

From Challenge to Opportunity



The role of business in tomorrow's society

A paper from the Tomorrow's Leaders group of the World Business Council for Sustainable Development



About the WBCSD

The World Business Council for Sustainable Development (WBCSD) is a coalition of 180 international companies united by a shared commitment to sustainable development via the three pillars of economic growth, ecological balance and social progress. Our members are drawn from more than 30 countries and 20 major industrial sectors. We also benefit from a global network of 50+ national and regional business councils and partner organizations.

Our **mission** is to provide business leadership as a catalyst for change toward sustainable development, and to support the business license to operate, innovate and grow in a world increasingly shaped by sustainable development issues.

Our **objectives** include:

Business Leadership - to be a leading business advocate on sustainable development;

Policy Development - to participate in policy development to create the right framework conditions for business to make an effective contribution towards sustainable development;

The Business Case - to develop and promote the business case for sustainable development;

Best Practice - to demonstrate the business contribution to sustainable development solutions and share leading edge practices among members;

Global Outreach - contribute to a sustainable future for developing nations and nations in transition.

The Tomorrow's Leaders group

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Chief Executive, Refining and Marketing, BP plc

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Former Group President, Western Europe, Procter & Gamble

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President's Letter

I want to thank warmly the eight members of the World Business Council for Sustainable Development who accepted my challenge to help formulate a vision of business going forward. They have provided an important thought piece that I trust will stimulate dialogue about the role that leading businesses will play in tomorrow's society. They argue that they must address major social and environmental issues as part of their business strategies because ultimately it makes good business sense. A business's long-term competitiveness – its license to operate, innovate, and grow – will increasingly depend on how it embraces societal challenges.

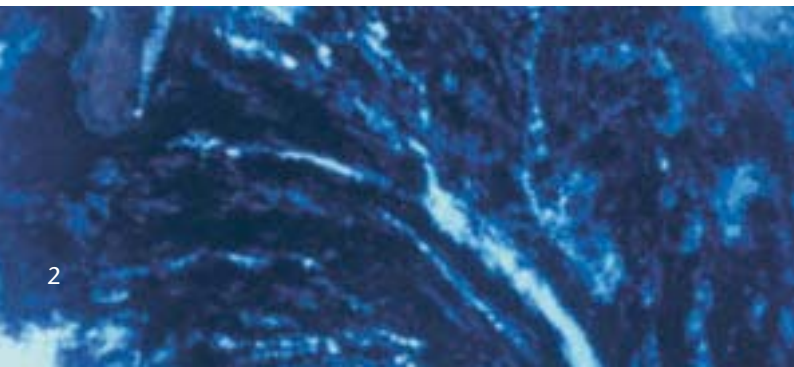
This report comes as the WBCSD marks its tenth year of setting out the business case for sustainable development. Our growing and active membership is evidence of the increasing numbers of businesses that see their future in shaping strategies to address the challenges of global sustainable development.

While this paper focuses on the overall approach likely to be adopted by successful global companies in the future, other related publications provide complementary detail, data, and information. I invite you to explore these at www.wbcSD.org.

I hope that other parts of society will accept the invitation by the Tomorrow's Leaders group – as well as that of the WBCSD – to enter into dialogue about the role of business, as well as the role of other stakeholders. We have a common interest in creating a sustainable future in which we can all prosper.

A handwritten signature in black ink, appearing to read 'B. Stigson'.

Björn Stigson
President, WBCSD



Foreword

by the Tomorrow's Leaders co-chairs

We are publishing this paper at a time of intense debate about the role of business in society, particularly in relation to major global issues such as poverty and climate change. Directions set in the next few years will have profound consequences for future generations, and in such a context, we believe business should be clear about its purpose and candid about its dilemmas.


We have therefore come together as a group of business leaders – all members of the WBCSD and all responsible for international businesses – in an effort to stimulate discussion in the business world.

We do not claim to have all the answers to the profound issues business faces, but we have taken some time as a group to order our thoughts on this subject and agree some principles.

In this paper we:

- Set out a model that we believe provides a constructive way for companies to see their role;
- Put forward what we believe to be the main issues with which companies should engage;
- Ask some critical questions that companies and those they work with need to discuss and resolve.

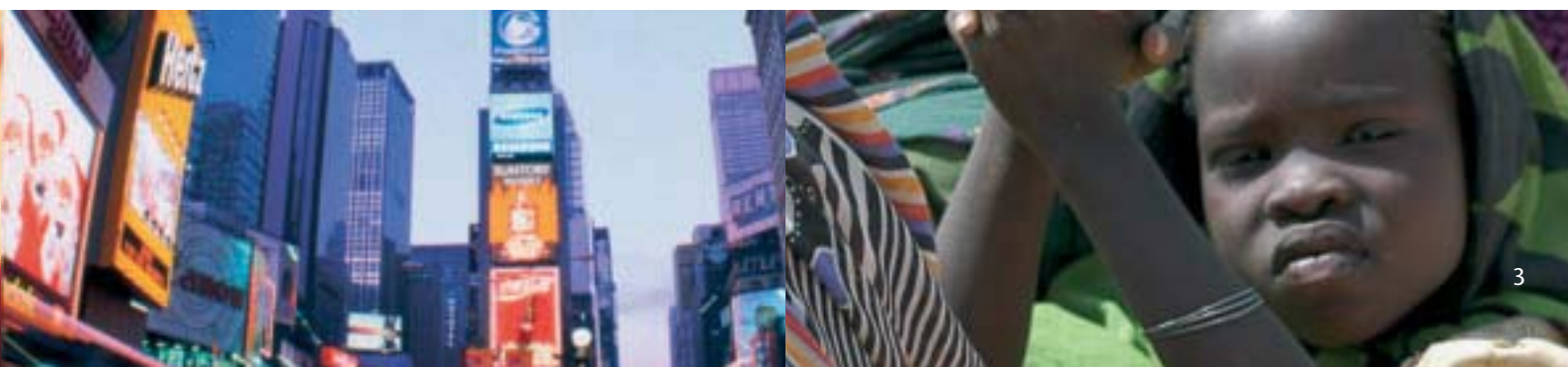
We have focused mainly on the perspectives and experiences of our own companies and other global businesses. However, we believe some of the themes discussed are also relevant to smaller companies and those operating within one country. We offer the paper to provoke discussion and to contribute to the wider debate over business and society.



John Manzoni
Chief Executive,
Refining and Marketing, BP plc



Paul Polman
Former Group President,
Western Europe, Procter & Gamble



A manifesto for tomorrow's global

We believe that the fundamental purpose of business is to provide continually improving goods and services for increasing numbers of people at prices that they can afford.

We believe that this statement of our purpose unites the interests of business and society at the deepest level.

It makes clear that we prosper by helping society to prosper, by innovating to create new goods and services and by reaching out to new customers.

We believe that the leading global companies of 2020 will be those that provide goods and services and reach new customers in ways that address the world's major challenges – including poverty, climate change, resource depletion, globalization, and demographic shifts.

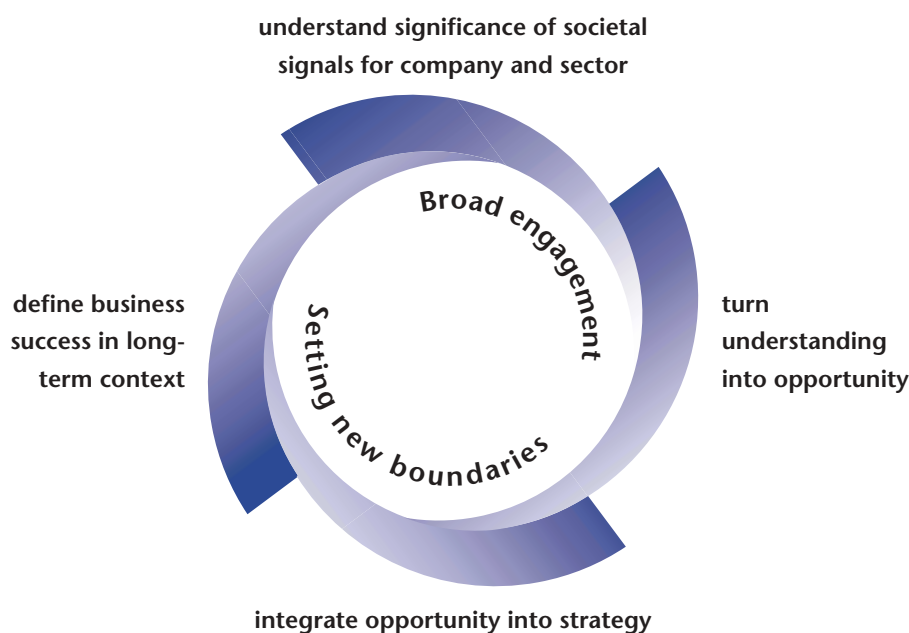
If action to address such issues is to be substantial and sustainable, it must also be profitable. Our major contribution to society will therefore come through our core business, rather than through our philanthropic programs. We see shareholder value as a measure of how successfully we deliver value

to society, rather than as an end in itself.

In aligning our interests with the needs of society, we will follow a model based on our own experience and analysis of successful business strategies:

- We will develop an **understanding** of how global issues such as poverty, the environment, demographic change, and globalization affect our individual companies and sectors.
- We will use our understanding of the significance of these signals to search for business **opportunities** that help to address them.
- We will develop our core business **strategies** to align them with the opportunities that we have identified.
- We will incorporate **long-term measures** into our definition of success, targeting profitability that is sustainable, supported by a positive record in social, environmental, and employment areas.

A model for tomorrow's global business



business

In each of these phases, we will **engage** broadly with a range of groups and organizations, including governments, international bodies, customers, employees, partners, academics, NGOs, civil society institutions, and the general public.

We will then use our experiences to move to new starting points for understanding and action.

If we can deploy this model with the full creativity, focus, and resources of business, we believe we will contribute significantly to resolving the major issues that society faces.

- We will develop technologies and products that enable the world to address its environmental and social challenges.
- We will help to create new businesses, new markets, new livelihoods, and new customers among the three billion people who live in poverty today and the three billion who will be added to the world's population in the next 50 years.
- We will help to set global benchmarks and global frameworks that create universal standards and raise the bar for all companies.

- We will operate and compete successfully in a range of countries, markets, and cultures, maintaining consistent global standards while acting as part of the local community.
- We will responsibly manage the challenge of moving assets and activities between regions to make the most of the benefits of global scale.
- We will devise strategies to address the issues raised by ageing populations in the developed world and growing populations in the developing world.
- We will attract new generations of employees, creating an inclusive culture, advancing more women, and enabling people from any nationality, race, or background to fulfill their potential.
- We will set high standards of corporate governance, demonstrating openness about our business activities and building trust.

By pursuing these aspirations we believe we will move our companies into new areas, **pushing the boundaries** of business activity as we seek greater synergy between our goals and those of the society we serve.

Frank Dassler
General Counsel,
adidas-Salomon

John Manzoni
Chief Executive,
Refining & Marketing,
BP plc

Andrew Brandler
Chief Executive Officer,
CLP

Julio Moura
Chairman and CEO,
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Paul Polman
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Idar Kreutzer
Chief Executive Officer,
Storebrand

Christian Mumenthaler
Chief Risk Officer,
Swiss Reinsurance Company

Peter Bakker
Chief Executive Officer,
TNT

Why now?

Why are we proposing a fresh approach?



Why offer a manifesto for the global companies of the future? Why argue for a fresh approach now, when companies are seeing profits grow and businesses expand?

Our answer is that we are coming into contact with some of the world's most challenging issues. This presents us with an obligation to act, as well as opportunities to channel our energies into business activities that address these challenges and contribute to human progress.

Given the scale and reach of business, we have the potential to make a major difference. WBCSD member companies alone have a combined turnover of over US\$5.5 trillion, with products and services that touch the lives of three billion people a day.

In examining our role, we start from the basis that the fundamental purpose of business is to provide continually improving goods and services for increasing numbers of people at prices that they can afford. This is a purpose that we need to relate to today's challenges. For example, in a world facing serious

pollution and the threats of rising temperatures, water shortages, and crop failures, can we improve our goods in ways that address environmental issues? In seeking to provide goods and services to increasing numbers of people, can we reach out to the three billion who today live in poverty and the three billion expected to be added to the world's population by 2050? These six billion people are potential customers, employees, and suppliers.

We should not see such signals as someone else's problem, but as risks for our businesses, which we have a role in addressing, along with governments and international bodies.

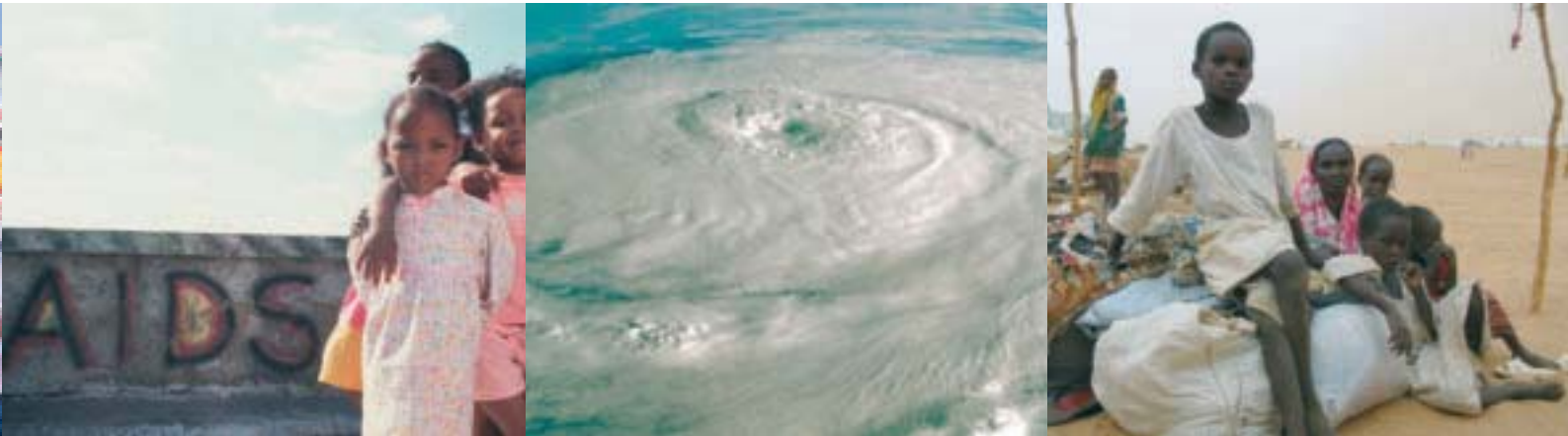
Dealing with such issues makes business sense. It is directly in our interest to avoid operating on a polluted planet in which billions are too poor to afford the products we create.

Issues such as poverty, the environment, and globalization also raise short-term challenges. As we write, the world has just experienced a year that has set new records in losses from natural disasters. This has intensified public awareness of poverty and concern over the environment, already at a high pitch following a G8 summit that focused on these issues.

Trust in businesses is at a low ebb, with only four in ten saying they trust global corporations. It could take very little to turn

"Part of the bargain, the social contract which allows companies to be as large as they are, is that they become engaged in the challenges the world faces, rather than dismissing them as someone else's problem."

John Manzoni Chief Executive, Refining & Marketing, BP



“Business leaders need to speak out now about their role in driving progress in society. For too long we have allowed people to think that business is interested in nothing other than profit, when in fact we see the purpose of business much more widely.”

Paul Polman Former Group President, Western Europe, Procter & Gamble

this combination of distrust of business and concern over the world's future into widespread anger. The time is therefore right for progressive businesses to demonstrate not only that we understand and share public concerns, but that we are doing more and more about them.

The model that we have put forward can help companies create business opportunities

out of tackling the world's major issues. While many businesses can point to specific activities as evidence that they are already applying such a model, we believe that to apply it at scale, and at the heart of business strategy, is extremely demanding. However, the prize is worth the effort. We stand to gain increased profitability for companies and significant benefits for society, along with a growing recognition of the good that businesses can do.

“We are committed to creating economic value, but we are not indifferent to how we do it.”

Idar Kreutzer CEO, Storebrand

What's new?

How does this approach relate to the current



We welcome the current debate on the role of business in society. However, much of this debate revolves around a misleading distinction between pursuing shareholder value and demonstrating corporate social responsibility (CSR).

The shareholder value school argues that the sole legitimate purpose of business is to focus on creating shareholder wealth. The less well-defined CSR school calls for operating the core business in a responsible way, sometimes through philanthropy, sometimes through voluntarily going beyond the demands of legislation, for example in health, safety, or environmental standards.

However, as Ian Davis, Worldwide Managing Director of McKinsey and Company, has observed, both views obscure the real relationship of business to so-called external issues, and it is time the debate was recast.

“CEOs could point out that profits should not be seen as an end in themselves, but rather as a signal from society that their company is succeeding in its mission of providing something people want—and doing it in a way that uses resources efficiently relative to other possible uses.”

Ian Davis Worldwide Managing Director, McKinsey & Company

Business does good by doing business

Any successful company will both create shareholder value and operate responsibly. In fact these amount to the same thing. Most companies benefit society simply by doing business. We meet customers' needs for goods and services. We create jobs. We pay wages and salaries. We provide for employees and families through pensions and health plans. We innovate to create products that contribute to human progress. We pay taxes that fund public services and infrastructure. We create work for millions of suppliers, many of them small- and medium-sized companies. Our search for competitive advantage leads to efficiency, and thus to reduced consumption of resources, less pollution, and higher quality products.

The purpose of any business that seeks to be sustainable has to be more than generating short-term shareholder value. Simply by adding the word *long-term* to *shareholder value*, we embrace everything necessary for the survival and success of the company. This includes building trust among communities and maintaining a healthy environment in which to do business.

All of these benefits are created in the normal course of responding to market signals.

debate on the role of business?



Smart businesses pick up societal signals

Progressive businesses are now widening their horizons as they look for opportunities and are gaining competitive advantage by responding to societal signals as well as market signals. For example, a company that acts to promote human welfare is helping to build its future market and workforce. A company that acts to protect the environment is helping to preserve the natural capital upon which its operations depend and possibly gaining early-mover advantage in the more highly-regulated markets of the future. Such companies realize that ignoring these issues means – at best – missing early indicators of future profitability and – at worst – risking the company's market valuation and reputation.

The products are the purpose – the profits are the prize

In responding to societal signals, companies are now looking more widely and imaginatively at

the fundamental purpose of providing continually improving goods and services to increasing numbers of customers at prices they can afford. They are improving their products in ways that serve societal ends, and they are increasing customer numbers by reaching out to new markets in developing and emerging economies.

In this view of the role of business, shareholder value is seen as the measure of success in fulfilling the more fundamental purpose of providing improving goods and services that today's and tomorrow's consumers want.

As a result of responding to societal signals, many companies are now active in areas often considered the domain of governments: providing basic goods such as health, education, and pensions; advocating a framework to tackle climate change; or addressing poverty through corporate strategy.

Tackling the big issues



How business is responding to four specific societal signals

In the following pages we examine the challenges posed for business by four major global signals: poverty, the environment, population change, and globalization. We are using these challenges to help us understand in greater depth the role of business in tomorrow's society.

The four we have chosen are societal challenges: large, complex, rapidly developing issues on the global public policy agenda for which no one, least of all businesses, can evade some form of responsibility. Each signal

encompasses many other issues and will resonate with many companies. In addition, each company will have its own concerns, specific to its industry and background.

We provide some examples of business experience – often involving WBCSD members – illustrating how our model can be applied and the challenges that companies face. We also set out the key questions that companies might discuss as they seek their own ways forward.

“Businesses such as ours have a direct interest in promoting development and economic growth. This creates new markets, provides new jobs, and prevents conflicts. Development is our business as much as that of governments and aid agencies.”

Julio Moura Chairman and CEO, GrupoNueva

Poverty



Poverty continues to afflict a large proportion of the world's population. More than a billion people survive on less than US\$ 1 a day and nearly three billion on less than US\$ 2 a day. Some 30,000 children die daily as a result of extreme poverty.

Companies based in the developing world have long experience of working with low-income communities, while others are increasingly encountering poverty as they seek new markets. Companies also encounter relative poverty among the poorest sections of society in the developed world, where many cannot afford the products and services that average earners take for granted.

For all companies, the world's poorer regions represent an opportunity and a challenge. The vast numbers of people living in poverty today are potential consumers, employees, and suppliers.

Yet there are substantial challenges in establishing businesses in poorer countries. Often they suffer from inadequate framework conditions, such as legal, regulatory, and intellectual property systems. Infrastructure and services are often limited or non-existent, with underdeveloped networks for telecoms, power, water, and sanitation and only the most basic health and education systems. Business finds it hard to operate in such conditions, but without business acting as the motor for development, the necessary frameworks, infrastructure, and services are less likely to emerge.

The challenges for business are to understand the roots and nature of poverty and identify ways to do business effectively in low-income communities. To do so, businesses have adopted a variety of strategies.

Products

Some strategies are focused on winning customers among low-income populations. For example, GrupoNueva has gone as far as setting a target of making 10% of its sales among low-income segments by 2008, which depends on finding new ways of doing business with new customers.

Many companies develop simple, affordable products. Examples include low-cost mobile phones made by Motorola and the Simputer, a low-cost, portable alternative to the PC developed by IT experts in India.

Other companies source their products among poor communities to promote enterprise and create wealth. One example is the program by Delta Cafés, Portugal's coffee market leader, to revive the coffee-growing industry of East Timor after 20 years of neglect. This program has included training farmers and developing the Delta Timor brand, which has achieved status as a premium fair trade product among socially responsible consumers in Portugal.

Markets

Many consumers and producers in poor areas have limited purchasing power, and businesses wishing to work in such areas need help to create viable markets and supply chains.

One means of achieving this is through small loans, or micro-credit, which can transform the prospects of small enterprises. In Brazil, ABN AMRO worked with Acción, a non-governmental organization, to create a micro-finance unit based in Heliópolis, one of Sao Paulo's crowded shantytowns. Loans vary from US\$ 70 to US\$ 3,350 and have benefited around 1,000 micro-entrepreneurs.

Also in Brazil, where poor access to credit is a major factor in the lack of adequate housing, a GrupoNueva subsidiary offers a credit card that low-income households can use to pay in installments for materials to build and improve their homes.

Many companies help to build supply chains by supporting small and medium-sized companies seeking to become suppliers and distributors. In South Africa, Mondi Recycling encourages employees to become self-employed owner-drivers, and Coca-Cola trains thousands of micro-entrepreneurs to sell its product.

Infrastructure

Many companies provide infrastructure to help build markets. For example, Vodacom deployed 22,000 subsidized cellular phones in rural areas of South Africa as a condition of its license to operate. The rural phones have delivered revenues of over US\$ 100 million a year, more than the company's conventional pre-planned services.

Other companies work with governments, aid agencies, and NGOs to build infrastructure such as solar electricity systems. Solar power provided by companies such as BP, EDF, Shell, and Total benefits many countries, including Angola, Brazil, India, Malaysia, Morocco, the Philippines, and Sri Lanka.

Frameworks

Some companies have acted to address flaws in framework conditions, such as legal systems or intellectual property rights. For example, Statoil is supporting courses in human rights for Venezuelan judges in a

project organized by the United Nations Development Programme. Philips is funding exchanges of intellectual property experts between Chinese and US or European universities.

Trade

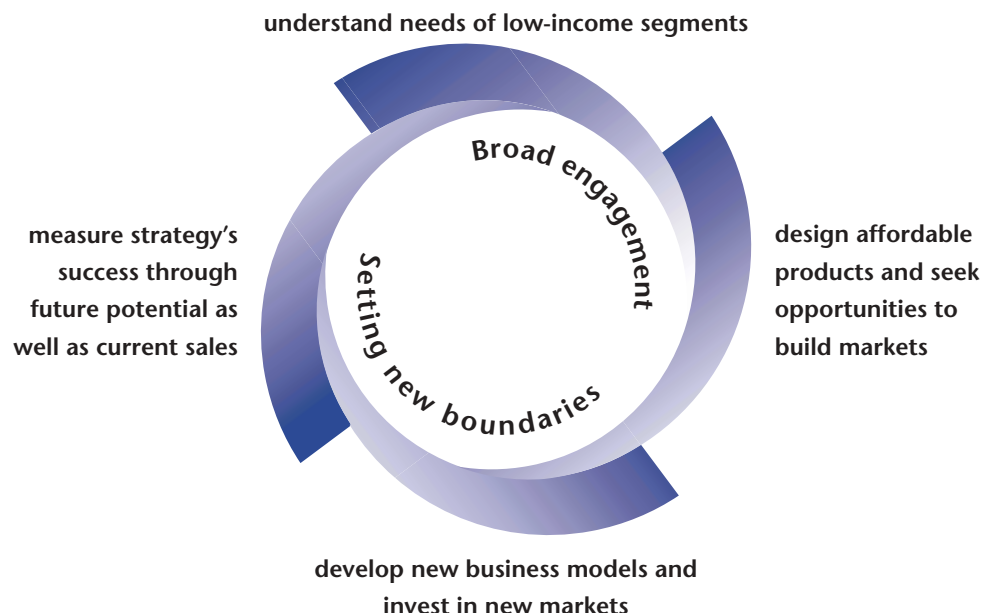
Global trade rules influence the ability of countries to escape the poverty trap. Estimates suggest that if Africa could gain an additional one percentage point share of global trade, it would earn US\$ 70 billion more in exports each year, more than five times the sum that it receives in international assistance. WBCSD members and other business leaders have

voiced the need to remove unfair subsidies to level and widen the global playing field. These include a group of chief executives and chairmen of leading corporations who signed a letter in the Financial Times urging WTO member governments to step up their efforts to liberalize world trade in the Doha round of talks.

Questions for discussion

- What new business models are needed in poorer countries where conventional business models do not work?
- How can business play a more active role in improving framework conditions and infrastructure in developing countries?
- What can business contribute to the world's trade discussions?

Addressing poverty



Paul Polman

Former Group President, Western Europe, Procter & Gamble



Over a billion people worldwide do not have access to safe drinking water. So, using technologies from our laundry detergent business, P&G has developed a low-cost water purification product for developing countries. This product - PUR® Purifier of Water - can clean and purify contaminated drinking water to WHO standards in consumers' homes for less than US¢ 1 per liter. Our dilemma has been getting this product to the people that need it, at a price they can afford, on a sustainable basis. P&G's normal model of serving people in low-income countries has been to gradually work down from the upper socio-economic groups, but the people in need of this product are mainly right at the bottom of the economic pyramid, often in countries where P&G has no infrastructure or distribution.

A conventional commercial model was tried in several countries, but it was not successful because people did not understand the need for the product. High social marketing costs and health education campaigns were required to raise awareness of the importance of safe water. After all, you need to know it's the water that is making you sick before you will change your behavior and buy and use a water-cleaning product.

On the other hand, the product has proved very effective for aid agencies in disaster relief during the tsunami and other natural

disasters. For disaster relief, P&G supplies international aid organizations such as UNICEF, Americares and Samaritan's Purse with the product at cost.

So should the company continue with this product despite the lack of market success? Can we develop a different business model that will work at the bottom of the economic pyramid? By working with a range of partners, P&G has developed a new social market model. We are teaming up with NGO partners such as Population Services International who distribute and sell PUR through their networks. Experts in health education like the International Council of Nurses help teach people about the importance of safe water, while the US Centers for Disease Control and Prevention conduct clinical trials for effectiveness.

With initial support from development agencies such as the US Agency for International Development's Global Development Alliance and the UK Department for International Development, we have been able to set up sustainable markets for PUR that are delivering clean safe water in Haiti, Pakistan, Kenya, and Uganda.

A handwritten signature in black ink, appearing to read 'P. Polman'.





John Manzoni

Chief Executive, Refining & Marketing, BP plc

Companies such as ours work in many developing countries where there are concerns over whether the revenues we generate for the host governments help to improve living standards for the wider population. The perceived problems include corruption and lack of government capacity to manage large revenue flows.

One solution is openness – transparency – about the sums that companies pay to governments and how they are spent. However, this may conflict with a government's desire to keep such details private to preserve its negotiating position or a company's desire to keep payments confidential for commercial reasons. Governments and companies are now taking part in the voluntary Extractive Industries Transparency Initiative (EITI) to manage these issues. One measure being explored is for sectors to disclose their aggregated – or total – payments, thus preserving confidentiality about individual company payments. However, greater confidence is created by individual companies deciding to “publish what they pay”.

In March 2005, we moved to a group policy of favoring disclosure of individual company payments to host governments in countries identified by the EITI as those where revenue management is a critical development issue,

and where our presence has a major impact. Transparency is one of our group values, and we demonstrate it not only in terms of revenue disclosure, but through a bias toward publishing our agreements with governments wherever possible. We also aim for clear and regular communication with our investors, partners, and civil society.

As far as disclosure of payments is concerned, a few years ago we would have encountered insurmountable resistance from business partners and host governments, and we would not necessarily have seen the value in stepping so far beyond traditional rules of operation. But as corruption is increasingly recognized as a critical constraint on economic development, we have chosen to lead by example to encourage and support governments' transition to effective governance. We face an ongoing dilemma in implementing the policy, as it involves persuading governments and partners to agree to disclosure in each country concerned.



The environment



Human activity over the past 50 years has changed the world's environment more extensively than ever before, largely to meet growing demands for food, fuel, fresh water, timber, and fiber. The use of natural resources has advanced human development, but at a growing environmental cost. The UN Development Programme has estimated that if the whole world's population were to enjoy a lifestyle similar to that of the industrialized countries today, it would require the resources of 5.5 planet Earths.

The 2005 report of the international Millennium Ecosystem Assessment (MEA) group, involving 1,360 experts worldwide, revealed dramatic deterioration in ecosystem services. These include the provision of resources such as fuel and food, processes such as climate regulation, and the aesthetic and recreational values of nature. The MEA

found that two-thirds of these services were being degraded or used unsustainably, and described global warming as the change with the greatest potential to alter the natural infrastructure of Earth.

Many of the world's natural resources are not owned by anyone or assigned a value. They represent common goods, and failure to halt their depletion is sometimes referred to as "the tragedy of the global commons".

We believe it is imperative to reverse this trend and operate within the carrying capacity of the earth. Our challenge is to find opportunity in doing so. Encouragingly, this is an area in which business is beginning to find ways to turn responsibility into opportunity. We now must do it on a scale that has an impact at the global level.

Eco-efficiency

One of the WBCSD's early steps was to develop the concept of eco-efficiency or "doing more with less". This concept covers a range of measures by which companies have reduced their environmental impacts and also their costs. Eco-efficiency initiatives have become increasingly substantial and sophisticated. With its Ecomagination initiative, GE is doubling research investment in cleaner technologies to US\$ 1.5 billion by 2010 and doubling its revenue goal

for products and services that provide environmental benefits to customers to at least US\$ 20 billion over the same period. Cargill Dow is using agricultural crops such as corn for polymers from which clothing, carpets, and packaging are made, while Japan's Taiheiyo Cement Corporation is using incinerated urban waste ash to produce cement.

"We are going to solve tough customer and global problems and make money doing it."

Jeff Immelt
Chairman and CEO,
The General Electric Company

Sustainable consumption

Many companies are finding opportunities in encouraging customers to act in a more sustainable way. For example, in Canada, BC Hydro has a Power Smart program that provides financial incentives to customers who replace existing inefficient products with energy-efficient technologies. Heineken N.V. is using its beer bottles to promote a website which includes responsible consumption guidelines.

The market of consumers willing to pay a premium for products that have environmental benefits but cost more to produce, such as ultra low-sulfur fuels, is small

and growing slowly. However, when the environmental benefits are accompanied by increased quality or performance, the market is likely to grow much more rapidly.

In cases where no regulation exists, businesses have worked with others to create global standards that lift expectations and raise the bar for industry. Examples include the Marine Stewardship Council, the Forest Stewardship Council, and WBCSD sector projects such as the Cement Sustainability Initiative, which sets best practice with its key performance indicators.

Sustainable supply chains

Many companies are now working to ensure their supplies come from sustainable sources. This can create a dilemma in winning customers' support. Unilever, which markets Birds Eye frozen foods, has a target of sourcing all fish supplies from sustainable fisheries. It helped to establish the now independent Marine Stewardship Council,

whose logo on a fish product indicates that the fish it contains comes from sustainable fisheries. In the UK, Unilever is limiting the use of cod, which is severely over-fished in some areas, and helping consumers understand the reasons for introducing sustainably sourced New Zealand hoki instead.

First mover innovation

Companies that innovate to create cleaner technologies benefit when governments devise policies that reward progress and penalize pollution. Such benefits were gained by companies that invested to find alternatives to ozone-depleting CFCs.

Some companies are now looking to gain early mover advantage in a more sustainable future global economy.

As Goldman Sachs noted in its 2005 report *Sustainable Investing in the Energy Sector*: "The companies that have potential for creating significant value are those that have the most strategic options available to embrace a low-carbon world." For example, some energy companies, including BP, Shell, Statoil, ChevronTexaco, Norsk Hydro, ENI, EnCana, and Suncor Energy, are working to bring down the costs and assure the safety of technologies to capture and store carbon dioxide, keeping it out of the atmosphere.

"I never perfected an invention that I did not think about in terms of the service it might give to others... I find out what the world needs, then I proceed to invent."

Thomas Edison Founder, The General Electric Company

Monetizing resources

Natural resources are estimated to have a value almost twice that of society's economic activities, and there is a growing trend to treat them as assets rather than free common goods. Governments are developing market mechanisms for such assets, including CO₂ emissions credits, sustainable agriculture products, and improved water pricing schemes. Companies such as Shell and BP have used internal mechanisms for emissions trading that have positioned them well in advance of mandatory initiatives such as the EU Emissions Trading Scheme.

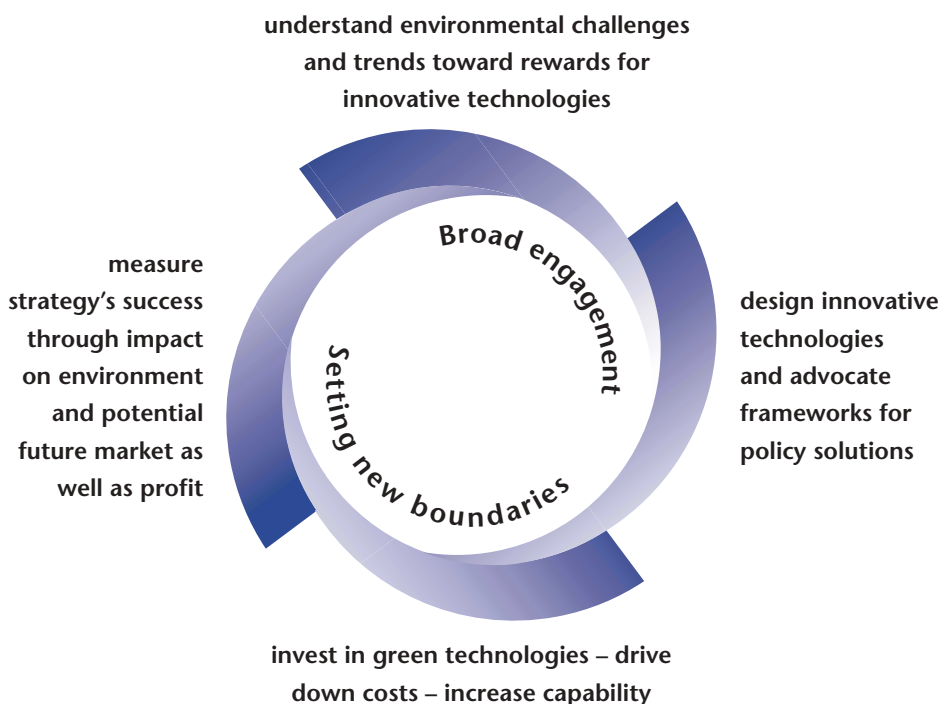
At the global level, where such mechanisms are more difficult to implement, one initiative under the Kyoto Treaty has been the Clean Development Mechanism (CDM), which enables states to gain credit for emissions reduction projects carried out in other countries. If practical challenges can be overcome, the CDM system could encourage transfers of resources and technology between developed and developing countries.

Policy engagement

Where companies have products or technologies that benefit the environment but that require supportive policies to be competitive at scale, they often become public advocates for reform. Some companies advocate policies that will raise environmental standards and provide markets for cleaner technologies. Some national and state governments – for example, Japan, Germany and California – have demonstrated the progress that can be made in deploying technologies such as solar energy when effective government support is in place.

A common theme in many of these environmental experiences is the relationship of mandatory to voluntary action. In some cases regulation has prompted companies to innovate – for example, the imposition of sulfur emission limits on fuel in North America and Europe. In other cases, regulation has not been in place but companies have acted voluntarily. For example, the Panama Canal Authority is providing land deeds and loans to farmers who protect the water resources needed by the canal, effectively assigning value to watershed management.

Environmental innovation



Questions for discussion

- How can the developing world's social and economic needs for increased energy be met while limiting the impacts of global consumption for environmental reasons?
- How can companies foster stronger markets for sustainable products or technologies, particularly when consumer demand or policy incentives do not support scale and viability?
- What more can business do in terms of pricing externalities such as common resources that have no owner?



Andrew Brandler

Chief Executive Officer, CLP

In the effort to combat climate change, nuclear power occupies a singular position. It raises major concerns related to nuclear waste, the security of fissile materials, and the potential use of dirty bombs by terrorists. Yet it emits no greenhouse gases, and there is the potential to reduce its risks through using the right processes and technology, such as pebble bed containment.

On balance, a year ago, I would have opposed any further investment by our company in nuclear power. Our existing investment in a small and not very profitable hydroelectric business in remote areas of China was on the market. However, over the past year, we have studied the issues arising from the simultaneous urgent need for energy

in developing countries and the continued increase in greenhouse gas emissions in relation to global climate change. Last December, we set ourselves a new renewable energy target. To help us meet this, we took our small hydro facility off the market, and instead increased our stake in it.

Today, we also are seriously interested in new nuclear capacity where we believe it can be created and operated safely and where the stakeholders understand and accept the balance of risks and benefits. Our dilemma is that in making greenhouse gas emissions reductions a priority, we risk both the lower returns made by renewables and the increased concerns raised by nuclear power.

Andrew Brandler



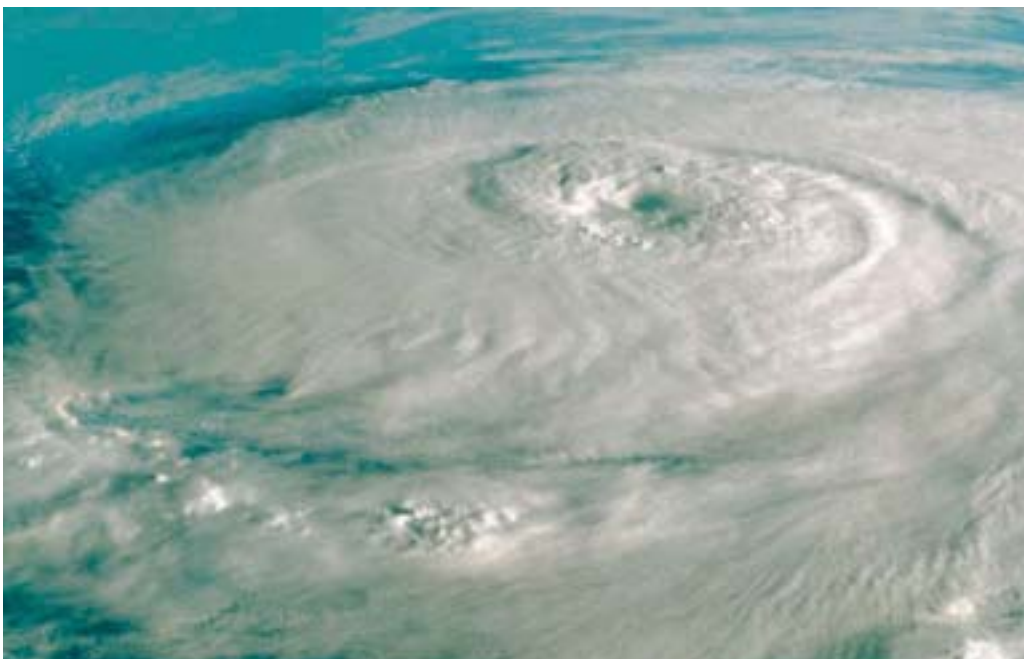
Christian Mumenthaler

Chief Risk Officer, Swiss Reinsurance Company



Climate change became a concern for Swiss Re over a decade ago. When our first publication on the subject went to press in 1994, our main objective was to raise awareness of the issue in the insurance industry and wider business community. Given the potentially severe consequences of climate change, it has since become a core issue and important element of the company's long-term risk management strategy. We subsequently decided to take additional measures, some of which could be viewed as controversial by parts of our client base. Today, Swiss Re actively approaches individual clients to voice its concerns about carbon risk management issues and shares its expertise in this controversial area with governments throughout the world. In 2003, Swiss Re decided to act as a role model by declaring its intention to become "greenhouse neutral" within 10 years.

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Population



Today the world has around 6.5 billion people. By 2050 it is expected to have more than nine billion, of whom nearly eight billion are forecast to live in developing countries. There will be a shift in the distribution of populations. While populations grow in developing countries, they will age in the developed world. In several countries, including Japan, Italy, and Singapore, the median age will rise to over 50 by 2050.

These demographic shifts create a range of challenges for business. Will the millions born in the developing world be healthy, educated, and economically advanced enough to become the customers and employees of tomorrow? Can agricultural sectors create enough food? How can businesses adapt to ageing populations in developed countries, as they create increasing medical and pension costs and make it difficult to renew workforces?

The challenge of a growing population is complicated by the pressure of urbanization. By 2010, half of the world's people will live in cities, and now there are an additional 60 million new town and city dwellers every year.

Unlike poverty and the environment, demographics is an area where business has little ability to shape trends. Instead it is faced with the challenge of turning inexorable changes into opportunities.

Some companies become involved in providing basic services such as health and education, which are preconditions for a thriving business environment in places where populations are growing rapidly. This increases the number of skilled workers available and strengthens the market for their products.

Working with ageing populations

An ageing population means that many large companies face escalating costs resulting from their commitments to provide health care for retirees. GM has calculated that its health benefits add US\$ 1,500 to the price of every vehicle it makes. One recent US survey showed that only 7% of companies had proposed

specific changes to prepare for the retirement of a large percentage of workers aged 55 and over. Some companies and governments are seeking to keep more older people in the workforce. In Finland, for example, workers are given a 4.5% increase in their pensions for every year they stay in work between the ages of 63 and 68.

Improving health of populations and employees

Protecting growing populations from disease requires mass immunization. This is the aim of the Global Alliance for Vaccines and Immunization (GAVI), which brings together the World Health Organization, UNICEF, The World Bank, governments, and companies such as Aventis Pasteur. The alliance is providing vaccines to more than 40 million children a year who would not otherwise

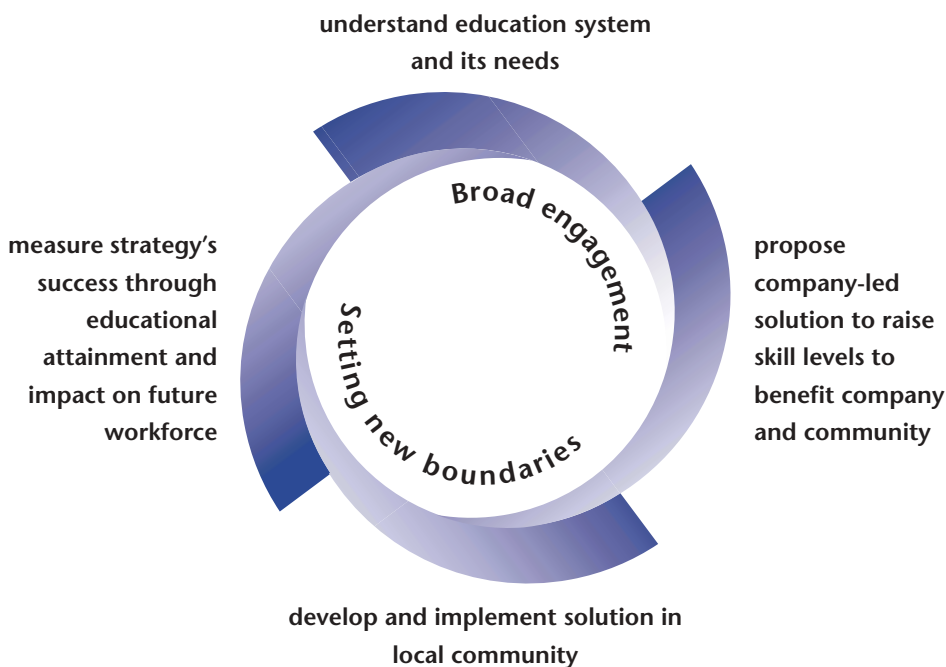
have them. Many companies are active in addressing the impacts of HIV/AIDS, for example by running awareness programs and providing counseling and medication among employees and communities. Philips is expanding its specialist healthcare provision to India's poor.

Improving skills of current and future workforces

Education is critical among fast-growing populations because it enables individuals to become more employable. In Brazil, Companhia Siderúrgica de Tubarão has developed education programs for employees, their families, and contractors, while Companhia Vale do Rio Doce televises educational programs on trains.

Business can meet its staffing needs by training members of growing local populations to fill posts otherwise occupied by expatriate workers or staff from other regions. One flagship project is the giant smelter operated by Alcoa in Sao Luis, Brazil, where few skilled workers were initially available due to the lack of an industrial tradition in the area, but where 98% of the 3,500 direct and indirect employees are now local people.

Addressing educational needs of growing populations



Questions for discussion

- What are the implications for business strategy with developing world populations expanding at the same time as many developed world populations are shrinking?
- What will be the role of business in providing pensions and health care in the future?
- What role should business play in providing education and welfare?



Julio Moura

Chairman and CEO, GrupoNueva

A year ago I would never have considered getting our forestry company involved with basic education. But this is what has happened in a remote area of Chile as we have aligned our need to build a more skilled workforce with the region's need to halt the rapid rush of growing rural populations into the slums of the major Latin American cities.

A GrupoNueva subsidiary, the Masisa forest products company, has a factory and is the major employer in the remote Chilean town of Cabrero, a municipality of about 30,000 people. For a time there had been a small corporate foundation that ran a training center focusing on skills such as gardening and baking. These were more hobby classes than income-generation aids, because unemployment is low in the area.

Yet education is poor locally, with some of the lowest school test scores in the country. For three years we had been focusing on hiring local people, but because of the poor educational standards, we were having trouble finding people who could rise in the company. At the same time, the municipality asked for help in basic education.

So we have started a program to train the local teachers and another to offer pre-school education and enrichment to children as young as three. We are reorganizing the board of the foundation to have more community representation. Masisa is becoming an important power in public education in Cabrero. We not only get a better educated workforce, but we help encourage people to stay in their home region instead of migrating to the cities.

My basic dilemma is whether this is a reasonable thing for Masisa to be doing, getting involved in a sector so removed from our expertise, so controversial, so traditionally the responsibility of the government. Can we make a business case for it?



Globalization



Globalization is the process by which the world has become more inter-dependent and interconnected. It involves the increasing volume of trade, the growing complexity of trading relationships, the increasing movement of people, goods, and capital around the world, and the growth in digital communications, which enables people to know in seconds about events on the other side of the planet.

Globalization has often been used as a pejorative term by those focusing on situations where local communities have suffered as a result of contact with global industries or companies.

However, globalization can also be seen in a positive light. As trade has increased about 15-fold since the 1950s, per capita income has nearly tripled, life expectancy has grown by 20 years, infant mortality has dropped by two-thirds, and millions have been lifted out of poverty. Emerging economies that have been able to add value to the global supply chain have also benefited extensively; examples include India as a software center and China as a manufacturing powerhouse. There have been benefits for consumers, who have enjoyed greater quality and choice at lower cost.

However, the benefits of globalization have been slow to reach the poor; a billion people still live on less than a dollar a day. Others lose out when jobs and operations are moved to new locations. Unless businesses treat such communities well, they will face stronger calls for a shift back to protectionism, which would erode global wealth creation. By juxtaposing

“Globalization is taking its toll. We can see a shift to the East, growing imbalances on trade and debt and a widening gap between rich and poor. There is worrying social unrest in the EU and US as jobs go elsewhere.”

Björn Stigson, President, WBCSD

large global corporations with small local communities, globalization also highlights inequalities, jeopardizes traditional ways of life, and increases the chances of corruption.

Global companies are engines of globalization. They have invested to compete at the global level, developing global products, services, workforces, and brands and operating in countries with vastly different economies and cultures. Global companies are today among the best resourced international entities on earth. Some companies have annual capital expenditures amounting to several times the UN's regular budget.

This capacity can be applied to benefit society. For example, TNT, whose specialty is global transportation and logistics, has formed a partnership with the UN's World Food Programme (WFP). TNT uses its expertise, such as warehousing and fleet management, to help the WFP respond to emergencies such as those that have occurred in Iran, Chad, Liberia, and Haiti. This is a good example of making the best of the scale and capacity of a global business, and one that can be replicated widely.

While there are well established frameworks for regulation and standards operating in many countries and regions, there are far fewer at the global level, for example in the areas of intellectual property, investment protection, and environmental issues. National laws are sometimes not well enforced in areas such as labor rights or environmental practices, and those who choose to adopt rigorous global standards have to compete with those who do not. Progressive businesses have an interest in creating frameworks that will encourage laggards to improve their standards and create a level playing field for ethical, environmental, and social standards.

So having been the agents of globalization, how do businesses handle the obligations it brings? Our answer is clear. First, we must reclaim the concept of globalization as a force for good. We need to demonstrate how the increase in trade and interdependence has benefited communities and customers worldwide. Second, we need to work with governments and international bodies to create new or improved frameworks at the global level. Third, as we handle "globalization on the ground", in situations where global companies come into contact with local communities, we must ensure the encounter is a constructive one in which the companies are sensitive to local concerns and the communities are enriched by their interaction with major companies.

"In my view free trade is in the interest of all, because in the end it leads to more economic growth and thus wealth, jobs and prosperity. In the process there will always be groups that will benefit more than others, but on the whole the direction is the right one. In this respect it is significant to remind ourselves of the fact that the current round of world trade negotiations is called the Doha Development Round, and not without reason."

Antony Burgmans, Chairman, Unilever

Moving operations and jobs

Globalization-on-the-ground issues can be very challenging, one example being that of moving operations and jobs. Many companies are finding that they wish to move activities to locations where labor rates are more competitive, typically closing operations in North America or Europe and transferring them to Asia or Latin America. The challenge is to undertake such change in a way that it both creates new jobs and value and mitigates the negative impacts of closure. This tends to involve investment in communities to ensure that they remain centers of enterprise when the large company leaves. In Scotland, Alcan began preparation for closing a 91-year-old smelter six years before it closed,

donating land to the village and helping create alternative jobs.

We often need to work with local authorities in order to smooth the transition for the local economy. In Norway, facing competition from low-cost Chinese imports, Norsk Hydro closed down primary magnesium production at the Porsgrunn Industrial Park, the country's largest industrial site. The company sought to minimize the consequences, including working with the government to attract other businesses such as a solar panel manufacturer to use the site and recruit among the redundant workers.

Global sourcing

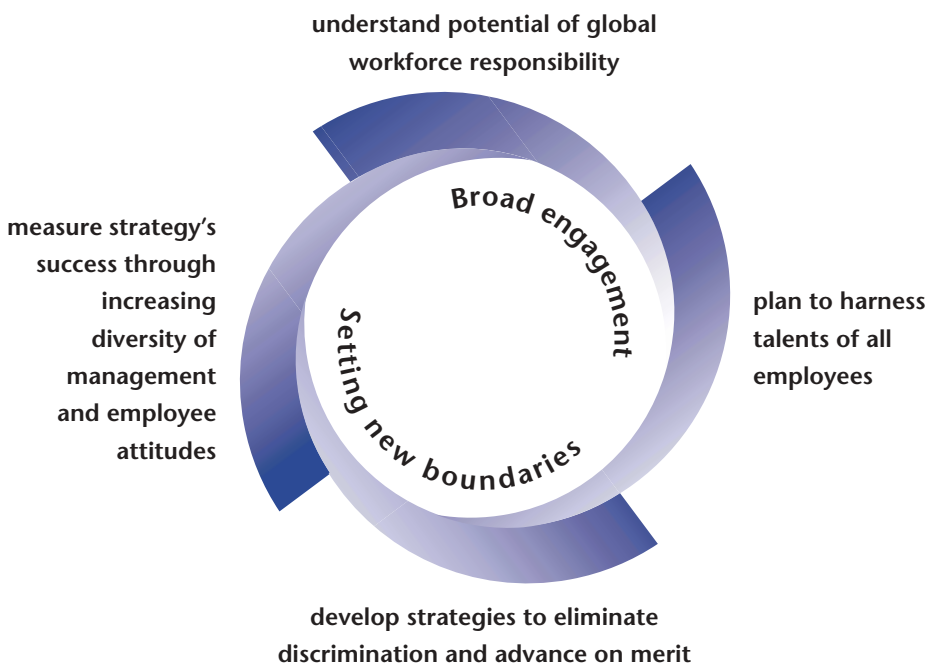
Global companies can turn globalization to the advantage of poorer communities by integrating them into global supply chains. Car seats and headrests made by DaimlerChrysler use coconut fibers grown by farmers in Brazil's Amazon region. Benefits have included a 5% cut in production costs and an increase in average family income in the area from US\$ 36 to US\$ 300 a month.

Once global supply chains have been established, it is necessary to ensure that all participants adhere to social, environmental, and human rights standards. Finnish paper group UPM-Kymmene produces maps to show that its products are not derived from illegal logging in Russia. Novo Nordisk

uses a questionnaire to evaluate suppliers' environmental and social performance. Shell has a "primer" to educate managers about child labor.

Local managers may be unfamiliar with global standards. Progressive companies will train local employees in order to build local capacity rather than importing managers from elsewhere. As Lafarge worked in a joint venture with a Chinese corporation to build the Chengdu cement plant in southwest China, it trained local personnel to manage the plant to global standards, despite many safety, environment, and management practices being new to the local industry.

Leading a global workforce



Questions for discussion

- What are the principles to observe in developing a global supply chain, particularly when entering or leaving markets?
- How can business reconcile global principles with diverse local cultures that have a mixture of traditions, business practices, governance models and economic and political systems?
- How far should companies go in using their transnational capacity, reach, and experience to help address global issues, for example by engaging in efforts to set global standards or improve global institutions such as the UN? Do we go far enough in making the most of our capabilities?



Frank Dassler
General Counsel, adidas-Salomon

A few years ago, we would not have considered the direct involvement of an NGO in investigating labor rights issues in supplier factories. Confidentiality agreements with our suppliers could have been affected, and issues that might have been identified during investigations could have generated massive public exposure. It also would have meant significant efforts in convincing factory owners to give these groups access to the factory and allow them to talk directly to workers or check records.

However, in 2004, following ongoing dialogue and trust-building measures with a particular NGO, an agreement was reached

to allow the NGO to enter the supplier factory as a third party to investigate any violations of labor rights. All parties accepted that there was a need for greater transparency, establishing the root cause of any difficulties, and bringing about lasting change.

A pre-condition of the NGO's involvement was to make public its findings. The involvement of a capable NGO contributes to a more stringent remediation of any difficulties, although we have to acknowledge that increased transparency may result in increased public exposure.

A handwritten signature in black ink, appearing to be 'J. S.', written on a light-colored surface.



Idar Kreutzer
CEO, Storebrand



Storebrand has been engaged in socially responsible investments (SRI) since 1995, including best-in-class analyses and negative screening (avoiding the worst performers). When assessing its investments in companies, Storebrand applies a "minimum decency" standard, ensuring that its investments are free of human rights violations, corruption, production of landmines, cluster munitions, nuclear weapons, tobacco, and the 10% worst performers of eight high risk industries.

When it comes to SRI, Storebrand Life Insurance is among the leaders in its industry.

Storebrand recently decided not to enter into an investment product with the potential to assist developing countries. This would have involved investing in "emerging market debt", chiefly bonds issued by governments of emerging and developing economies. In line with its usual practice, Storebrand investigated the records of the countries involved to assess whether the investment would be a socially responsible one. After

considerable research, we found that none of the investment suppliers could provide SRI screening, and thus it was not possible to guarantee that the emerging markets fund invested only in countries that could meet the same minimum decency threshold.

Storebrand's dilemma is that our underlying desire to do business in a way that supports the population in developing countries is frustrated by concerns over the possibility of human rights abuses or corruption.

The Storebrand board was not prepared to jeopardize the company's integrity or reputation by offering a product that did not meet SRI criteria. But the board also realized that few other investors have taken SRI activities to the same level as Storebrand. Storebrand decided not to invest in emerging market debts until we can find investment suppliers with sufficient SRI criteria. At the same time, Storebrand seeks to challenge all our investment suppliers to develop SRI criteria.

A handwritten signature in black ink, appearing to be 'Idar Kreutzer', written in a cursive style.



What next?

Lessons and next steps



As we review the experiences that companies have had in addressing these global signals in their work, we see some common approaches. It is through studying these that we developed our model for aligning the interests of shareholders and society.

In this final section we look at the **practicalities of the model**, examining the challenges involved and asking how far companies have already progressed and where the future challenges lie.

We also examine some of the **basic business disciplines** that companies need to adopt this model in their day-to-day activities.

The practicalities of the model

The practical challenge raised by our model is to find ways to fulfill our role and purpose as businesses while helping to resolve social and global issues.

Understanding the issues

This can only happen if we understand how societal signals affect our companies and sectors. That is where our model starts.

It is relatively simple to develop a general understanding of the trends. The tougher task is to gain an in-depth understanding of how key external signals affect an individual business.

Such an understanding can only be developed if corporate leaders drive the endeavor. It requires sophisticated capabilities in strategic assessment and risk analysis. Teams must not simply be assigned traditional business planning, taking a relatively limited view of market data, but must plan in a holistic sense, looking at societal issues at the same time as immediate commercial considerations.

The necessary understanding cannot be developed solely by desk research. Companies must engage in dialogue and listen to many groups, including their own employees, NGOs, local communities, governments, and experts. Some multinationals that market household goods in emerging markets develop their products and marketing strategies “on the ground” as they live and work among potential consumers.

The examples we have reviewed indicate that many companies are developing a deeper understanding of global signals, although there is much more ground to cover. The experience of P&G in marketing the water purifier PUR demonstrates the need to understand not only where a potential market exists but the levels of awareness among customers in that market. It also shows the value of engaging with NGOs and other experts.

Our environmental examples show that companies have come a long way in



understanding how eco-efficiency can reduce energy-related emissions and costs in their operations. Many are now working to understand how sustainability can actively drive product development, rather than simply providing a filter.

Storebrand's consideration of an emerging market debt product shows the need to develop new criteria to determine whether investments in countries as well as companies can be socially responsible.

Finding the opportunities

Translating understanding into opportunities is the most important single factor in aligning company interest with public interest.

Win-win situations are rarely obvious. They need to be discovered through skilful analysis, creativity, and a degree of trial and error. Businesses need to look for opportunities that harness their core competencies, being prepared to invest in trials, tests, prototypes, and experiments to find sustainable solutions.

An initiative such as Delta Coffee's Delta Timor brand requires excellent marketing to turn a premium fair trade product into a market success, as well as significant commitment to work with coffee growers in a poor, remote country with a legacy of conflict. A project such as Grupo Nueva's support for education in Chile was a highly

unusual move: a forestry company becoming a player in public education. However, the company's boldness is being rewarded through higher basic skill levels among new employees as well as enhanced reputation.

Shaping the strategy

Courage is required to integrate such opportunities into the business strategy. There are several ways in which strategies can be built around a product or service that delivers social benefits. Some strategies center on differentiation, aiming to offer a superior product or service with a distinctive brand. Other companies offer low-cost, no-frills products. Some seek to win by pre-emptive moves, gaining first mover advantages such as customer loyalty. Others focus their product on a specific segment or geography, while some look for synergies, enhancing value to the customer while reducing costs to the producer.

Part of the management task at this stage is to engage with all those who have an interest in business strategy, including investors, employees, and governments, to explain why business is being oriented to tackle a social or environmental problem.

In some instances, there is no business case for measures dealing with such issues unless company action is matched by government action. Companies seeking to incorporate

socially beneficial work into their strategy may therefore engage in advocating particular policies, pushing the boundaries in search of the best way forward.

Evaluating the performance

A long-term approach requires us as business leaders to make judgments that incorporate long-term measures into our definition of success.

Annual or quarterly financial results tell only part of the story. Social and environmental factors also play a part in any holistic process of performance measurement because a company with a good record in these areas will attract employees, and build trust among current and potential employees, customers, and governments, while a company with a poor record will suffer increasing isolation.

Companies need to design such long-term measures and metrics, explaining to the external world why these are valid as indicators of sustainable value creation.

This can only be driven from the top by leaders who have strong convictions that long-term, sustainable profitability is the key measure of success and that such profitability comes through creating the right products and services for the right customers over time.

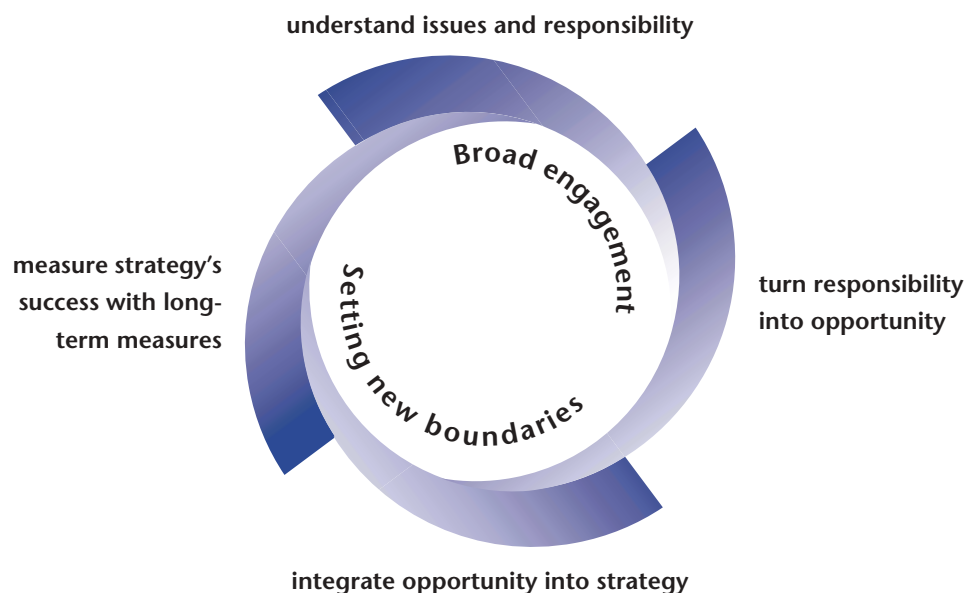
Such convictions should be reflected in the way leaders are encouraged. For example, senior management must be rewarded according to indicators that reflect the long-term sustainability of the company and its environment, as well as short-term profits.

In shifting to a long-term perspective, business leaders must be confident that markets and investors will understand and follow. The signs are encouraging. A survey by Mercer covering 195 fund managers, responsible for more than US\$ 30 trillion in investments, showed that three-quarters believed integration of social and environmental corporate performance indicators would become a common component of mainstream investment processes within 10 years. Already, major investors such as Goldman Sachs, J.P. Morgan Chase, and Merrill Lynch use sustainability screening tools in their calculations. Goldman Sachs has gone further by committing to investing US\$ 1 billion in renewable energy and energy efficiency projects, and is also investing US\$ 5 million in setting up a center to study how the free-market system can solve environmental problems.

Such changing attitudes can be partly ascribed to improved communication by businesses. Great progress has been made in the past decade in increasingly transparent and detailed reporting by companies, embracing environmental, social, and employment issues as well as operational and financial activity.

We do not use these metrics because they represent separate "bottom lines". There is only one bottom line: profit and loss. However, the wider metrics show how well we are likely to perform in maintaining and improving the single bottom line of profit into the long term. The knowledge gained through such measurement then feeds back into a new cycle of understanding and action, starting from a more advanced point.

The sustainability model in practice



Basic business disciplines

Underlying these approaches are a number of basic disciplines to help companies begin using a model such as the one we have outlined.

We see the following elements as the foundation of the organizational excellence that any company will need to operate effectively on an international scale.

Engaging employees

Companies that successfully apply the model outlined here recognize their employees not only as assets but as agents for change. Therefore they need to win their employees' support for their engagement with major issues. This will come in part from seeking out employees whose values are aligned with those of the company. In turning challenges into opportunities, companies need to tap into the creativity and innovation of employees at all levels, from the plant floor or service center to the boardroom. For example, trade unions and associations have varying degrees of influence in different companies as representatives of employees, and global companies will need to find ways to engage with representatives of their workforces worldwide in an equitable and value-creating way.

Promoting inclusion

As companies become global, their workforces become more diverse, representing more and more nationalities, racial and ethnic groups, religions, traditions, and backgrounds. We welcome this as an opportunity to gain access to a wider range of thinking, approaches, and traditions and to broaden the experience and expertise of our people.

In a growing global company it is more important than ever to select, develop, and advance people on the single criterion of merit. Thus companies have an obligation to take action to root out prejudice from their organizations and foster an inclusive culture in which women and men from all backgrounds can fulfill their potential. This approach can be difficult to implement in countries where the prevailing culture and attitudes have not moved toward greater inclusiveness, where, for example, it is unusual to find women in management. Religious diversity also presents a challenge that has to be handled with great sensitivity.

Devolving authority

When companies have operations all over the world, traditional, centralized, command-and-control systems become less viable. It is not possible to refer decisions up management chains, especially when they have to be made quickly. People in headquarters often simply do not know how to implement strategy in detail in local situations.

Different countries demand unique approaches because of the differing expectations of governments and communities. For example, some economies operate a free market model in which businesses are free to pursue their own objectives; others are centrally planned and businesses are expected to act as agents helping to implement plans made by governments.

It is important to maintain consistency to ensure the company functions as one entity with one set of principles. Frequently the best way to reconcile the need for consistency with the demands of decentralization is to devolve authority and decision-making, but at the same time to instill a common set of values across the company via global principles, codes of conduct, or standards.

A set of values that is understood and applied across the company comprises the glue that holds it together. The goal of demonstrating such values in different locations is the best insurance against abuses. For example, adidas-Salomon runs a 30-strong team to maintain consistent standards of engagement across hundreds of factories. Reporting to global benchmarks such as the Global Reporting Initiative also encourages companies to adhere to universal standards.

“Businesses should see investment in environmental or social issues as a form of risk management because of the positive signals it sends to the public and to investors. One direct business benefit of good governance is that it is rewarded in the markets by lower discount rates.”

Andrew Brandler Chief Executive Officer, CLP

Who else?

The need for deeper dialogue



Having assessed the purpose of business, reviewed business experiences, and drawn out common approaches, where do we go from here? What are the next steps in determining the role of business in 21st century society?

In our own companies we will continue to align business and societal interests in the way our model describes, improving our performance with experience.

Meanwhile, there is a need for more purposeful engagement among companies, policy-makers, NGOs, and others. Our analysis highlights the important roles played by other parties in enabling business to fulfill its role.

Governments play a critical part in creating the framework conditions in which business serves society. Business cannot succeed in societies that fail. They require a basic framework of law and regulation, infrastructure, services, and education and healthcare. Beyond these fundamental elements, business depends on a supportive public policy framework.

Governments also help promote environmental, social, and economic sustainability. They create and maintain a level playing field for companies by promoting competition and removing perverse subsidies, including acting together in international trade rounds. They can offer subsidies when needed to incubate key future

industries and smooth necessary transitions as national comparative advantages shift. Public policy tools can be seen in terms of a hierarchy, ranging from voluntary agreements to mandatory measures.

Non-governmental organizations (NGOs) are often trusted by consumers and citizens. They can use their expertise and trust to help create shared priorities among business, government, and themselves. For some time, leading companies have sought dialogue with constructive and engaged NGOs to understand the issues, set priorities, and inform strategy. Increasingly, these companies are also looking for action-oriented partnerships that tap the local knowledge and capacities of NGOs to help implement strategy. Likewise NGOs may have criteria by which they judge companies' suitability as partners. WWF, for example, says that it will "work with companies that demonstrate a real commitment to the principles of sustainability and are prepared to adopt challenging targets for change."

Consumers and citizens use the information available in the market – including that provided by NGOs and other observers - to make choices. They provide the ultimate license to operate. They can damage a company by choosing not to buy its products, or they can build a company's value by buying them. The extent to which companies will be prepared to invest in addressing global issues will be influenced by the impact this

investment has on their sales, profits, and market value. This is one reason why it is important for business to enter the debate and provide the public with a realistic picture of what we are already doing and what we want to do in the future.

Shareholders and investors provide the funds for companies, and there is a continuing need to create value for them as we fulfill our purpose of improved goods and services for increasing numbers of customers. Our commitment to sustainability and social progress should not depend on the approval of the market, but we should explain our thinking to interested investors, demonstrating how we seek to create value. Businesses need to satisfy shareholders on a short-term basis irrespective of whether the shareholders have an interest in longer-term issues. However, if business leaders are courageous in explaining their strategies to create long-term value, and why these are linked to driving social progress, then investors will increasingly value such factors in their investment decisions.

Engagement delivers results

In the past few years engagement between companies and other actors has led to some important voluntary initiatives such as the Extractive Industries Transparency Initiative. Another, the Marine Stewardship Council, was set up by a company, Unilever, and an NGO, WWF, and today is an independent body supported by many companies and NGOs. Such voluntary multi-stakeholder initiatives demonstrate progress. It is time to enter into more fundamental dialogue on the roles of the different actors in creating the conditions for business to fulfill its potential – effectively extending our model to encompass the roles of others.

We need to discuss how workable global frameworks and standards can be created. How can we encourage the development of

sustainable technologies before they become commercially viable? How can businesses use their transnational capabilities to serve social objectives? How can NGO expertise help open doors for business to enter new areas where it can deliver benefits for society?

Many of the challenges we face can only be overcome by cooperation. No one player can solve the problem alone because each has different strengths and weaknesses.

Business has capacity but no democratic mandate and often limited trust. Governments have a mandate but not the same capacities as business. NGOs enjoy trust, if no formal mandate. They tend to have high levels of expertise but low levels of resources.

However, together we have all of the ingredients to take on the world's main concerns, and if we work together we can manage these concerns at a new and more effective level.

This is why partnership is so important. As Einstein said: "Our present problems cannot be solved at the level of thinking at which they were created."

Business will continue to provide goods and services that people need, but the extent to which we simultaneously deal with the major global issues of the next few decades depends on our success in achieving clarity and consensus about our purpose and role.

While there are many unknowns, we are united in the view that the questions we face will only be resolved if we continue to share our toughest challenges, explode myths, explore trade-offs, examine roles and responsibilities, and clearly communicate our expectations for others and for ourselves. Above all, we must continue to engage in dialogue. We look forward to your responses to this paper.

The global debate

Insights from around the WBCSD

■ “Business is a political actor: it can and should talk about politically important matters. Silence on these issues sends an equally strong signal that these matters are unimportant to business.”

■ “Business cannot afford to ignore the dilemma that on the one hand outsourcing work to developing countries helps those economies to grow, it can be seen as exporting jobs in the areas businesses leave.”

■ “Business has so far not been active in issues around immigration and emigration, but these are important aspects shaping business in tomorrow’s society.”

■ **Wilton Park discussions**
Key stakeholders debate the role of business with BP and Tomorrow’s Company in autumn 2005.

■ **USA “Friends of WBCSD”**
A small group of leading companies who have been long-time members of the WBCSD shared views from a North American perspective in autumn 2005.

■ “When we discuss issues of poverty and development, are we staying in ‘safe’ arenas, not addressing more controversial issues such as wealth transfer or population control?”

■ “Fundamental to the debate is the fact that only business can create wealth; others simply redistribute it.”

USA ●

Mexico City, Mexico ●

■ “In assessing business opportunities relating to poorer countries with fast growing populations, we must ask not only what companies could bring to the countries, but what the countries want from business – effectively assessing demand.”

■ “Large businesses can contribute to poverty alleviation by supporting the creation of micro, small and medium enterprises, for example by including them in our value chains. As a society, we also have to consider incentives for bringing more enterprises into the formal economy.”

Bogotá, Columbia ●

■ **South American Business Leaders**
Business leaders from Colombia, Argentina, Chile and Mexico shared priorities with GrupoNueva in regional dialogues in autumn 2005.

■ “Global business should adhere to global standards but be pragmatic in applying them.”

■ “In Chile, the biggest issue to tackle is inequality. Business’s role in managing this issue includes providing good quality jobs, promoting entrepreneurship, and supporting education.”

Santiago, Chile ●

● Buenos Aires, Argentina

■ “In Colombia poverty is clearly the number one issue for business to tackle. Business should pursue commercial opportunities among poor communities while also supporting voluntary work by employees and forming strong links with credible and experienced NGOs.”

■ “Some companies are really beginning to feel enthusiastic about poverty alleviation, taking significant initiatives, without waiting for the government to do so. But a word of caution: do not lose focus, our mission is to generate value for shareholders. We must find ways to create value for society and the shareholder.”

■ "Proactive companies need to continually go above and beyond minimum regulatory requirements, and to find ways to deliver value in doing so."

■ "When I saw companies like General Electric and Toyota, with their Ecomagination and Hybrid car (Prius) business models ... I saw action, I saw someone walking. I started to believe."

■ Norwegian Roundtables

Key Norwegian stakeholders shared views with Storebrand on the business role during two sessions: one on poverty and one on the environment in spring 2005.

● Oslo, Norway

● Wilton Park, UK

● Geneva, Switzerland

● Montreux, Switzerland

■ WBCSD Regional Network

Some of the 55 national and regional BCSDs around the world shared views on the importance of local insights and sensitivities at the WBCSD Liaison Delegate Meeting in autumn 2005.

■ "We need to combat corruption, as this can be a cause of poverty and a barrier to economic development."

■ "Be careful not to treat the 'developing world' as a homogenous mass. The needs of different countries and districts are very different. Each needs to be understood and addressed in its own way."

■ "Business needs to recognize the 'growth versus environment' dilemma emerging economies are facing. This makes it essential to support all initiatives taken by major emerging economies, such as China and India, to limit the environmental footprint resulting from their growth."

■ "In my opinion without doubt sustainable development has to become an integrated part of the way we do business, of the way society operates and of the way we live our day-to-day lives. However, I'm convinced that there is no 'one solution' to these many challenges."

■ WBCSD Young Managers Team

Twenty-six "high potential" candidates from WBCSD member companies challenged the role of business from a "younger" perspective in a series of three dialogues during 2005.

■ "As a young professional I represent what the company will be in the future and it is important for me to know that I work for a company that walks the talk. I believe that my company is doing the right thing."

■ "When I first heard Polman from Procter & Gamble explaining that bringing some water to poor African people could be good for his business, I was initially shocked. But then I realized that I had to leave my generous utopias and face such win-win solutions that could really work in a real world."

● Nagoya, Japan

■ WBCSD Council Members

About 80 WBCSD Council Members debated major dilemmas facing business in tomorrow's society at the WBCSD Council Meeting in spring 2005.

■ "Business needs more aggressive marketing to create demand for sustainable products. But remember, in some countries 'sustainable consumption' means 1,000 calories a day."

■ "Companies have an obligation to fulfill commitments. However, implementation can be a real challenge. Sustainability champions are like gladiators in a ring. With lots of fans, sympathizers, but very few comrades-in-arms."

The longer story

Other WBCSD publications on business approaches to key issues

Poverty

For more WBCSD examples of how business is working to stimulate growth and market its products in developing countries and areas of poverty, see the reports produced by its Sustainable Livelihoods working group, including *Business for Development*, which outlines the roles business can play helping achieve the Millennium Development Goals, and its trilogy *Doing Business with the Poor*, *Finding Capital for Sustainable Livelihoods Business*, and *A Business Guide to Development Actors*. The WBCSD's on-line video library provides examples of business models at work on the ground and interviews with CEOs, who explain their vision of what business for sustainable livelihoods means to their companies.

Environment

The WBCSD has done extensive work on environmental issues over the last decade. More than a dozen publications on eco-efficiency have addressed issues such as resource constraints, pricing externalities, policy tools, and measuring and reporting progress. Similarly innovation & technology work over the years has explored issues such as managing for innovation, maintaining effective property rights, and technology transfer mechanisms. The WBCSD has also channeled business thinking around theme-specific issues such as energy and climate. This has been an important platform for policy advocacy on international frameworks to address climate change, in addition to development of tools such as the *Greenhouse Gas Protocol*, an initiative to create internationally accepted accounting and reporting standards for greenhouse gases, and *Pathways to 2050: Energy and Climate Change*, which sets the scene for a less emotional, more factual debate around future energy solutions. Water is another area where the WBCSD has established leadership. Most recently it has explored the business case for water management through *Water Facts & Trends 2050* and *Collaborative Actions for Sustainable Water Management*. It launches global water scenarios in 2006, laying out possible futures for business and water in a

societal context. The WBCSD continues to promote business leadership in ecosystems, building on past work exploring business and biodiversity in partnership with groups such as the International Conservation Union (IUCN) and EarthWatch.

Population

For more examples of how business is managing in different parts of the world with increasingly diverse workforces, see the WBCSD's work on corporate social responsibility. The Council's efforts in this area since 1997 show the benefits for all of focusing on the individual and putting employees first – as assets, agents, and ambassadors. In recognition that employees can be the greatest driver for good corporate practice, the WBCSD also provides a platform for Learning by Sharing among companies and tools such as *Chronos* for capacity building both within companies and with key stakeholders. For examples on how business is working with issues around population, in addition to the Sustainable Livelihoods work, see *Tomorrow's Markets* (WBCSD/WRI), and more recent work on sustainable health.

Globalization

Other WBCSD efforts on globalization include recent work on accountability & reporting, which explores value creation in companies that go *Beyond Reporting*. It also provides an issue management tool that helps companies make strategic choices in the selection and use of external corporate responsibility codes, standards, and frameworks. The WBCSD has explored themes of the global market economy in *Global Scenarios 2050*, *Sustainability Through the Market*, *Tomorrow's Markets*, and *The Business Case for Sustainable Development*. The WBCSD Regional Network ensures a truly global picture of all WBCSD work. The WBCSD also acts as adviser and business representative to a number of multilateral institutions focused on issues of globalization, such as the UN, World Trade Organization, OECD, and World Bank.



CD-ROM: double click "start.exe" to launch video
Also view on-line at www.wbcds.org/web/leaders.htm

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