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NEXT STEPS FOR THE BUSINESS COMMUNITY

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ILLUSTRATIONS BY SAM HUNDLEY

LAST OF A SERIES

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In September, a group of large U.S. corporations announced a new initiative: SEE Change—short for Society, the Environment, and the Economy. According to the press release, participating companies "will adopt sustainable growth strategies which seek to achieve specific improvements in environmental, social, and economic performance."

SEE Change, of course, aims to evoke the promise of a sea-change. So far, however, the initiative has been an extension of business as usual, with participating companies simply repackaging ongoing environmental programs to convince the public that these companies are acting ever more responsibly. Yet SEE Change spokesperson Tita Freeman maintains that the initiative "is not a repackaging," but will establish clear annual goals starting in late 2006, and will work to engage companies that currently lack sustainability programs. If true, SEE Change could significantly improve corporate environmental and social records and possibly even become a tipping point for the fledgling corporate responsibility movement.

Some of the participating corporations are indeed environmental leaders. 3M, for example, has been a pioneer in waste reduction for the past 30 years, implementing its 3P program (Pollution Prevention Pays) with the triple goal of cutting waste, reducing costs, and encouraging employee innovation. 3P has reduced pollution by millions of tons and saved almost $1 billion. Yet this is a 30-year-old initiative, and for SEE Change 3M has simply vowed to keep on this track.

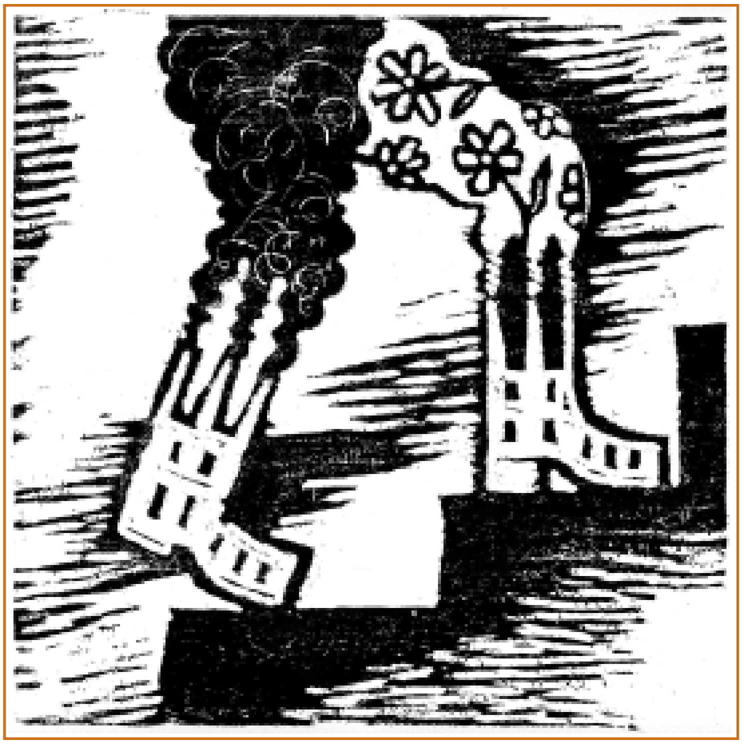
Worse, SEE Change includes some serious environmental offenders, such as Weyerhaeuser (targeted by the Rainforest Action Network as "one of the world's largest and most destructive logging companies"), General Motors (producer of some of the least efficient vehicles on the planet, including the infamous Hummer), and Coca-Cola (currently under fire in India for its pollution and depletion of village groundwater sources).

Furthermore, at the heart of SEE Change is a celebration of sustainable growth, a term essential to a business model in which corporations depend radically on consistent quarterly rises in profits to keep shareholders from fleeing. But under the current business model growth will never be sustainable. It's time for the business community to be honest. Instead of snazzy new public relations initiatives, corporations need to truly lead the charge in creating a sustainable economy. Production systems must be redesigned to imitate natural systems so that waste products become sources of "nutrients" (feedstocks), not sources of pollution. Corporations will have to become transparent and lay out specific long-term plans to achieve sustainability. And because this transformation will need the help of governments, corporations will need to redirect their vast political influence from lobbying for laws that enhance only short-term returns (often at the expense of society) to pushing for reforms that advance society's—and their own—long-term interests.

THE ECO-EFFECTIVE MOVEMENT

Many companies are trying to reduce toxic waste, carbon emissions, and energy use—that is, to become more "eco-efficient." Along with 3M, hundreds of companies have prioritized waste reduction and profited in the process. DuPont and IBM, for example, have cut costs by hundreds of millions of dollars by reducing carbon emissions. Eco-efficiency has proved to be a good investment, since it not only saves money, but by lessening environmental impacts also reduces other liabilities, such as lawsuits, potential government regulation, and detrimental health effects on workers and communities. Yet becoming more efficient is not enough. Eco-efficiency will simply delay the environmental collapse threatened by the unbridled growth of the global economy. And with nearly two-thirds of the environmental systems on which human society depends already degraded or used unsustainably, a slow-down is not enough.

To maintain an industrial economy in a world of increasing environmental constraints, businesses will have to become not just eco-efficient but *eco-effective.* Eco-effectiveness, as industrial design experts William McDonough and Michael Braungart explain, means redesigning goods and production processes to follow the laws of nature. Currently, almost everything that companies produce is toxic at one level or another, because of dependence on fossil fuels for energy, petrochemicals for inputs, or pesticides and chemical fertilizers for cultivation. An eco-effective product would be designed so as to produce no waste, being either perpetually recyclable or compostable, a model known as cradle-to-cradle.



Swiss textile maker Röhner's effort to create an eco-effective fabric offers a good example of the complicated reformulation needed. In the early 1990s, the Swiss government classified the company's fabric trimmings as hazardous waste because of the toxic chemicals in the dyes, thus preventing disposal or incineration within Switzerland. Exporting the trimmings would be too expensive, so Röhner had to find an alternative. The company called in McDonough and Braungart to find a way to create an eco-effective fabric. After testing 8,000 chemicals, they found 38 non-toxic ones that could produce the needed colors. Today this fabric, which uses only organic ramie, pesticide-free wool, and the non-toxic dyes, produces no pollution during production and at the end of its life is fully compostable.

To be successful in the long term, corporations will have to create similar plans to redesign products and services for eco-effectiveness. Considering the large infrastructure of modern corporations, this will be a challenge. Yet the transition is possible if companies make deliberate efforts to create transparent long-term plans with specific stepping stones that transform their production processes gradually.

At present this sort of long-term vision is rare, but a few innovative companies have begun working toward it. One company, Fetzer Wines (a subsidiary of conglomerate Brown-Forman) is striving to use only organic grapes by 2010. To date it has achieved an 11 percent share, while at the same time switching totally to renewable energy and reducing waste output by 97 percent since 1990. Another example is Nike, which is designing a non-toxic, recyclable sneaker. Perhaps the most impressive initiative so far comes from the Fuji Xerox Company. In 1993, Fuji Xerox (a joint venture between Fuji Photo Film and Xerox) realized that simply recycling old photocopiers would not be sufficient to reduce natural resource use, so the company started designing a photocopier with components that could be reused in future models. While it has taken much effort to create durable parts that would be effective in new models, by 2003 Fuji Xerox was reusing 54 percent of components in new copiers. Moreover, by recycling the other parts the company has been able to reduce waste practically to zero.

Yet these are companies that have much to gain by transforming: reduced pollution and materials usage and improved reputation, for example. And since there are alternative methods to create their products, they do not have so much to lose if they can find a way to make the transition cheaply. However, other companies whose businesses are at the very root unsustainable, such as those in oil extraction and refining, face a much greater challenge: reinventing their business models. Their profits come from infrastructures that have required huge investments, such as oil wells and pipelines. Even if they wanted to, managers could not shut down these operations tomorrow without risking financial ruin. But oil supplies will decline and carbon taxes will most likely increase, so by not starting to invest in renewable energy, oil companies risk being deposed by new start-up renewable energy firms. It will be essential for these (and all) companies to reassess their business models and design long-term plans in which they transform their models to be eco-effective. Only then will they be able to maintain long-term profitability in an ever more environmentally constrained world.

IMPLEMENTING OVER THE LONG TERM

In the late 1980s a Swedish oncologist had an epiphany: the unsustainable global economy is like a spreading cancerous growth on the world, consuming and destroying the systems on which it depends. This realization transformed Dr. Karl-Henrik Robèrt's life, converting him from successful doctor to untested sustainability practitioner. Over the next several years, Dr. Robèrt developed The Natural Step, a program that offers businesses and other interested institutions a guide to gradually and profitably transforming their operations into sustainable ones. While far from being mainstream, The Natural Step has spread to 12 countries, increasing the sustainability of companies as diverse as the Swedish hotel chain Scandic Hotels AB and the American fast food giant McDonald's Corporation.

At the time The Natural Step was introduced, Scandic Hotels was a struggling company trying to reinvent itself as it teetered towards bankruptcy. Adopting the mission to become a sustainable hotel chain helped reinvigorate the firm. Scandic at first took easy eco-efficiency steps that both cut costs and improved its environmental record. For example, it created the Resource Hunt program in 1995 to challenge its hotels to reduce waste and energy and water use. Within a year, Scandic cut energy consumption by 7 percent and water consumption by 4 percent. But more important than the eco-efficiency measures themselves was the fact that the measures led Scandic toward implementing an eco-effective transformation, reformulating and reducing chemical usage for cleaning and laundering, and designing a 97-percent-recyclable eco-room. Recognizing that interior designs and furniture are replaced as they wear out and as fashions change, Scandic employees proposed making environmentally friendly rooms that could be recycled at the end of their life cycles. This led to an annual savings of 90 tons of plastics and 15 tons of metal, and a halving of mercury used—all while costing less.

Along with programs like The Natural Step, companies are using other strategies for long-term change, including corporate responsibility reporting. In 2004 some 1,700 corporations or their affiliates filed responsibility reports, up from virtually none in the early 1990s. These reports detail everything from labor standards and impacts on local communities to toxic releases and greenhouse gas emissions. As the chairman of Royal Dutch Shell, Jeroen van der Veer, explains, "We have seen how, if done honestly, reporting forces companies to publicly take stock of their environmental and social performance, to decide improvement priorities, and deliver through clear targets." By reporting, corporations admittedly expose their operations to more public scrutiny, yet they also increase trust among stakeholders and provide themselves a guide for improvement.

Admittedly, many of the corporations filing reports do it more out of obligation or as an opportunity to greenwash their operations than out of a desire to hold themselves accountable. Of the 1,700 reports filed in 2004, many lacked detail, transparency, or long-term goals. In 2003, less than 40 percent of the reports underwent any sort of third-party verification. Yet a few corporations are using these reports as a means to push their sustainability commitments further. Starbucks Coffee Company, for example, has used its annual reports to declare its commitment to reduce its environmental and social impact through the creation of a sustainable coffee supply. In 2004, 19.7 million kilograms of its coffee supply (14.5 percent) adhered to Starbucks' rigorous Coffee and Farmer Equity (CAFE) standards, up from 6 million kilograms the year before. These standards, verified by an external auditor, award points for 28 key sustainability indicators, such as the amount of water, energy, and pesticides used and how equitably the profits are distributed among workers. Starbucks has declared its goal of increasing the share of its CAFE standard coffee to 60 percent by 2007.

Again, one can argue the companies described here can implement these changes without much difficulty. It will take significant investment, but the return will come in the form of higher profits, respectability, and brand enhancement. But what about those companies that depend on unsustainable resources? Some have recognized the danger of inaction. In December, oil giant BP declared that it would double its investments in renewable energy production, hoping that this will produce annual revenue of around $6 billion within the next 10 years. DuPont has also increasingly invested in the means to produce chemicals from agricultural stocks such as corn instead of petroleum products. Already, 17 percent of its products no longer are derived from petrochemicals, and by 2010 the company plans to increase that to 25 percent.

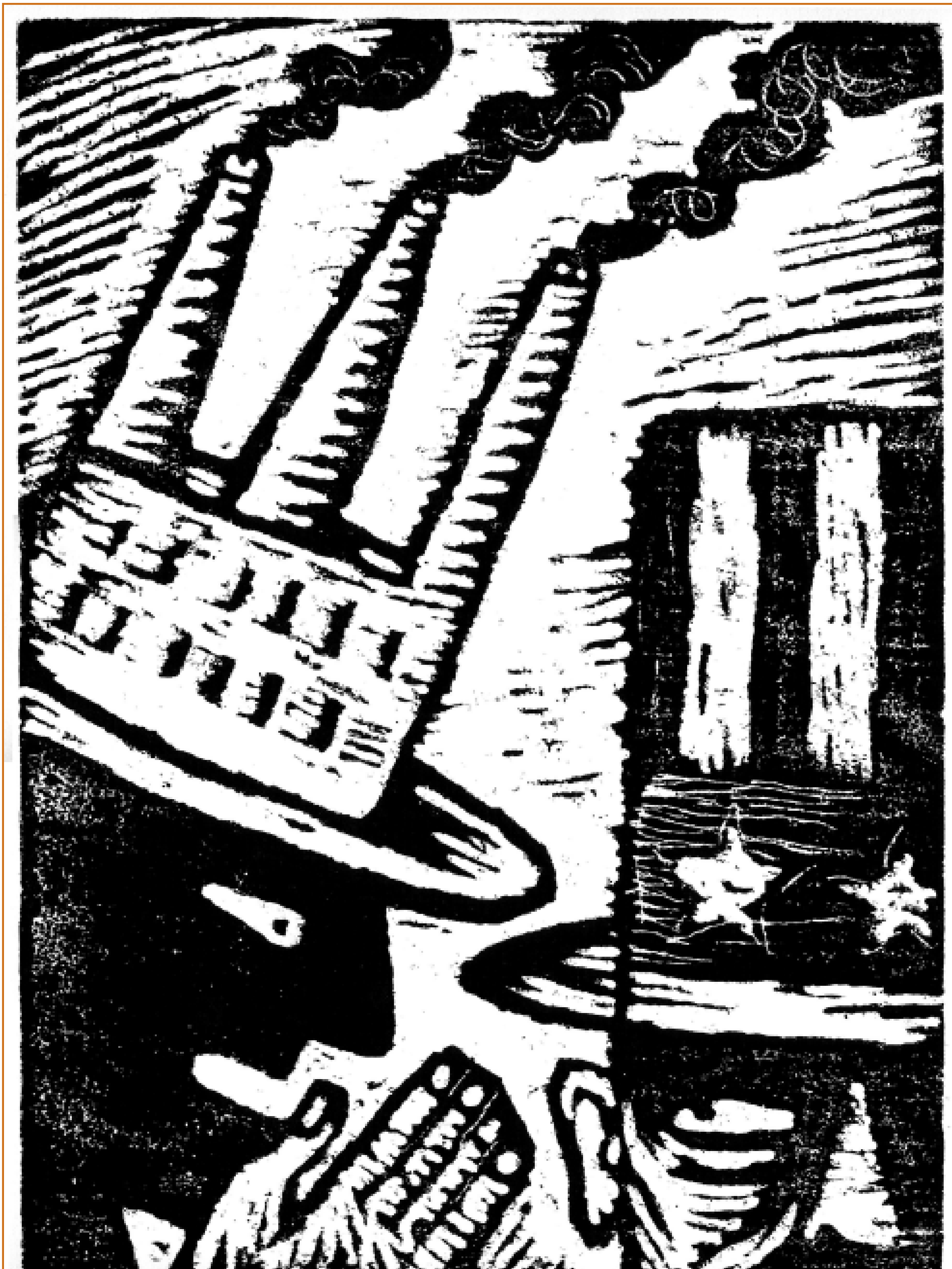
Change is possible, with commitment and vision. However, vision is often lost to short-term profitability pressures—a problem further exacerbated by the political pressures that corporations face (and help create). The transformation of corporations into sustainable entities will be induced as much in the political arena as it will be in the marketplace.

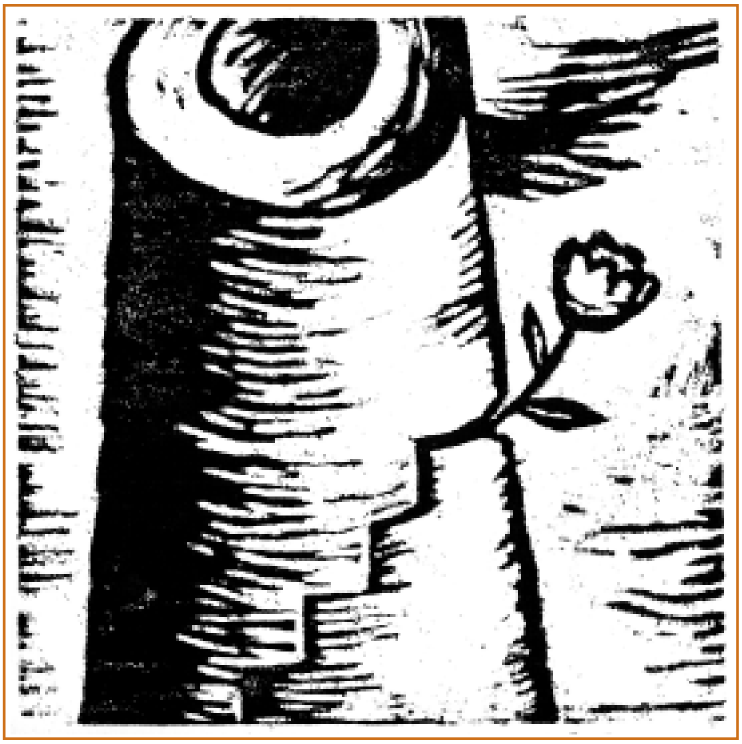
RE-CHANNELING POLITICAL INFLUENCE

In May 2005, BP, as a member of the Corporate Leaders Group on Climate Change, wrote to British Prime Minister Tony Blair that "like you, we are convinced that we need to take urgent and informed action now if we are to avoid the worst impacts of climate change," and offered their help in addressing this issue. Two weeks later, BP lobbied against two different bills in the U.S. Senate that would have imposed mandatory caps on greenhouse gas emissions, and instead supported a weaker voluntary reduction proposal.

Without question, lobbying is a double-edged sword which, when wielded by corporations, can eviscerate political debate. Yet the likelihood of banning corporations—which spent $2 billion on lobbying just in the United States in 2004—from politics is zero. Besides, not all corporate political influence is necessarily problematic. If responsible companies simply bow out of politics the debate will continue to be shaped by irresponsible companies. Rather, by disclosing lobbying expenses and what they are directed to, corporations could be actively engaged in the political debate in ways that will improve society (and their own interests if they choose their causes right) while actually improving their records on responsibility.

Starbucks again offers an example: a company known for its generous health care benefits has focused its lobbying effort primarily on strengthening national health care in the United States. While this may sound altruistic, it's really enlightened self-interest. The company's concern is driven by the fact that it provides health insurance to all its part- and full-time





employees. This is a strong perquisite and has helped make Starbucks the 11th best place to work in the United States in 2005 (according to *Fortune* Magazine). But it is costly, especially as most of its competitors do not provide such generous benefits. So the company got creative and started lobbying the government to improve health care nationwide—which would benefit all Americans and companies hurt by burgeoning health costs (including Starbucks), not to mention Starbucks' reputation as a caring company.

But there is a long way to go before most lobbying is for broader social goods that also have inherent business benefits. According to *Influencing Power*, a 2005 report by the NGOs SustainAbility and WWF, 49 percent of Standard & Poor's Global 100 companies provide no information on their lobbying strategies. While 8 percent received the second highest rating (because they have systems to disclose lobbying activities), none received the highest rating, signifying that a company's corporate values are judged to mesh with its public policy agenda. In other words, even the best companies (including BP, which was in the top eight) are contradicting their own stated values by pushing inconsistent lobbying agendas.

Along with influencing the political debate through lobbying expenditures, corporations often influence politicians through political contributions (which reached $1 billion in the United States in 2004). The Center for Political Accountability, in a 2005 report investigating the political contribution policies of 120 companies, found that only one (Morgan Stanley) merited a passing grade for disclosing its political contributions and its system to control where they go. Since then, five other companies have joined Morgan Stanley, though only after shareholders filed resolutions demanding increased disclosure. Now the boards of directors of all six will review the companies' political contributions, and these contribution amounts and the rationales for them will be posted on their websites.

Less than 10 percent of the biggest (and most scrutinized) companies are transparent in their lobbying and political expenditures, let alone consistent in their policies. But as in the other arenas of corporate responsibility, a few companies can be identified as leaders. In November, Goldman Sachs became the first investment bank to adopt an environmental policy, similar to those Citibank and other bank holding companies created after being pressured by NGOs. In addition, Goldman Sachs acknowledged that climate change "is a reality" (not to mention a financial risk), and along with reducing its own carbon footprint pledged to lobby governments around the world to address climate change. Even a leading U.S. coal company, Duke Energy, announced in mid-2005 that it would begin lobbying for a carbon tax. Recognizing that climate change poses a significant threat and that regulation of carbon emissions seems inevitable, Duke Energy realized that it was in its own interest to proactively help shape a national policy. As Duke CEO Paul Anderson noted, "The worst scenario would be if all 50 states took separate actions and we have to comply with 50 different laws."

These examples foreshadow a potential future where corporate lobbying is welcomed, not feared. To achieve this, however, it will be essential to create a fully transparent lobbying system, reward companies that lobby for laws benefiting society, and punish companies seeking laws that benefit themselves at society's expense. Of course, even as groups like the Center for Political Accountability push for more transparent lobbying systems, Natural Step practitioners help companies make their operations eco-effective, and trailblazing companies risk criticism in admitting their weaknesses and designing strategies to improve, the majority of the 69,000 transnational corporations worldwide continue to ignore the looming environmental crisis. The question remains: will initiatives like these be enough to trigger an ecological industrial revolution before the systems human society depends on suffer irreparable harm?

Erik Assadourian *is a Staff Researcher at Worldwatch and Project Director of* Vital Signs 2006–2007.

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