

Futureye In the Public Eye

WHY SUSTAINABILITY REALLY DOES MATTER

THE AGE, MONDAY 13 AUG 2007

If the doyen of investors, Terry Campbell of Goldman Sachs JB Were, believes that sustainability can add 25 per cent to a company's value, the question is why aren't more Australian companies doing it? In many cases, the answer is as simple as the solution is complex. They don't know how.

Our experience as sustainability consultants has shown that, to be truly sustainable, companies need to engage with their stakeholders and their issues, have strategies in place to manage the opportunities as well as risks, demonstrate the behaviour required to innovate and change, and foster the right culture to deliver results.

Many organisations want to move beyond thinking of sustainability altruistically and start to lever it as an advantage. Unfortunately, as with many things in life and corporate jungles, it sounds easier than it actually is.

Goldman Sachs kicked off the July UN Global Compact Leaders Summit in Geneva with the inspiring finding that sustainability leaders with proven environmental, social and governance (ESG) policies have outperformed the wider stock market by 25 per cent since August 2005. Additionally, 72 per cent of these outperformed their peers over the same period by creating sustained competitive advantage through their ESG policies.

Closer to home, AMP Capital Investor's Sustainable Alpha Investment team point to similar results, with research showing that good ESG managers outperform poor ESG managers by 4.8 per cent over four years, and by three per cent over 10 years.

Speaking at a Futureye Members Forum, Senior Researcher for AMP Capital, Ian Woods, said: "We have been able to show that 77 per cent of a company's value lies in its intangibles, so in our view, how a company manages things like human capital, culture and innovation is critical to its success."

Woods argues the new era of corporate responsibility and sustainability has produced environmental and social factors which constitute a sixth "stakeholder force" in Porter Analysis-speak. He defines some of the top drivers for sustainability as climate change,

right-sourcing, shifting communities, commitment from the uncommitted, the search for meaning and authenticity, and informational democracy.

If you are having trouble understanding the sixth force, you are not alone. After all, the Carbon Disclosure Project found that only nine per cent of Australia's leading companies understood the implications of their management of the most prominent element - climate change last year. For those who do want to master the force, it's all about uncovering the context you are operating in by engaging with your stakeholders to find out what makes them tick - and why.

Like location in the real estate world, for business this means context, context, context is the defining factor in many a company's success or failure. Why are our shareholders demanding we pay our Directors less? Why is the community protesting against our plant's water usage - and how are they organising? How does our human rights record in Africa impact on sales at home?

We have found that companies that are insular and present-focussed (or worse past-focussed) not only struggle to understand their context; they are unable to influence it either. Whether through a lack of vision or ingrained short-termism or an unwillingness to engage with stakeholders, these reactive companies are missing out on the big opportunities sustainability presents. The UN is in agreement, pointing to the advantages of adhering to the Global Compact's goals of building cross-sector partnerships to support - and act on - a set of 10 universal environmental and social principles.

"The evidence is building that embedding universal principles and related environmental, social and governance policies into management practices and operations delivers long-term business value and is rewarded by markets", said Georg Kell, Executive Director of the UN Global Compact.

Despite such evidence, it appears not many are fighting for the advantage.

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Companies choosing to take the sustainability path will reap the rewards, writes Anna Degotardi.

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During the UN Summit, NGOs like Greenpeace and Amnesty International were quick to point out that, apart from a small number of success stories, there is disappointing and widespread inaction by big business on sustainability issues. Indeed, despite the good intentions of organisations involved with the Compact, the McKinsey survey released in conjunction with the Summit found that only 10 per cent of signatories have actually done anything different as a result of their membership.

The NGO backlash against the Global Compact labelled it a "happy-go-lucky club" and nothing more than "a public relations operation" of big business. But rather than a cynical "gentlemen's agreement" that allows multinationals to "put the UN logo" on their letterhead, is it possible that embedding principles throughout an organisation is proving more difficult than people expected?

McKinsey found that more than 90 per cent of CEOs are doing more than they did five years ago to incorporate environmental, social and governance issues into strategy and operations. However, out of the 72 per cent of CEOs who said that corporate responsibility should be embedded fully into strategy and operations, only 50 per cent think their firms actually do so. In Australia, we suspect this percentage is substantially lower.

If there is any truth in the accusations of inaction and lack of commitment, it is a great loss - for business as much as the societies they are aiming to contribute to. But many suspect it is more complicated than that. With more and more research pointing to the value responsible ESG practice adds to an organisation, it simply doesn't make financial sense to ignore the potential benefits sustainability offers.

The UN's Georg Kell says that "for an increasing number of business leaders, corporate responsibility is no longer an option, it is a necessity in order to compete successfully".

Sustainability wannabes, take heart: if it was easy, everyone would be doing it. For companies out there looking for an advantage, that's a good thing. For everyone.

BY ANNA DEGOTARDI

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For business, this means context is the defining factor in many a company's success or failure.

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Anna Degotardi is a consultant with sustainability advisers Futureye. www.futureye.com.