies that aspire to a high rating in the DJSI or FTSE4Good index will probably base their reporting on the Global Reporting Initiative (GRI) guidelines. Companies anxious to reach important target groups will go for a communicative report. And companies whose main interest is internal sustainability activities will find a process-oriented report the best option. Combinations will also occur.

FIG 36

DIFFERENT ENVIRONMENTAL AND SUSTAINABILITY REPORTS

Factual	Communicative	Process-oriented
• Reports are often based on guidelines, e.g. the GRI guidelines	• Broader, sometimes journalistic approach	• Focus on internal activities and in-company acceptance
• Performance is related to key performance indicators (KPI) and other indicators	• Contain many case studies and examples	• Provide feedback for internal sustainability activities
• Formal structure	• Adapted to the needs of target groups such as the general public or suppliers	• Based on benchmarking
• Target group: professional users, e.g. analysts and NGOs		• Main target group: company personnel

Assessing sustainability reports

It is not always easy for outsiders to assess a company's sustainability performance. There are as yet no fully comparable standards or indicators. The following checklist provides a guide to understanding CSR reports.

CHECK THE STATISTICS FIRST!

☑ What sort of statistics does the report contain? The presentation of statistics gives a rough idea of the company's commitment. A report without statistics is a non-starter. If performance is not described by key performance indicators supported by statistics, preferably in easy-to-read graphics and tables, the report is just another PR brochure. Too many, or too detailed, statistics are also a warning bell. Reporting legal emission levels down to the smallest unit of production is of little interest and suggests that the company does not have relevant statistics to report.

HOW IS THE REPORT STRUCTURED?

☑ Does the company follow the GRI guidelines? This is usually an indication of serious commitment to sustainability. Some proactive companies have chosen formats not based on the GRI guidelines, but their reports may be just as good. Who is the target group? Is the report open and communicative, or is it intended for a small group of professionals – academics, activists and analysts?

IS MANAGEMENT MENTIONED?

☑ Cutting-edge companies have committed managements. Is the president or CEO visible in the report? A preface by the CEO or an interview with the CEO or chairman of the board usually indicates that sustainability is a priority area.

HOW OPEN AND HONEST?

☑ Does the report air the company's problems? This is extremely unusual and probably a sign that the company takes a long-term view of sustainability and communication, and is keen to bring about change.

PIONEERS OF PROACTIVE BEHAVIOUR

Several companies mentioned in this book pioneered the concept of sustainable growth. Volvo was perhaps the first car manufacturer to adopt the environment as a core value (together with safety and quality) and to launch a programme that gave the company an international reputation for environmental awareness. IKEA has always kept a low profile but has made a serious effort to set standards for environmental performance and social responsibility throughout its worldwide chain of suppliers. Electrolux was probably the first white goods manufacturer to include energy efficiency and environmental performance in its business philosophy. Skanska, Europe's largest construction company, pioneered pro-environment activities and sustainability concepts in its industry. ABB, the Swedish-Swiss group, was among the first companies to introduce certified environmental management systems in all its plants.

But pioneers do not always stay ahead of the pack. Rapid developments and constant change make sustainability evaluation complicated. The small but growing group of sustainability consultants and analysts must constantly chase new data for their evaluations.

ENVIRONMENTAL MANAGEMENT SYSTEMS

One of the clearest indicators that a company is making a more active commitment to sustainable development is an environmental management system. The International Organization for Standardization's ISO 14001 environmental management standard led to an unprecedented breakthrough. By the end of 2002 more than 50,000 companies worldwide had introduced environmental management systems, either ISO 14001 or the EU Eco Management & Audit Scheme (EMAS). A certified environmental management system is a strong indicator that a company is engaged in effective and efficient environmental protection. The standard is based on continuous improvement and regular reporting.

JAPAN TOPS THE LIST OF COMPANIES WITH ENVIRONMENTAL MANAGEMENT SYSTEMS

In July 2003, Japan topped the list of ISO 14001-certified companies with 12,392 – three times as many as Spain, in second place with 3,960 certifications. Germany was third with 3,820 certified companies, USA fourth with 3,032 followed by Sweden with 2,961. See fig. 37.

ISO 14001, like EMAS, is a standard especially attractive for industrial companies. It is no coincidence that countries with a strong industrial culture and tradition, like Japan and Germany, top the list. Since the introduction of ISO 14001, Japanese companies have been sovereign leaders in the introduction of environmental management systems.

It may seem a surprise that there are so many environmentally certified companies in Spain since commitment to the environment is reputedly stronger in Northern European

TOP TEN COUNTRIES BY THE NUMBER OF COMPANIES THAT HAVE INTRODUCED ENVIRONMENTAL MANAGEMENT SYSTEMS (ISO 14001).

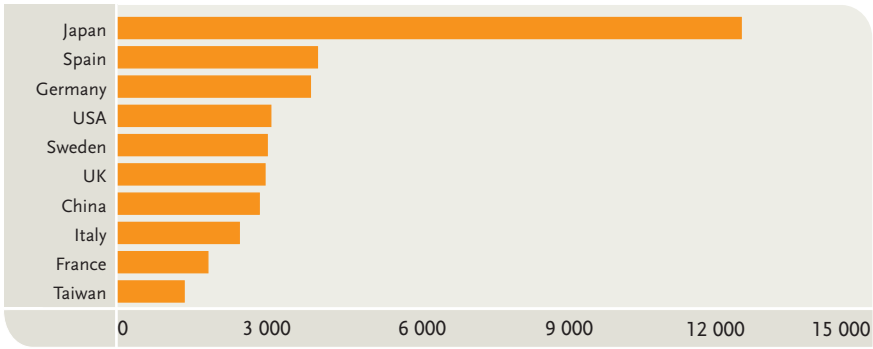


FIG 37
A clear indicator of the increasing commitment to sustainability among companies all over the world is the number of environmental management systems that have been introduced and registered. Over 50,000 companies have certified environmental management systems (ISO 14001). The largest number by far is in Japan.
SOURCE: ISO WORLD, NUMBER OF ISO 14001, JULY 2003

countries. But this may be changing, and using environmental management systems is a natural step in export-oriented countries.

US COMPANIES WARY OF LITIGATION

It may also seem strange that the world's largest economy, the USA, boasts only a few more ISO 14000-certified companies than Sweden, a country with only 9 million inhabitants. The reason usually given for this is that many US companies are wary of making public commitments that are liable to give rise to legal battles. Litigation is more common in the USA than any other country. Many US companies have refrained from applying for ISO 14000 certification for this reason.

SWEDEN TOPS THE CERTIFICATION LIST IN RELATION TO GDP

In the export-oriented Swedish economy, where many companies have a long tradition of environmental protection, an environmental management system is regarded as more or less standard. In relation to GDP, Gross Domestic Product, Sweden has the largest number of companies in the world with ISO 14000 certification.

ENVIRONMENTAL MANAGEMENT SYSTEMS ARE NOT SUFFICIENT FOR ASSESSMENTS

The introduction of an environmental management system, whether ISO 14001 or EMAS, is an indication of a desire for effective and efficient activities in one dimension of sustainable growth, i.e. the environment. But it has little bearing on long-term commitment to sustainability, and reveals nothing about a company's attitude to social responsibility or ethical standards. The environmental management system is just one indicator among many, and not sufficient basis for assessing sustainability performance.

THE DOW JONES SUSTAINABILITY INDEX (DJSI)

The DJSI provides an interesting evaluation of companies' sustainability activities. The Dow Jones Sustainability Indexes (www.sustainability-indexes.com) were launched in 1999 to help financial markets evaluate sustainability performance. They compare performance in the three dimensions of sustainable development: environmental, economic and social. Information is gathered from questionnaires, interviews and documents and analysed by a DJSI group. The DJSI has singled out just over 300 companies among about 2,500 worldwide as those with superior performance. A weighting is given to each of the sustainability criteria. As regards the economic dimension, for example, the highest weightings are given to areas such as codes of conduct/compliance, corporate governance, financial robustness and investor relations. For the environmental dimension, environmental performance and environmental management systems score heavily. The highest weightings in the social dimension are given to external stakeholders, human capital indicators, management attention to human resources and organizational learning.

SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE INCREASINGLY IMPORTANT

Environmental issues were more prominent in the DJSI when it was launched, but recently, social issues and corporate governance have grown in analytical importance. The relatively young DJSI, which is integrated into the Dow Jones Global Indexes, is already perhaps the most widely used international index for sustainable growth and is widely used by banks and other financial bodies. According to the DJSI research team, companies with a good sustainability record create greater shareholder value in the long run since they take advantage of new business opportunities arising from the shift towards more sustainable markets. At the same time they avoid the risks associated with environmental accidents or social inequity.

UK TOPS THE DJSI

The UK has the largest number of companies on the DJSI's list of 307 (June 2003). See fig. 38 and 40. The USA was in second place followed by Japan and Germany. That the UK tops the list may seem surprising in view of the environmental debate of the 1980s, when many UK companies showed little interest in the environment. But British companies as a whole have made the most dramatic shift to sustainable development in Europe, as the index clearly shows.

THE TOP TEN ALL ADVANCED INDUSTRIAL COUNTRIES

The 10 countries at the top of the list (see fig. 38) are all advanced industrial countries. The reason that relatively small economies such as Switzerland, the Netherlands and Sweden are among the top 10 is probably that many companies in these three countries became involved in environmental and sustainability activities at an early stage. It is also worth noting that Australia shares sixth place (with France). Australian companies previously paid little attention to sustainability, but today many are stars.

A COMPARISON BETWEEN LARGE AND SMALL COUNTRIES

For this book we commissioned Statistics Sweden to make an analysis of the companies and countries included in the DJSI so we could compare both large and small economies and the

TOP TEN COUNTRIES BY NUMBER OF COMPANIES INCLUDED IN DJSI

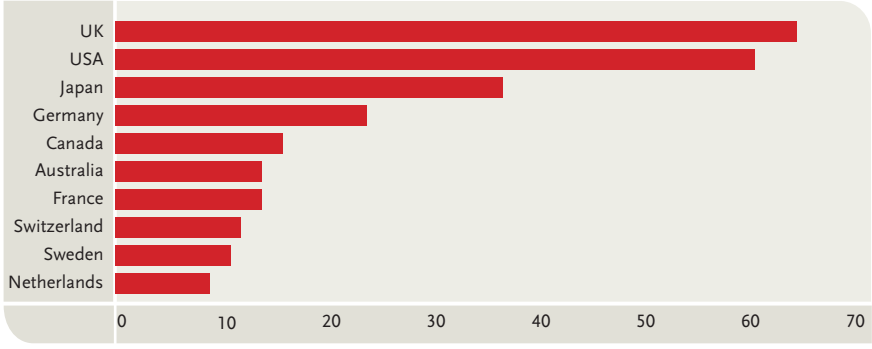


FIG 38
Most companies committed to CSR are based in advanced industrial countries, at least according to the Dow Jones Sustainability Index rankings.

SOURCE: DJSI

DJSI RANKING TAKING INTO ACCOUNT GDP AND COMPANIES´MARKET CAPITALIZATION

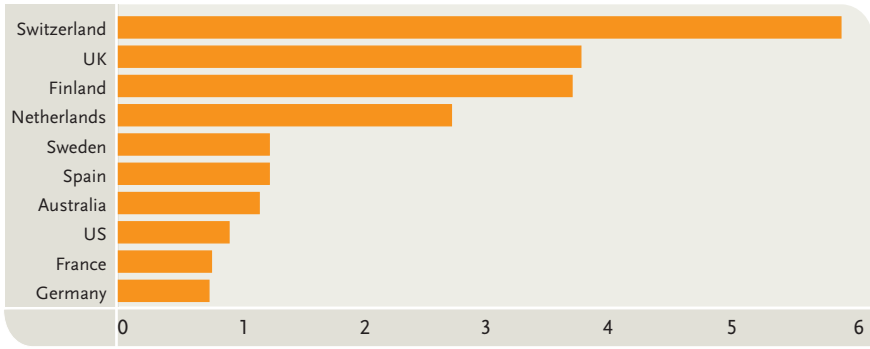


FIG 39

The chart shows the number of companies per country in the DJSI in relation to GDP and to the companies' market capitalization. Weighting the figures by GDP and market capitalization highlights commitment to sustainability in small countries like Switzerland, Finland, the Netherlands and Sweden. Among the larger economies, many UK companies are committed to CSR.

SOURCE: CALCULATIONS CARRIED OUT BY STATISTICS SWEDEN ON THE BASIS OF THE DJSI AND DATA FROM THE CONFEDERATION OF SWEDISH ENTERPRISE

FIG 40

DOW JONES SUSTAINABILITY WORLD INDEXES (JUNE 2003)

Country	Number of companies in DJSI	Country	Number of companies in DJSI
Australia	14	Netherlands	9
Belgium	1	Norway	5
Brazil	4	Singapore	1
Canada	16	South Africa	3
Denmark	6	Spain	7
Finland	6	Sweden	11
France	14	Switzerland	12
Germany	24	Taiwan	1
Hong Kong	4	United Kingdom	65
Ireland	1	United States	61
Italy	3		
Japan	37		
Malaysia	2	Total 307 companies in 23 countries	

commitment of their companies. Naturally, the largest economies rank high. But what happens if we take the size of the economies and company size (market capitalization) into account?

SWITZERLAND IN FIRST PLACE

Fig. 39 shows a breakdown of the DJSI data by both company size and GDP. Taking these parameters into account Switzerland comes in first, followed by the UK. Twelve Swiss companies were included in the June 2003 index. It could be claimed that, in relation to the size of its economy and companies, Switzerland has the greatest commitment to sustainability. The UK is second; not only does the UK have the largest number of companies in the index, but British companies are also near the top when the size of the economy is taken into account. In third place is Finland, a small economy dominated by a relatively small number of export-oriented companies, most of which are committed to sustainability. In fourth place comes the Netherlands and in fifth place Sweden. Companies in small, export-oriented economies, like Switzerland, Finland, the Netherlands and Sweden, tend to be committed to the environment, CSR and sustainability.

SWEDEN TOPS THE DJSI IN TERMS OF GDP

In terms of GDP alone, irrespective of company size, Sweden tops the index with 11 companies. Swedish companies have a long tradition of environmental protection activities and many are now committed to CSR as well. See fig. 41. Four of the five top countries are the same as in the ranking with GDP and market capitalization, although the order has changed. This time Finland was second, Switzerland third, the UK fourth and Denmark fifth.

All comparisons of this kind are open to criticism, but they do give a fair picture of commitment to environmental and social issues. All the Nordic countries are ranked high in the index – no great surprise to those familiar with Nordic companies' involvement in environmental and sustainability issues. Several large Swiss companies were also involved at an early stage. As mentioned above, several British companies are among the CSR leaders. The index also includes a large number of companies from the Netherlands and Germany, where environmental debates were intense and inflamed only a few years ago.

JAPANESE COMPANIES SHOW LESS INTEREST IN CSR

Japanese companies are world leaders in environmental technology, but show less interest in social issues or corporate citizenship. This is clear from the statistics; Japanese companies are way ahead when it comes to ISO 14001-certified companies, but rank low with respect to CSR. In North America, Canada has many companies actively committed to CSR. A large number

COUNTRIES WITH THE LARGES NUMBER OF COMPANIES IN THE DJSI IN RELATION TO GDP

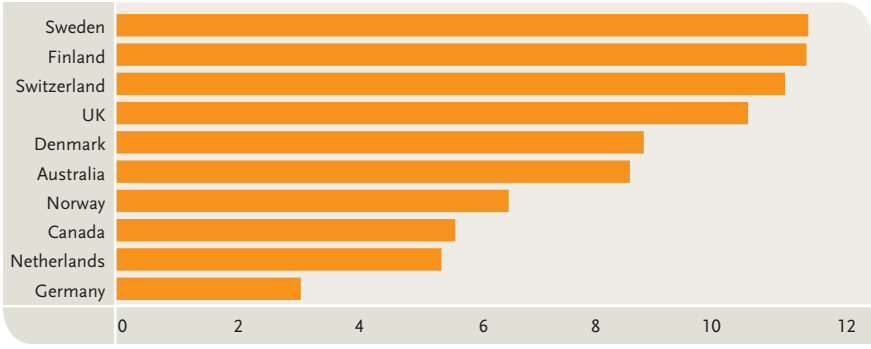


FIG 41
The chart shows the top ten countries by number of companies included in the DJSI in relation to GDP. Nordic commitment to environmental and human rights issues is clearly not a myth; there are four Nordic countries in the first seven places. Once again, British and Swiss companies are among the most committed.

SOURCE: STATISTIC SWEDEN'S CALCULATIONS ON THE BASIS OF DATA FROM THE DJSI AND THE CONFEDERATION OF SWEDISH ENTERPRISE

of US companies are actively committed to sustainable growth, but because of the breadth and size of the US economy and the passivity of many US companies, the USA does not rank high in a comparison like this.

ETHICAL FUNDS

In recent years a large number of mutual funds have been set up to invest on the basis of environmental, social or ethical criteria. The investment principles differ. Some funds donate a portion of profits to organizations such as the World Wide Fund for Nature or Amnesty International or to research on cancer or heart and lung diseases. Some funds apply only 'negative' criteria, i.e. they do not invest in sectors such as tobacco, alcohol or armaments. Other funds invest only in companies that meet certain minimum standards or are best in their categories with regard to sustainable growth. All these funds have a declared humanitarian, social or environmental purpose, apart from that of achieving an optimum return on investment.

THE UK TOPS THE LIST OF ETHICAL FUNDS

The UK, with 62 funds, has the highest number of ethical funds in Europe. See fig. 42. France is second with 38 and Sweden third with 34.

SWEDEN HAS MOST ETHICAL FUNDS PER CAPITA

Taking population into account, Sweden takes first place in Europe with 3.85 environmental and ethical funds per million inhabitants. See fig. 43. It is closely followed by Belgium, with Switzerland in third place.

These statistics are open to criticism but are consistent with other comparisons between countries in terms of commitment to environmental and social issues. Four of the top five places are occupied by countries that score well in other, similar ranking lists: Sweden, Switzerland, the UK and the Netherlands. The only surprise is Belgium's second place in Europe.

Institutional investors and companies invest in these funds, but most investors are presumably private individuals. The large number of funds is also because that financial bodies are keen to develop new products in a changing market.

NUMBER OF ENVIRONMENTAL AND ETHICAL FUNDS IN EUROPE

Country	Number of Funds
United Kingdom	62
France	38
Sweden	34
Belgium	33
Germany	22
Switzerland	16
Netherlands	16
Spain	11
Italy	9
Austria	4
Norway	3
Poland	1
Denmark	1
Finland	1

FIG 42

The number of mutual funds whose declared purpose is to take account of environmental and social concerns in connection with investments has increased sharply in Europe. In absolute terms, the UK, France and Sweden take the first three places. On a per capita basis (see fig. 43) Sweden tops the list. The figures are for 2002.

SOURCE: SIRI GROUP/AVANZI, WITH INPUT FROM CSR EUROPE AND EURONEXT

ENVIRONMENTAL AND ETHICAL FUNDS PER INHABITANT IN EUROPE

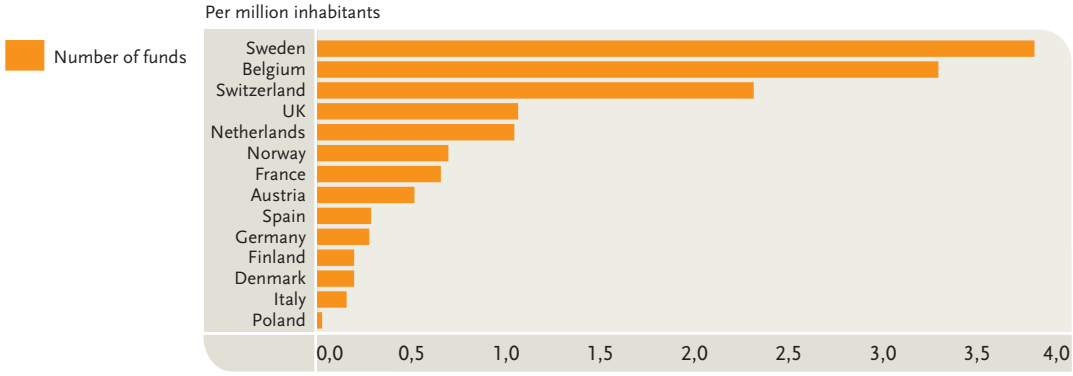


FIG 43
On a per capita basis Sweden was the European country with the largest number of environmental/-ethical/social funds. See fig. 42 for the figures in absolute terms.

SOURCE: SIRI GROUP/AVANZI, WITH INPUT FROM CSR EUROPE AND EURONEXT

ECONOMIC INSTRUMENTS

At present, virtually all sustainability activities undertaken by companies are voluntary and a result of their own initiatives. This may change if political agreement is reached, for example, on emissions trading as a way to reduce greenhouse gas emissions.

The use of economic instruments such as taxes and charges to promote sustainability activities is controversial. Business generally does not favour higher taxes on energy and emissions, and not only because of a knee-jerk resistance to new corporate taxes of any kind.

There may be good reasons for new taxes designed to encourage efficient use of energy or to reduce environmentally harmful emissions, but they must be applied with discrimination if they are to have the stated effect. 'Tax switching' has long been a popular idea in the environmental movement and among other NGOs. The idea is that increased taxation on energy, materials and natural resources, plus lower taxes on companies and individuals – for example employers' contributions – will reduce pressure on the environment. However, governments are often tempted to raise energy (or other) taxes to increase revenues without correspondingly lowering taxes in other areas. There is a risk that increased corporate taxation is counterproductive, since companies become less profitable. All companies must make money to be able to invest, and investment is the key to environmental improvement. New technologies are almost always more efficient than old ones and thus help to reduce emissions. Applying economic instruments that promote, rather than deter, more efficient production and reduced emissions is a tricky business.

FTSE4Good

A relatively new tool to help investors assess CSR performance is FTSE4Good, jointly owned by the London Stock Exchange and the *Financial Times*. Its purpose is to encourage investment in companies that are committed to CSR. For inclusion in the FTSE4Good index, companies must be able to prove that they promote environmental sustainability, develop good relations with stakeholders and make active efforts to maintain and support fundamental human rights. FTSE4Good was launched in 2001, and the number of clients and companies reviewed has increased rapidly. Like other CSR indexes, FTSE4Good bases its evaluations on official company reports, interviews with stakeholders, questionnaires addressed to the companies and reports by independent analysts who investigate performance with regard to CSR and the environment. For more information see www.ftse.com

SUSTAINABILITY REPORTING IN THE FUTURE

Mutual funds motivated by ethical, environmental or social considerations lead to more companies reporting on their sustainability efforts. But an equally important factor is that traditional funds and investors are becoming aware that companies without a sustainability strategy are likely to be a more risky investment than proactive companies.

There is also political pressure in Europe to favour proactive companies. The impact will probably be greatest if the European Union can agree on economic instruments that favour companies producing high-quality sustainability reports as well as encouraging market forces that promote corporate investment in sustainable growth.

9. Incentives for sustainable growth

Companies need to be accepted in order to do business. This is an important incentive for all companies. But it does not mean that companies should adapt like chameleons. In many cases, a company's corporate culture is the best expression of values that promote sound financial performance, honesty and sustainable production methods. A special problem arises when companies that are rooted and have developed in a democracy operate in countries lacking freedom of speech and respect for human rights. Companies, or at least Western ones, operating in dictatorships and one-party states are today expected to apply democratic values and promote human rights. This is a difficult balancing act, but it should be regarded as a positive aspect of globalization.

THE VICTORY OF CAPITALISM AND THE ENVIRONMENTAL MOVEMENT

This is a global trend. Australian Paul Gilding is a former executive director of Greenpeace International and now CEO of the Ecos Corporation, a consultancy that advises the managements of big companies such as Ford and Du Pont. Gilding was in Sweden a few years ago to receive an environmental prize. He gave a brief historical review on that occasion, claiming that two major battles were won around 1990. One was the victory of capitalism over communism and the planned economy symbolized by the fall of the Soviet Union. The other was the victory of the environmental movement in the court of public opinion. While not attracting attention, the latter victory was noticeable in the business sector where companies were appointing environmental managers and had embarked on pro-environmental activities that went far beyond the requirements of regulatory frameworks.

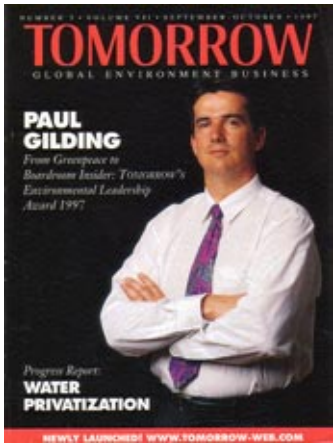


FIG 44
Paul Gilding, previously executive director of Greenpeace and now a consultant, was awarded Tomorrow magazine's leadership prize for 1997. One of his messages is that we should not try to make companies green, but to commercialize sustainable development.

Today, we see the consequences of both victories more clearly, now that few still believe that the state and the command-and-control economy are best at creating prosperity. Instead, the focus is on companies, which are now expected to deliver the progress not achieved through politics.

Now that over 2,000 major companies across the world issue environmental reports or sustainability reports, there are growing expectations that companies will also have to act in the social sphere. Companies are expected to promote integration, improve women's working conditions or play their part in other topical issues just as they once assumed responsibility for improving the environment. There are a number of incentives that, each in its own way and in aggregate, clearly promote sustainable growth.

FIG 45

INCENTIVES FOR SUSTAINABLE GROWTH

Giving companies a licence to operate	Companies need to be accepted in order to do business. This is one of the strongest incentives for commitment to corporate interaction with society. One result is that large pharmaceutical companies now sell Aids medicines to poor countries in Africa at a tenth of the prices charged in other countries. This is not profitable for the companies, and it means that others have to pay the costs of drug research. But it increases the companies' credibility in the market, and recognition is its own reward. IKEA, the home furnishing company, has great plans for expansion and hopes to grow by 10% per year. It also obliges its over 1,600 suppliers to meet the environmental, social and economic requirements of its own system, IWAY, showing an eagerness for a reputation for social responsibility, which will help it to grow even more.
Personal commitment by management and employees	Companies consist of people, and often it is the commitment of a few individuals that persuades companies, both large and small, to commit to sustainable development. Companies that have made the most progress almost always have leaders with strong personal commitment. Great personal efforts by employees and environmental managers are also crucial. Without the commitment of its then managing director, Leif Johansson, Electrolux would probably not have embarked on the environmental activities that have attracted so much attention. Without the commitment of its previous president, Mark Moody-Stuart, Shell would probably never have transformed from a traditional oil company into a global energy company that now invests in renewable energy technologies and sustainable growth.

CONTINUED FIG 45

Avoiding risks

Avoiding risk is important in business. Environmental accidents, health risks associated with products, child labour in suppliers' factories and accounting fraud are examples of phenomena that can seriously hurt a company's reputation and share price. Many companies have concluded that systematically addressing sustainability issues and detailing this openly in an annual report helps them analyse problems and risks at an early stage and have a better chance of avoiding them.

The profit motive and the ability to develop new products and services

There are many examples of the crucial importance of the profit motive to sustainable growth. Investors in fuel cells do so because they hope to make a profit, and the same is true for the rapidly growing wind power industry. Business opportunities offered by the trend towards sustainability will provide an even greater incentive in the future.
Electrolux estimates that its most energy-efficient and environmentally sound products account for 14% of sales, but 20% of profits. They are simply more profitable.

Improving efficiency saves money

Many examples prove that environmental efforts save money. By reducing the quantity of wastepaper and chemical use, Elanders, a leading Nordic infomedia group, reduced purchasing costs by at least €650,000 per year.
Scandinavian airline SAS found that 48 out of 50 environmental projects soon generated profits by reducing waste and costs. The next step, after SAS had decided to buy 47 new aircraft, was harder. The company invested in a special combustion chamber to reduce nitrogen emissions. This added about €55 million to the outlay, and no other airline had ever made such an investment. But SAS predicted that stricter environmental

CONTINUED FIG 45	standards at airports would raise landing charges for aircraft with high emissions, justifying their investment.
Increased staff motivation	Most employees prefer to work for a company known for its good values and for doing more than simply providing jobs for employees and profits for owners. Studies show that most of those who read environmental and sustainability reports are the companies' own employees, not financial analysts. Beneficial actions by a company, like Ericsson's installation of telecom equipment in areas hit by earthquakes, are very important to the staff.
Keeping ahead of legislation	Proactive companies never risk being surprised by new legislation that might adversely effect their operations. Thanks to their intelligence analysis and dialogue with stakeholder groups, they will have already identified potential business risks and positioned operations to deal with the potential changes. When the debate on brominated flame retardants raged in Europe at the end of the 1990s, several big Japanese electronics firms produced halogen-free alternatives for computers and displays. Japanese companies are often extremely market-oriented and sensitive to market signals.

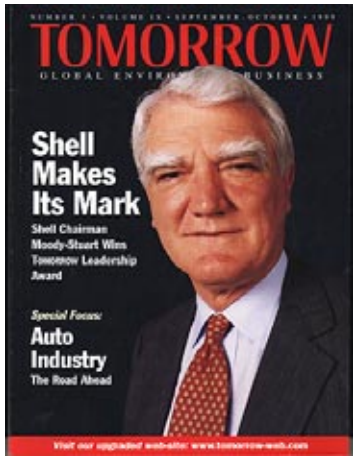


FIG 46
Personal commitment in management is crucial in companies that have adopted a proactive approach to social responsibility and environmental issues. The initiator of the new approach adopted by Royal Dutch/Shell was the then Group Chairman, Mark Moody-Stuart.

SUSTAINABLE GROWTH IS NECESSARY

The word 'growth' is a red rag to many environmentalists and those who accuse the business sector of lacking responsibility. It is seen as a symbol of robber capitalism and lack of understanding of the limits imposed by the biosphere. However, the problem is not growth as such, but the adverse environmental impacts that result. From many examples in the book it is evident that there is no longer a correlation between growth and destructive impact in advanced economies and among proactive companies. In poor countries, foreign multinationals can nearly always offer better wages, a better work environment and better social conditions.

Growth produces the economic means for structural adjustment, which in turn can reduce adverse environmental impacts and lead to sustainable methods of production and products. This is by no means axiomatic. But if proper use is made of economic growth, it can lead to more rapidly to technology shifts that are better for the environment.

Growth is generated by private enterprise. It would be exaggerating to say that all company managements recognize the need for sustainable growth. But given the number of companies that do, it may be said that a paradigm shift has taken place.

Look at fig. 48, captioned Sustainable Growth. If nothing had been done in response to the environmental scares of the 1960s, the pressure on the life-supporting systems in the biosphere would have led to collapse. Many kinds of emissions have been reduced drastically in many industrial countries, though many problems remain.

Some ecosystems are badly overexploited and show obvious signs of stress. Marine ecosystems are a case in point: over-fishing has decimated fish stocks and many coral reefs

ENVIRONMENTALLY SOUND PRODUCTS MORE PROFITABLE

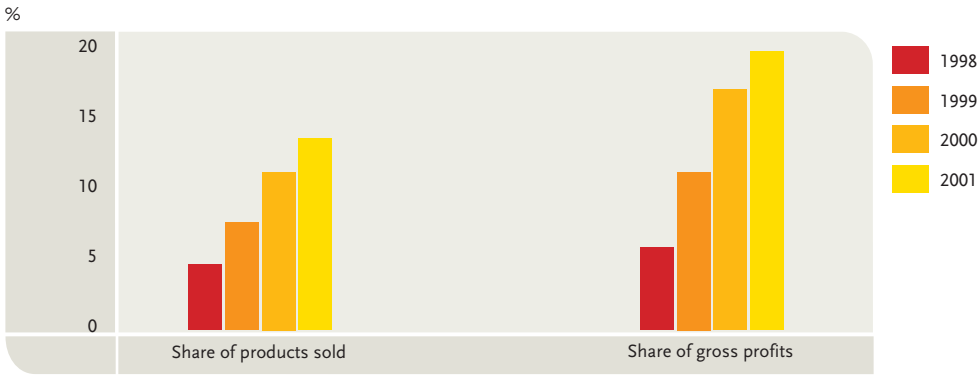


FIG 47
The products in Electrolux's white goods sector in Europe with the highest environmental performance accounted for 14% of products sold, but for 20% of gross profits in 2001.
SOURCE: ELECTROLUX

SUSTAINABLE GROWTH

Environmental, social and economic responsibility

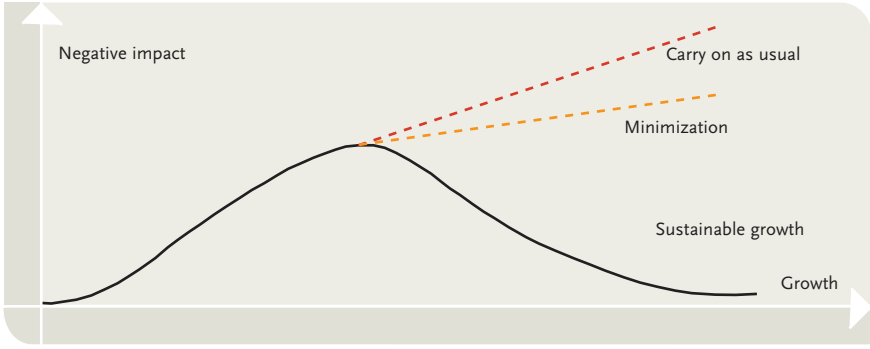


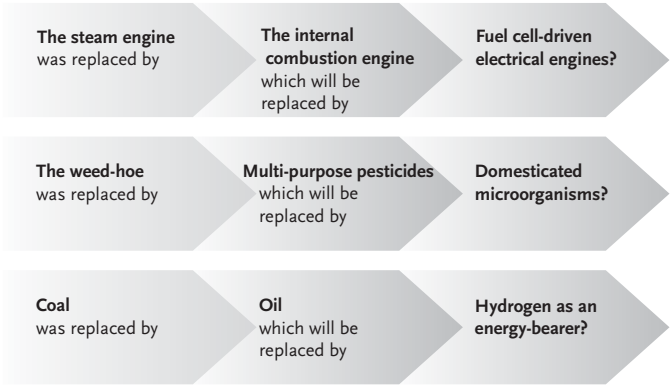
FIG 48
Minimizing pollution and social problems caused by economic growth will not be enough. A growing world population and a demand for higher livings standards will still increase the negative impact on the life-supporting systems. The only solution is decoupling, targeting zero pollution and social responsibility, i.e. sustainable growth.

have been irreversibly destroyed.

New technologies and legislation have significantly aided environmental improvements in our part of the world. But risk minimization is not enough. The real task is to create sustainable growth that gradually leads to a reduction of environmental impacts, so that lifestyles and production eventually match the carrying capacity of ecosystems. The chemicals giant Du Pont has adopted a zero objective: no adverse environmental impact whatever. This should be the objective for all companies.

FIG 49

SUSTAINABLE DEVELOPMENT BREEDS WINNERS AND LOSERS



10. The fourth wave

The Four Waves (described in chapter 2) that aroused debates and raised awareness were initially triggered by environmental alarms and ultimately by concern about corporate social responsibility, ethics, human rights and corporate governance. Are there in fact any linkages between business strategies and activities on the one hand and social issues such as the environment, poverty, health, education and international development on the other? Many business leaders tend to consider 'social' issues as not particularly relevant to competition and shareholder value. They see them in a philanthropic light, matters to be mentioned in codes of conduct or in high-flown passages about 'corporate citizenship' in annual reports.

But it is increasingly apparent that social responsibility of companies and their behaviour as representatives of the community are very much a strategic issue. Wrong decisions can easily be made by ignoring the importance of social responsibility and production that does not affect the regenerative capacity of the biosphere or by not applying the principle of transparency in economic matters. Missed business opportunities and reduced shareholder value can also result.

Similarly, political leaders or members of NGOs tend to regard the corporate sector as an opponent that must be controlled by regulations. Yet companies can be society's best allies when it comes to creating prosperity and improving the environment and living conditions.

POLLUTANTS ARE ECONOMIC WASTE

Economics and social and environmental responsibility must be integrated into the globalized economy. An obvious example is what has happened in the environmental sector. Almost every example of industrial pollutants and emissions over the years is also an example of economic waste of raw materials and resources. Environmental activists have long believed that pollution is a side effect of the pursuit of profits and that more stringent legislation is the best way to deal with it. But the best option is nearly always to change products and processes. Emissions from point sources are no longer a major problem in the industrialized world; attention should now be focused on non-point emissions, for example from transport, products and energy use. Legislation, international agreements and regulatory frameworks are necessary, but the key to sustainable improvement is new products and processes, not treatment technologies.

INCREASED PROSPERITY IS GOOD FOR BUSINESS

For almost all companies the goal should be to increase prosperity in poor countries. The global economy is not a zero-sum game in which profits in one country are achieved at the expense of others. There is enormous potential for sustainable growth if every country can improve its productivity and trade. But it is also important for third world leaders to realize

FIG 50
Corporate governance has become increasingly important, as demonstrated by the scandals associated with Enron, Worldcom, ABB and Ahold. Former Enron Global Finance Managing Director Michael Kopper and others are now cooperating with legislators. Codes of conduct, transparent reward systems and a strong corporate culture are vital for credibility among investors, customers and the general public.

that pollution leads to increased poverty, not increased economic growth.

Social activists and critics of globalization should consider the importance of a transparent international trade system. They should bear in mind that, compared with local companies, multinationals maintain higher environmental standards, treat employees better and apply higher safety and social standards in their workplaces. If social justice is the most important thing, activists should help to disseminate these methods instead of opposing them.

On the other hand, multinational companies that have not yet adopted a proactive approach as defined in this book should recognise that social responsibility issues are no more a passing fad than environmental issues. To be accepted by society, all companies must seek to provide the best possible social conditions for their employees and suppliers regardless of the country in which they operate. Sustainable growth is the only route to real profitability.

FRAUD AND SCANDALS DAMAGE CONFIDENCE

Companies must accept overall responsibility for their activities. This applies not only to environmental and social issues. There is no doubt that fraud, accounting crimes, enormous rewards to business leaders that are kept secret from the shareholders, and other scandals, particularly in 2002 and 2003, have seriously damaged confidence in business. Here follow some examples.

THE ENRON COLLAPSE

The US energy trading company Enron filed for bankruptcy protection at the end of 2002. Thousands of people lost their jobs and even more lost their savings. Top executives had inflated the company's profits by accounting fraud and other transactions to conceal Enron's growing debt problems. Heavy blame was also laid on the company's auditors, Arthur Andersen, who were active in the fraud. Arthur Andersen was forced to close down as a result. Several of the executives who made vast sums of money from the fraud have admitted guilt and are now cooperating with the authorities in legal proceedings that are likely to take years.

WORLDCOM – THE BIGGEST FINANCIAL FRAUD IN US HISTORY

The Internet and telecom company WorldCom was accused in June 2002 by the Securities and Exchange Commission of accounting fraud involving over $9 billion. The purpose was to keep the share price high by reporting inflated revenues. The company reported good profit margins, but was in fact suffering heavy losses. When the truth came out, due in part to revelations by previous employees, WorldCom was on the verge of bankruptcy with debts of more than $40 billion. Several of the company's top managers have pleaded guilty, and the management is now cooperating with the authorities to make it possible to reconstruct the company and establish the extent of the fraud.

ABB'S SECRET PENSION SETTLEMENTS

In early 2002 the new management of the Swiss-Swedish energy technology group ABB revealed that hidden pension settlements totalling close on €160 million had been paid to two former managing directors. Göran Lindahl, who had resigned as chairman only two months before, and Percy Barnevik had received most: just under €100 million. There was a huge outcry. The charismatic Barnevik, the driving force behind the merger of the Swedish ASEA and the Swiss Brown Boveri at the end of the 1980s, had received several awards and ranked high among Europe's most admired chief executives. The largest owners of ABB, including the Swedish Wallenberg financier family, claimed to have been uninformed of the

size of the pension settlements. ABB was deep in crisis at the time, due mainly to asbestos liabilities in the USA following the acquisition of Combustion Engineering, and demanded repayment of part of the money. Both former managing directors subsequently repaid about half of their settlements.

AHOLD COOKED THE BOOKS

Dutch company Ahold, the world's third largest food retailer, admitted to errors in its accounts in early 2003. According to Ahold, its US food service division had faked its accounts, reporting excess operating profits of over $500 million for 2001 and 2002. The group manager and financial director were forced to resign and the share price fell by over 60% in just a week.

TOP EXECUTIVES SOLD THEIR SHARES BEFORE PRICES COLLAPSED

Similar examples abound. Many companies have only recently realized that top executives have received substantial sums in options and pension agreements without the shareholders' knowledge – even, in some cases, without the board knowing. Executives have often sold shares or options immediately preceding a collapse in share prices. In its September 2002 issue *Fortune* published a list of 25 top executives – "The Greedy Bunch" – who had sold their holdings at a peak in companies whose shares later fell by 75%. Each of the top 10 executives had earned more than $900 million from the sales.

CORPORATE GOVERNANCE IS DISCUSSED ALL OVER THE WORLD

Corporate governance is under a spotlight all over the world. How is corporate governance related to the other issues discussed in this book, such as environmental and social responsibility?

Firstly, it has to do with economics, the third dimension of the sustainability concept. Secondly, companies have much to learn from critics as far as the environment and social responsibility are concerned – chiefly, the importance of openness, transparency and communication. Companies with a successful track record in environmental protection have openly reported problems and actions. This approach can also be applied to corporate governance. Openly reporting top managers' salaries and other rewards is an obvious step. For the stock market to function properly, this information must be available. Thirdly, managements need codes of conduct, just as there are codes of conduct for corporate environmental and social responsibility. Trust is crucial if the market economy is to function.

COMPANIES NEED TO COMMUNICATE VALUES

Companies need to communicate values, both internally and externally. Corporate gover-

nance and interaction with local communities is a crucial issue. Business has perhaps never been so important nor affected the lives of so many than today. And perhaps company actions have never been so scrutinized as today.

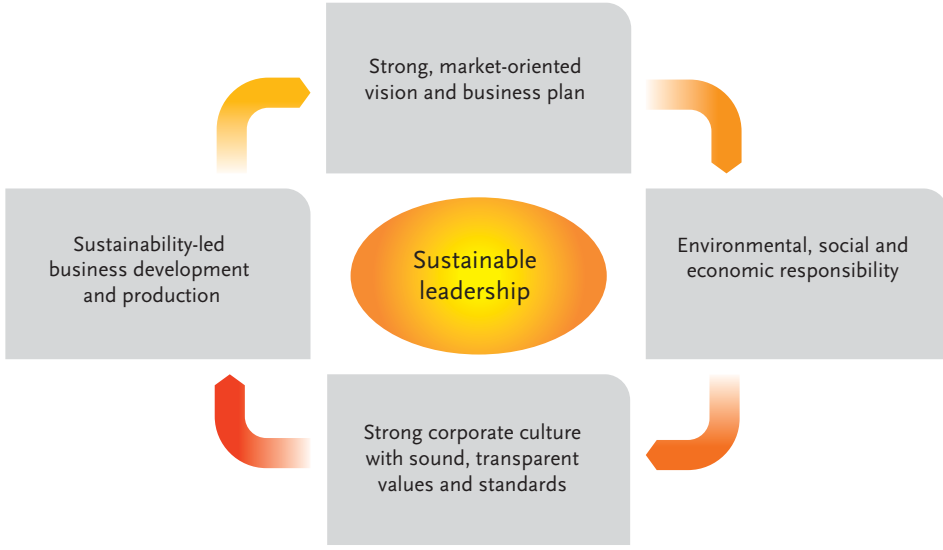
Using voluntary agreements, self-regulation, codes of ethics and stakeholder dialogue, companies must develop structures that reinforce credibility. Much is being done, but work remains.

Transparency is vital, as is media scrutiny. Today, when so many invest in shares to cushion retirement, company management is no longer the business of a small group of owners alone. Management is crucial to a company's future, to attracting investors and qualified staff, to attracting customers and to generating profit.

These are core elements of the public debate during the fourth wave. As before, legislation alone cannot solve the problems. The market shows no mercy to companies that cook their books or improvise financial accounting. In serious cases companies are simply wiped out by the market, as the world has seen. Supervision in the form of new rules for listed companies, accountants, etc. has already been tightened, and the trend will continue.

FIG 51

DEVELOPMENT OF SUSTAINABLE LEADERSHIP AND THE GOOD COMPANY



SUSTAINABLE LEADERSHIP

We have described how companies progress from a defensive to a proactive attitude to keep them ahead of the regulators in environmental and social issues. This progress is little publicised outside the business community; the public and politicians are often unaware. We are convinced that this progress will continue since it has so much in its favour.

To be really successful, leadership must go further, to what we call sustainable leadership. See fig. 51. An essential element is a strong corporate culture, based on values perceived as fair both internally and externally. Sustainable leadership needs clear market orientation, coherent vision and a well-communicated business plan. Business development and production must be consistent with the principles of sustainable growth: environmental, social and economic responsibility.

Utopia? Far from it. Commentators used to see a contradiction between profit and social and environmental concerns. Today, economic growth can – must – be achieved without exceeding the carrying capacity of the biosphere. And in our global economy, social development is often spurred by multinational companies. There is intense debate about corporate governance all over the world. Internal rules, codes of conduct and legislation on supervision and audits will change, since change is the inevitable consequence of crisis.

THE UN IS KEEN ON PARTNERSHIPS

The UN-led international community has staged three summits on the environment and sustainable development. The first was in Stockholm in 1972, characterized by a dawning realization. By the time of the second summit in Rio de Janeiro 20 years later, the corporate sector was deeply involved in pro-environment activities. In the 10 years between the Rio summit and the third World Summit on Sustainable Development in Johannesburg in 2002, business sector involvement broadened and deepened, assuming almost global responsibility for its impacts.

Hopes are high that business will help solve global problems such as the shortage of clean water, the AIDS epidemic in Africa and the risk of climate change.

UN Secretary-General Kofi Annan's Global Compact initiative, in which leading multinational companies undertake to promote sustainable development, will undoubtedly be followed by similar partnerships between companies and governments.

DIFFERENCES OF OPINION ABOUT GREENHOUSE GASES

Opinions on how to ensure sustainable development differ widely, and will continue to differ, for many years. Typical is the question of how to reduce emissions of carbon dioxide and other greenhouse gases. Energy use will continue to increase worldwide for several decades.

The poor countries want to go on using fossil fuels – their only way to improve living standards and ensure economic growth. Many richer countries agreed in the Kyoto Protocol to reduce emissions to reverse progress towards climate change. From a global point of view, it makes no difference where the gases are emitted since the planet shares the atmosphere. Best would be to reduce emissions everywhere, both in the poor countries that are building up their industries and in industrialized regions. The situation is further complicated by the refusal of the United States to help. The business community is continuing to reduce use of materials, resources and energy. Perhaps, instead of trying to distribute quotas between countries, the international community should create incentives to promote energy saving all over the world. If an appropriate system can be devised, emissions trading might be another effective way of helping businesses reduce emissions of greenhouse gases.

FREE ENTERPRISE THE STRONGEST FORCE FOR PROSPERITY

It is a good sign that governments increasingly put their faith in business. Free enterprise is the strongest force for creating prosperity. As this book shows, many companies have been successful in efforts to achieve sustainable growth, and many new business opportunities have been created in the process.

The principal task of a company is to produce goods and services for which there is market demand. This applies to companies everywhere, regardless of whether they provide banking services in Denmark or produce textiles in Indonesia. Another object of business activity is to create profits for shareholders. It is the corporate sector that creates prosperity in regions now undergoing rapid economic development, for example Asia and the new democracies in the former Eastern Bloc.

There used to be a connection between economic growth and negative environmental impacts. But a decoupling has begun in countries that have achieved higher economic and social development. And there need be no such linkage in countries now in the process of industrialization since relevant knowledge and new resource- and energy-efficient technologies are universally available. Essential conditions for sustainable development needed in many of these countries are independent institutions and respect for democracy and human rights.

GOVERNMENTS MUST BUILD DEMOCRATIC INSTITUTIONS

Governments must shoulder some responsibilities if sustainable development is to happen. It is their job to build democratic institutions, protect human rights and ensure a functioning market economy. Too many governments are incapable of this. In many countries the market economy is obstructed by state intervention and corruption.

Governments are also responsible for global environmental protection. Legislative and regulatory frameworks must be comparable. The EU, for example, requires future members to enact modern environmental legislation on the lines of that of the present member states.

Sustainable growth is essential in the next few decades. There are large potential markets for companies that can meet human needs by providing products and services that are environmentally sound, affordable and produced to acceptable standards. Companies whose production is efficient and innovative, thus ensuring socially responsible use of resources, have a great competitive advantage. But democracy, respect for human rights and transparency are essential conditions.

Companies have responsibility for creating a dynamic, effective and ethically responsible business sector. The responsibility of governments is to create democracy, protect human rights and lay a sound foundation for a functioning market economy.

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Interview with Ivo Knoepfl, SAM Sustainability Group.

Interviews with Marianne Barner, Russel Johnson and Olle Blidholm, IKEA, and Magnus Enell, ITT Flygt.

Interview with Per Broman, StoraEnso

Interview with Per Wadstein och Henrik Sundström, Electrolux.

USEFUL WEBSITES

www.accountability.org.uk
A website about companies' ethical and social responsibility – mainly for professional users.

www.amnesty.org
Includes information about the Amnesty Business Group.

www.bsr.org
US website about corporate social responsibility (CSR).

www.business-humanrights.org
Contains information on human rights from the UN, ILO, companies and environmental and human rights organizations.

www.climatechange.unep.ch
Up-to-date information from the UN about climate change issues.

www.corpwatch.org
Contains information about companies that do not fulfil their obligations with respect to human rights and environmental law.

www.csreurope.org
The website of CSR Europe, a business-driven membership network.

www.csrwire.com
News about CSR. Consists mainly of press releases from companies and public bodies.

www.enviroreporting.com
A site containing many environmental and sustainability reports.

www.globalreporting.org
The Global Reporting Initiative (GRI) website.

www.hrw.org
The website of Human Rights Watch, alongside Amnesty International the most important human rights organization.

www.sustainability-index.com
A website with a great deal of information about the Dow Jones Sustainability Index.

www.unep.ch
The website of the United Nations Environment Programme (UNEP).

www.unglobalcompact.org
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www.wbcsd.org
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www.swedishenterprise.se

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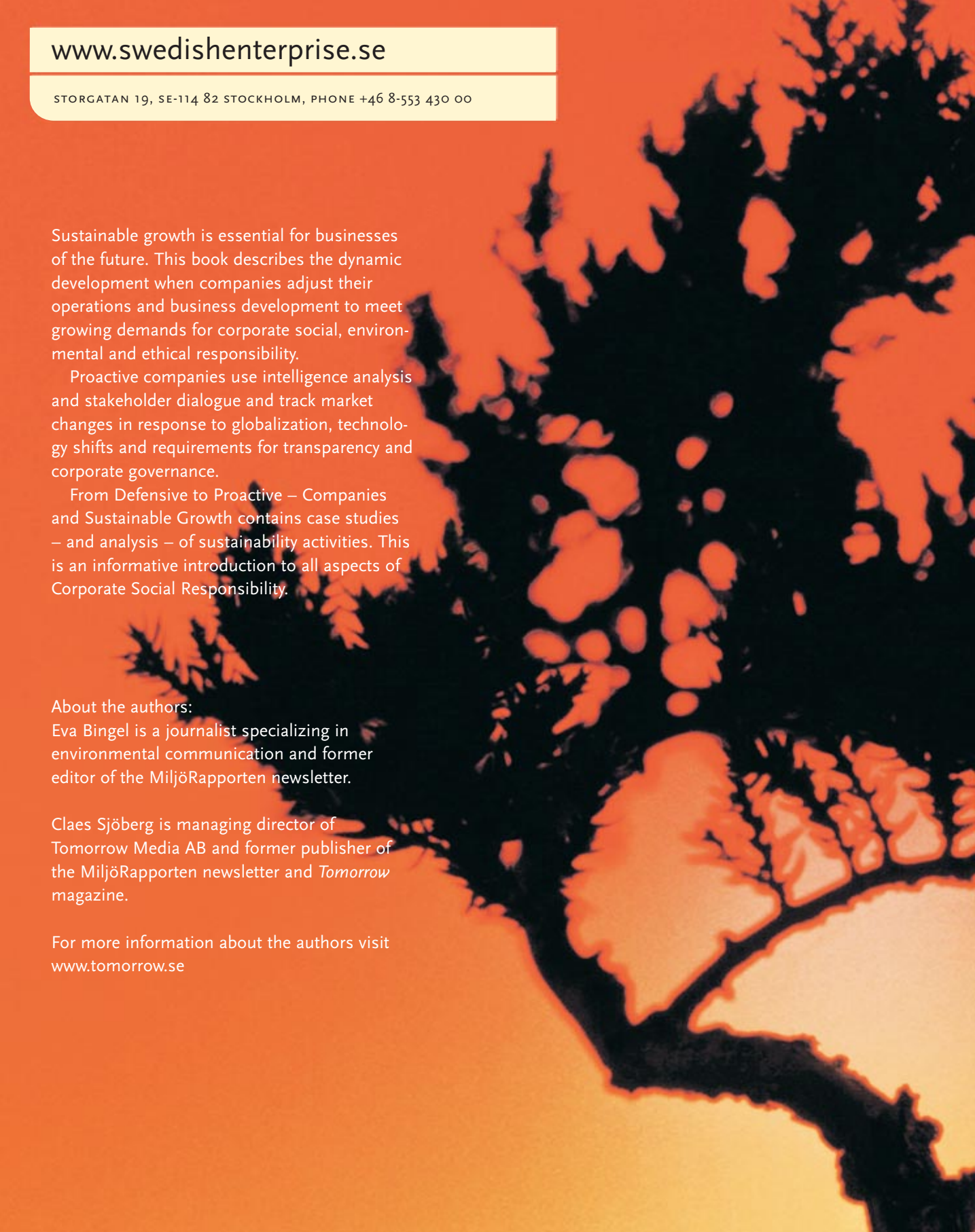

Sustainable growth is essential for businesses of the future. This book describes the dynamic development when companies adjust their operations and business development to meet growing demands for corporate social, environmental and ethical responsibility.

Proactive companies use intelligence analysis and stakeholder dialogue and track market changes in response to globalization, technology shifts and requirements for transparency and corporate governance.

From Defensive to Proactive – Companies and Sustainable Growth contains case studies – and analysis – of sustainability activities. This is an informative introduction to all aspects of Corporate Social Responsibility.

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