Embedding Sustainability

The sustainability agenda:

Industry perspectives*

*connectedthinking

PRICEWATERHOUSECOOPERS

Contents

‘This agenda of sustainability and corporate responsibility is not only central to business strategy but will increasingly become a critical driver of business growth....I believe that how well and how quickly businesses respond to this agenda will determine which companies succeed and which will fail.’

Patrick Cescau, CEO of Unilever

The Sustainability Agenda

Many in business have long viewed sustainability — efforts to avert climate change, for example, or to improve education in underserved neighbourhoods — a matter of corporate philanthropy, with no relevance to their corporations’ core strategies. The costs of such activities were seen as detracting from profitability and accounted for on a public relations line under marketing; their scope was limited but they were promoted with considerable fanfare.

However, this perspective has changed. Corporations have come to understand that their abilities to prosper hinge upon their responses to the challenges of a carbon-constrained world and an array of other issues on the sustainability agenda. Instead of seeing efforts to increase fuel efficiency in operations and to ensure that suppliers in emerging markets provide safe working conditions for their employees as costs, corporate leaders now see these initiatives as investments in opportunities to operate more efficiently and secure a dependable supply chain. The Economist Intelligence Unit (EIU) found in a survey that 57% of top executives believe that the benefits of efforts to achieve sustainability outweigh the costs

Findings also confirm sustainability’s rise on the corporate agenda and its link to competitive advantage. Fifty-three percent of executives surveyed by the EIU say they have coherent sustainability policies. The same percentage reports that responsibility for sustainability in their organisations has been placed at the CEO or board level.

Yet, businesses know there is much more to be done. For example, only 6% of the companies surveyed by the EIU rate themselves as outstanding in reducing emissions, waste and pollution. And only a third of the executives surveyed worldwide say their sustainability policies extended to their supply chains.

While the global challenges related to sustainability are manifest, defining how businesses can meet the challenges can be daunting. Sustainability can encompass a broad range of issues that affect business — from pollution and climate change to education, poverty, health and human rights. It involves a connected world with a broad range of stakeholders—from employees and communities to governments and NGOs. And it includes operations in parts of the world with differing jurisdictions, regulations and standards of practice. Not surprisingly, businesses often wonder where to begin.

What is the sustainability agenda?

The sustainability agenda begins with making a commitment to incorporating social, environmental, economic and ethical factors into a company’s strategic decision-making. It extends to evaluating how these factors affect the business — including all of its stakeholders — and what risks and opportunities these factors present. Finally, the sustainability agenda asks businesses to adopt measures to mitigate risks and take advantage of opportunities

‘The most frequently cited benefits that firms expect from sustainability policies relate to improved business outcomes: the ability to attract and retain customers (37%), improved shareholder value (34%) and increased profits (31%).’

Economist Intelligence Unit Survey, Doing Good: Business and the Sustainability Challenge, 2008

The sustainability mindset

Most forward-looking businesses understand that the traditional trade-off between sustainability and profitability is an outmoded perspective. They know that operating sustainably is a mindset with a focus on the creation of long-term shareholder value. That means adhering to the fundamental tenets of good entrepreneurship — identifying the changing needs and demands of society, and responding with successful business models. Business leaders who operate sustainably recognise that social, environmental, economic and ethical factors affect their core business strategies. These leaders evaluate the spectrum of sustainability issues and respond by mitigating risks and leveraging opportunities.

They also understand that the sustainability agenda requires working collaboratively with all stakeholders — from suppliers and customers to employees, shareholders and governments. In PricewaterhouseCoopers’s 11th Annual Global CEO Survey, conducted in 2007, 82% percent of CEOs said that governments should take more of a leadership role in addressing climate change, and 73% said that businesses needed to collaborate with industry peers and business partners to mitigate climate change. Indeed, in a connected world, a company’s success rides on the practices of its network of suppliers, distributors, service providers and retailers — in terms not only of efficiency, but also of reputation. One weak link could be costly for the entire network. And the sustainability agenda shapes both efficiency and reputation.

Assessing risks

There are at least four broad categories of sustainability-related risks:

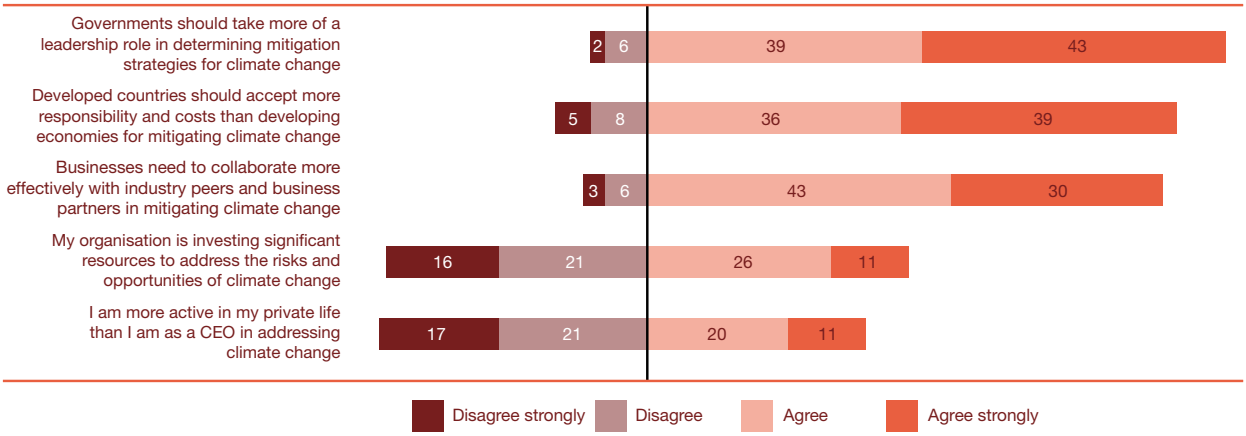
- **Scarcity of raw materials** – raw materials, including everything from fossil fuels and minerals to food and water, are finite and scarcity is now a fact of life on the planet. Look no further than recent rises in the prices of commodities ranging from oil to wheat, both of which hit all-time highs in 2008, for evidence that demand for natural resources is creating scarcity. It has been estimated that if the world population consumed at the current level of member-countries of the Organisation for Economic Co-operation and Development (OECD), the rich nation’s club, at least two more planets would be required to support them. Without such an escape route, the increasing scarcity of raw materials pushes up costs that, in turn, exert pressure on margins.

- **Regulation** – new regulations are placing a cost on business necessities that have been free or inexpensive, such as water, air and waste disposal. The accelerating trend of governments placing a price on carbon dioxide emissions is the most prominent example. This trend may have an impact on a company’s suppliers, a company’s own operations as well as on the products it sells.

- **Reputation** – a company’s reputation turns on its compliance with a broad range of social, product quality and other expectations, as well as with explicit laws and regulations. A business may be operating within legal boundaries but can be punished by stakeholders whose values may be affronted if, for example, the wages a company pays its production workers do not constitute living wages or if safety conditions are deemed inadequate. Or a local employer could arouse resentment and endure sharp criticism if it moves operations, and jobs, offshore. Companies can also seriously impair their reputations if they are linked to bribery or corruption. A flawed reputation for environmental, social or ethical factors can jeopardise a company’s image amongst consumers—as well as in the pipeline of top talent.

- **Climate change/Physical risks** – hurricanes, flooding, droughts and other environmental events made more extreme by warming oceans and climatic change can destroy manufacturing plants or transportation infrastructure, disrupting supply chains as well as production, and escalate insurance costs.

CEOs clamour for government leadership in addressing climate change, but they also recognise the value of business collaboration



Q: To what extent do you agree or disagree with each of the following? (Base: All respondents 1,150)
Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

Large companies are more likely to agree or agree strongly. They are investing significant resources to address the risk and opportunities of climate change while CEOs in developing nations put greater emphasis on government leadership

	Region					Revenue size			
	CEE	Latin America	Asia Pacific	Western Europe	North America	Over $10 billion	$1 billion to $10 billion	$100 million to $999 million	Less than $100 million
Governments should take more of a leadership role in determining mitigation strategies for climate change	87%	87%	90%	76%	64%	80%	81%	78%	87%
Developed countries should accept more responsibility and costs than developing economies for mitigating climate change	76%	88%	75%	71%	61%	65%	73%	71%	78%
Businesses need to collaborate more effectively with industry peers and business partners in mitigating climate change	86%	90%	82%	70%	69%	74%	78%	68%	77%
My organisation is investing significant resources to address the risks and opportunities of climate change	27%	40%	42%	39%	28%	56%	47%	28%	31%
I am more active in my private life than I am as a CEO in addressing climate change	29%	38%	38%	28%	23%	18%	27%	34%	38%
Base	86	136	277	454	130	103	281	410	241

Q: To what extent do you agree or disagree with each of the following? (Base: All respondents 1,150)
Source: PricewaterhouseCoopers 11th Annual Global CEO Survey 2008

‘Sustainability is the single biggest business opportunity of the 21st century, and will be the next source of competitive advantage.’

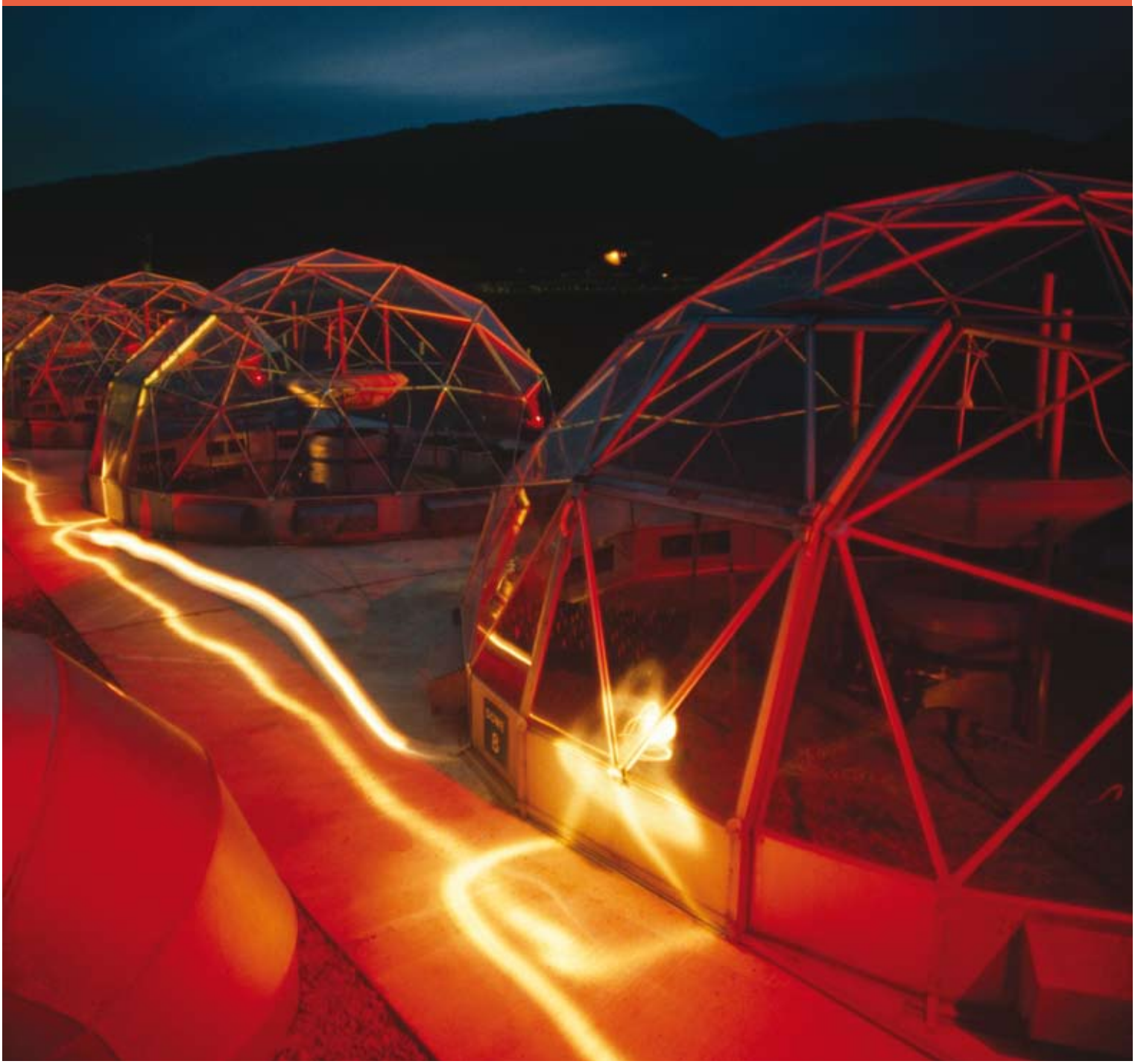
H. Lee Scott, President and CEO of Wal-Mart

Identifying opportunities

Operating sustainably does not only entail containing risks. For leading businesses, assessing the risks that all stakeholders face can yield rich opportunities. The growing number of consumers seeking healthy and sustainable lifestyles constitutes a potentially vast market for new products and services. Consumers’ environmental, ethical and social concerns, for example, mean that their definitions of quality extend to products’ lives before and after their use. They may place a higher value on digital cameras built in plants where workers are protected from toxic components, whose parts are reusable and whose manufacturers take responsibility for the recycling of those parts. Wherever environmental, social or ethical issues can be addressed businesses have an opportunity to innovate, differentiate, create value and attract more customers. They are also opportunities to attract and motivate employees.

Although businesses now understand that pursuing sustainability is a long-term investment, they constantly face the challenge of alleviating shareholder concerns about short-term results that may disappoint because of the company’s longer-term objectives. Their continuing challenge is to clearly communicate that operating sustainably is an inescapable imperative for businesses that aspire to prosper on the only planet currently available to them.

Sustainability issues pose a unique set of challenges and afford a distinct set of opportunities to every sector. The global reach and complexity of supply chains, raw materials required for production, the nature of products and the special characteristics of a company’s workforce all determine which risks play the most significant roles in any given sector, and which opportunities exist. We have highlighted these unique combinations for five key sectors: energy, transportation and logistics, retail and consumer, technology, and banking and capital markets. In each, we’ve also included one or two brief case studies, describing how leading companies, with the help of PricewaterhouseCoopers, have successfully adopted the sustainability agenda.



Industry Perspectives: Energy

The global energy sector is dominated by the fossil fuels whose consumption is inextricably linked with carbon dioxide emissions and global climate change: oil, gas and coal produce over 80% of the world's energy according to the International Energy Agency. As such, energy companies stand on the front lines of the challenges presented by relentlessly rising energy costs and climate change.

Risks

Any company dependent on fossil fuel extraction, processing or delivery clearly faces sustainability risks. While price increases create short-term opportunities, companies must face the challenges of a carbon-constrained world and finite resources to ensure their long-term viability. Indeed, many governments expect energy producers to account for the majority of the reductions sought in carbon emissions. For energy companies, the challenge entails both improving demand and supply side efficiency in order to reduce emissions.

Energy companies also face the risk of the growing scarcity of fossil fuels. Escalating costs arise from the need to explore remote regions and develop smaller scale reserves under adverse and hazardous conditions. Fossil fuels must be extracted from ever more inaccessible geologic formations and deeper waters, and in more environmentally and politically sensitive areas. The exigencies of mounting scarcity exacerbate energy companies' longstanding challenge of protecting the health and safety of their employees working in extreme environments.

In view of these trends, energy companies must respond to the growing demand for clean, renewable energy. Yet, in considering nuclear energy amongst its options, companies face the multiple challenges of public concerns about the dangers of nuclear energy, widespread opposition to large infrastructure projects of any kind, formidable investment and decommissioning costs, and nuclear waste disposal.

Opportunities

The sector has a number of opportunities on both the supply and demand sides of energy production and consumption. Many companies have longstanding, though modest, initiatives in the development of energy alternatives from wind and solar, to fuel cells and tidal. Biofuel additives to transportation fuels are being mandated in the EU and many Latin America countries, with the hope of reducing reliance on gasoline and diesel, adapting the vehicle and fuelling station infrastructure, and seeding new industries in biofuel production and processing. All of these areas will require technologies to advance and capital is indeed flowing towards 'clean tech': venture capital investments in the field rose nearly five-fold from 2005 to 2007, according to some estimates. In addition, the payoff for significant advances in the area of carbon capture and storage could be substantial.

On the demand side, energy companies can invest in the development of innovative programmes to encourage and enable businesses, governments and individuals to reduce their energy consumption. Under one such new business model, companies guarantee energy supplies at a fixed price to customers, undertake a range of efficiency measures for their operations and then split the resulting savings with them.

‘If you want to continue to succeed as an energy company in the coming decades, you need to understand and meet people’s expectations for environmental and social performance, as well as delivering solid technical and financial performance. That means putting solid business principles, including sustainable development, at the heart of how you do your business.’

Jeroen Van der Veer, CEO of Shell

Case study

A major European electric utility that planned to diversify its energy production and build a renewable energy division conducted extensive due diligence when it considered the acquisition of a small waste-to-energy biogas company. The due diligence included an analysis of the current and potential market for biogas, as well as of the target company’s environmental and operational status. The market analysis took into account anticipated legislation, market conditions and consumer preferences. In analysing the target, the utility reviewed sustainability factors and how they related to performance and financial measures. Following the due diligence, the utility acquired the company, its first major investment in renewable production. The biogas company will form the cornerstone of the utility’s new renewable division, a long-term strategic initiative. The utility expects the division to be a major growth area, although it is not expected to be a significant contributor to revenues for many years. The acquisition, however, received wide and favourable publicity.

Case study

In response to a number of environmental and safety incidents and the need for better performance and management information, a major oil company sought to improve how it monitored risks across all facets of its business—upstream and downstream — including pipelines, terminals, upstream production, and refining and marketing. The company inventoried and analysed its history of environmental and safety incidents across its operations. From that inventory it developed a system of identifying risks and instituting controls to limit those risks. The risk controls established maximum and minimum tolerable performance measures, both leading and lagging, to help the management team understand where issues exist and where risks could potentially manifest throughout the organisation.

Questions to consider:

- Can you be sure that your overseas operations do not become a liability in terms of your reputation?
- What investments are you making in non-fossil fuel energy sources? What is the timeframe for commercialization and how realistic are the prospects?
- Will new energy sources or technologies change how energy providers, distributors and consumers work with one another? Are you preparing for that future?

Industry Perspectives: Transportation and Logistics

Aside from the energy sector, the transportation and logistics sector is arguably the most directly affected by the accumulating regulatory demands to curb greenhouse gas emissions and the rising costs of fossil fuels. The transportation sector accounts for almost 60% of energy consumption in OECD countries and over 40% in non-OECD countries, according to the US Energy Information Administration.

Risks

To a large degree, the transportation and logistics industry faces the same risks on climate change and energy prices as the energy sector. Hedging strategies can partially mitigate the risks of energy costs but ultimately some risks will need to be borne.

However, the sector also confronts the challenge of safely transporting dangerous chemicals and toxic substances over long distances including through densely populated neighbourhoods and environmentally sensitive areas. In addition, the industry has to address the task of minimising its other substantial environmental impacts: noise and air pollution.

Opportunities

Reverse logistics represents a major area of opportunity for transportation and logistics companies. Reusing or properly disposing of not only their own equipment and vehicles, but also the products of customers, is a rapidly growing business to companies in this sector.

Transportation and logistics businesses that take a leading role in deploying energy saving and alternative energy driven vehicles, aircraft and other modes of transportation also stand to gain an advantage over competitors in cost savings, public relations and regulatory compliance. UPS recently announced orders to expand the use of hybrid-electric and compressed natural gas trucks in its delivery fleet. Players in the sector may further gain an edge by redesigning distribution patterns to reduce distances travelled and by innovating systems for operating vehicles more efficiently. FedEx uses route planning software to map out maximally efficient routes. Other companies have realised significant savings simply by training drivers on more energy efficient driving habits.

There are also opportunities for product innovation. One country's postal service, for example, offers carbon neutral delivery options such that it charges a small premium for parcel delivery in exchange for the promise that it will buy carbon credits in energy reduction efforts elsewhere that offset the carbon used in the delivery of the posted item.

‘Two-thirds (66%) of transportation and logistics CEOs are worried about the potential threat to business growth as a result of increased carbon emissions regulation.’

PricewaterhouseCoopers 11th Annual Global CEO Survey

Case study

In response to stakeholder requests, a major rail transportation and aircraft company undertook a variety of corporate responsibility initiatives. Its goals in doing so included improving business processes, improving employee health and safety, reducing the life-cycle cost of its products, managing energy consumption, and improving stakeholder engagement. It instituted a global corporate responsibility programme, committed itself to achieving and maintaining a listing on the Dow Jones World and North America Sustainability Indices, and became a member of the United Nations Global Compact. Its major achievements included the adoption of a code of ethics for suppliers. The overall initiative has enabled the company to publicise its corporate responsibility commitments, market the environmental advantages of its transit solutions to municipal and private customers, and improve stakeholder engagement. On the basis of that success, the company now plans to undertake sustainability reporting, an analysis of the carbon impact of rail transportation versus other modes, and the formulation of a carbon and energy management strategy.

Case study

A major river transportation company sought to promote the inland river transportation infrastructure in Europe and to build government support for canal projects. It conducted market surveys to determine the expectations of customers regarding sustainability, and competitive analyses of the impact of canal transport versus road and rail transport from a sustainability perspective. It also conducted a comprehensive assessment of the carbon-emissions benefits of a new transnational canal it was building. The company drew on these findings to make the case for inland river transportation’s contributions to sustainability before public authorities.

Questions to consider:

- How are you managing the risks that stem from volatile energy prices?
- What do you know about the future preferences of your strategic clients?
- Are you investing in more energy efficient vehicles?
- Do your operations have other impacts, such as noise or emissions or the transport of hazardous substances, that could become a concern for stakeholders?

Industry Perspectives: Retail and Consumer

That sustainability has become a part of the global zeitgeist became abundantly clear when An Inconvenient Truth, former US Vice President Al Gore's documentary on global climate change, won an Academy Award in 2007, and when Gore and the United Nations Intergovernmental Panel on Climate Change followed up with a Nobel Peace Prize later that year. Awareness of sustainability has never been higher, and consumers around the world are factoring sustainability into their purchasing decisions. This has ramifications for all consumer-facing businesses.

Risks

Companies that do not respond to consumers' growing demand for LOHAS (lifestyle of health and sustainability) products risk losing a significant market. Consumers' interest in sustainability also means that retail and consumer companies face a broader challenge in protecting their brands since their brands now represent a more sweeping promise. Now, companies must not only ascertain that their products are uniform and free from flaws and contamination, but also stand by commitments concerning health, safety, ethical and environmental standards along the full length of their value chains. If companies are found to be polluting streams with industrial waste, endangering workers in plants that do not meet safety codes, or inflicting unnecessary pain on animals, their brands can be seriously harmed. Companies in this sector must be vigilant about these issues not only in their own operations but also in those of their suppliers.

Climate change also presents significant risks to business continuity. Flooding, droughts and more violent storms attributed to global warming can disrupt the production of raw materials as well as distribution centres and retail operations. Natural disasters can also block transport of raw materials, parts and final distribution.

Along with calls for sustainability have come demands for transparency and traceability in virtually all aspects of companies' operations. In responding to consumer demand for LOHAS products, companies face the additional challenge of ensuring that the labelling of their products is appropriate and accurate. They must be able to substantiate their claims about the amount of carbon emitted in their manufacturing processes, for example, or the labour standards upheld in their factories. If they cannot, they risk tarnishing their brands as well as regulatory repercussions.

Opportunities

Consumer demand for LOHAS products provides vast opportunities for innovation and differentiation in products that can often command higher margins. Companies can produce a wealth of new products using recyclable or biodegradable materials, for example, including natural fibres to respond to environmental concerns. Similar opportunities exist in the area of product packaging or in the reinvention of the concept of packaging itself. There is also enormous potential to offer a wide range of products that appeal to health and wellness lifestyle concerns.

Still other opportunities exist in the potential to innovate to achieve energy efficiency in store design, transportation, logistics, warehousing and distribution. Achievements in these areas not only improve the bottom line by reducing energy costs, but also enhance brands amongst environmentally-conscious consumers.

‘I am convinced that helping address societal problems is a responsibility of every business, big and small....Financial achievement can and must go hand-in-hand with social and environmental performance.’

Indra K. Nooyi, President and CEO of PepsiCo

Case study

A leading consumer products company was concerned about securing its supply of the top quality beans required for its fast growing and highly profitable gourmet coffees. Only a small proportion of the beans grown worldwide were of sufficient quality for the product. To address a variety of sustainability issues, including ensuring adequate supply, the manufacturer conducts comprehensive assessments of the environmental, social and farm management of the growers of the beans it uses. As part of the assessment, the company sends agronomists to Costa Rica, Guatemala and Brazil, some of the areas where the beans are grown, to teach the farmers how they could use less fertilisers and pesticides, and run their farms more professionally. The assessment enabled the company to pinpoint the most promising new areas in which to expand coffee production and the most efficient practices. As a result of increased efficiency, the company was able to operate with one less warehouse for the high-end beans. In addition, the investment was found to be building loyalty amongst farmers, thereby securing the supply of high quality beans, protecting the company’s reputation and providing the sales force with a compelling story of assisting farmers in emerging economies that would resonate with consumers. The company concluded that the net present value of the programme was a multiple of its cost.

Case study

A global home furnishings company wanted to ensure that all its suppliers operated in accordance with internationally recognised standards with respect to the environment, forestry and social and working conditions. To accomplish this, it developed a code of conduct that defined the company’s requirements in these areas. In addition, the company developed routines and procedures and defined roles and responsibilities for the implementation of the code of conduct. It further developed control and reporting tools and trained its auditors—as well as those of its suppliers, which was no small feat considering the company’s thousands of small suppliers, some located in countries where legal requirements on environment and labour standards are lower than the company’s own. It also conducted visits to randomly selected suppliers to ensure their compliance, to provide recommendations for improvement, and to evaluate the effectiveness of the initiative overall. As a result of these initiatives, the company was able to confidently promote its comprehensive sustainability practices, including those of its suppliers, based on strong voluntary commitments to various global standards and initiatives as well as a deep routed corporate culture of local responsibility.

Questions to consider:

- In terms of reputation, what are you doing to strengthen your supply chain’s weakest link?
- Are you comfortable with the business practices in your supply chain? Do you know them at all?
- How are your consumers’ concerns – and buying habits – changing? Will you be ready to respond? What is your consumers’ buying pattern tomorrow (not today) given the demographic change in major markets and changing preferences?
- Can the carbon footprint of your retail presence be improved?
- Do you have the competency/skills and tools to factor environmental aspects into operational decisions (like merging two factories), i.e. do you know the environmental consequences of such decisions?

Industry Perspectives: Technology

The technology sector's sustainability profile is a double-edged sword. On one hand, the sector holds great promise in terms of changing society's patterns of travel and communication (and thus energy consumption), and bringing economic and social development to disadvantaged citizens. On the other hand, short product cycles lead to high disposability, electronics often consume considerable energy in the home even when not in use, and manufacturing processes are often resource intensive.

Risks

The rapid pace of technological innovation brings with it a relentless accumulation of obsolete products that in turn result in landfills overflowing with mountains of discarded computers, mobile phones, digital music players and video game consoles. The millions of tonnes of technological equipment generated annually pose regulatory, cost and reputational risks for the sector. Governments are considering regulations such as the European Union's 2002 directive on Waste Electrical and Electronic Equipment (WEEE) that places responsibility for disposal of electronic waste on manufacturers. The directive's prohibition of the use of some toxic materials in electrical and electronic equipment and the dictates of the EU's chemical legislation, Registration, Evaluation and Authorisation of Chemicals (REACH), are indicative of a trend that represents another major risk to the sector.

The sector's energy intensity—from the production of major inputs to product end-use—poses further regulatory and cost risks in a carbon-constrained world. So, too, can the sector's consumption of other resources, for example, the water used in semiconductor manufacturing, create regulatory and cost risks.

Opportunities

Technological innovation can transform social patterns of travel and communication and change energy consumption. Video conferencing and telecommuting, by curbing the necessity for daily commutes and especially energy intensive air travel, are prime examples of how technology can radically reduce energy use.

Technology companies also have the opportunity to both enhance their reputations and potentially create new markets by addressing the digital divide by, for example, providing specially adapted low-cost technology in emerging markets.

Still other opportunities reside in being at the forefront of devising energy saving production and material conservation processes, take-back programmes and increased modularity.

‘Business has the prime responsibility to come up with the technologies, the know-how, the products and services, the business models and the management solutions that will help us to meet the sustainability challenges.’

Gerard Kleisterlee, President and CEO of Royal Philips Electronics

Case study

A global electronics and electrical engineering company hoped to actively promote its green portfolio. The company committed to issuing data on the share of its revenue from environmental products, and the emissions reduction consequences of the environmental products it sold. As part of this initiative, the company subjected its reporting to an assurance review on which it received very high marks. The company promptly undertook initiatives to improve on the few deficiencies found, including inconsistencies in the methodology used for determining emissions. As a result, the company standardised its calculations and the reporting of abatements, and took other steps to further improve its environmental programme. Overall, the project helped to raise awareness internally concerning environmental products and made transparent the relevance of these products to strategy and future markets.

Questions to consider:

- What steps could reduce your production facilities’ consumption of energy, water and/or other resources?
- Can your products help consumers lower their carbon footprints? Do positive social outcomes, in education, healthcare or poverty reduction, for example, factor in your product design?
- How can you help reduce the volume of products that end up in landfills – and eliminate the toxicity of products that do end up there?

Industry Perspectives: Banking and Capital Markets

Although the banking and capital markets sector is not energy or raw materials intensive, many industry players have been early movers in the drive for sustainability. From initially pinpointing the opportunities for energy efficiency in their own operations as well as recognising credit-related risks, many have moved on to developing burgeoning sustainability related businesses and ultimately to incorporating sustainability into their branding.

Risks

Amongst the sector's principal sustainability related challenges is credit risk: in certain circumstances, liabilities can be transferred to creditors, thus exposing banks and financial institutions to the sins of their debtors. For example, in some jurisdictions, such as the United States, lenders can become directly liable for environmental problems associated with assets. If the plant of a manufacturer to whom a bank has made a loan is located on contaminated land and the manufacturer declares bankruptcy, the bank is liable for the environmental damage. In the European Union, lenders in such a situation would not be liable. However, if they took as collateral what turned out to be contaminated land, they would incur a loss on the devalued land. Credit officers must therefore look beyond balance sheets and cash flow statements in assessing credit risk.

Opportunities

The sustainability agenda affords sector participants three principal areas of opportunity. The most readily available are those within their own operations. For decades, banks and other financial institutions have realised substantial savings by making their headquarters and company-wide office space energy efficient. They have also maximised efficiency through their IT operations and travel planning. Through such efforts, for example, a leading European bank has saved $30 million annually for more than a decade.

Banks and capital markets have also seized on new products linked to sustainability. These products respond to the new priorities of many investors, including a second generation of wealthy families who are intent on deploying their inheritances in socially responsible ways, institutional investors (pension funds) looking for long-term above-average returns, and sustainable companies looking to deliver on those priorities. Products already with track records include sustainability indices such as the Dow Jones Sustainability World Index, renewable energy funds, water business funds and socially responsible investing (SRI) funds. Further opportunities lie in venture capital financing of alternative energy and other businesses aimed at protecting the environment as well as in carbon emissions trading.

Banks and other financial service players can further integrate sustainability into their core strategy and highlight it in their branding. Institutions that do so stand to enjoy a range of benefits, including a critical advantage in attracting the most outstanding young talent coming into the workforce.

‘The positive correlation between sustainability and financial performance will provide an enormous boost to the sustainable investment sector.’

Markus Knisel, director of Morgan Stanley Private Wealth Management

Case study

A leading global bank recognised that it had not undertaken a globally consistent stakeholder engagement programme to understand what bank employees, NGOs, investors, corporate clients, policy-makers, and other stakeholders sought from the company’s sustainability reporting. The bank conducted workshops in London, New York, Hong Kong and Mexico City, and performed a telephone survey throughout four key regions: Europe, North America, Asia Pacific and Latin America. Stakeholders scored the bank’s reporting on language, clarity, narrative style, layout and structure. They also answered key questions, including: How do stakeholders form an opinion of the bank? Does the corporate responsibility report play a role? What are the key sustainability issues for the bank? What are the key reasons that people read the report? Does it add value? The bank’s findings included that 78% of its stakeholders believed the company’s carbon neutral commitment is important. The workshops and telephone survey also enabled the bank, for the first time, to categorise the views of stakeholders based on type of stakeholder and region. The programme revealed that Latin American stakeholders needed a sustainability report expressly focused on their region. Consequently, the bank committed to producing a dedicated Latin America sustainability report, in Spanish. (A Brazilian report already existed). The bank is also considering a dedicated Asia Pacific report to address stakeholders in that region.

Case study

In anticipation of the implementation of Australia’s Emission Trading Scheme in 2010, the commercial leasing arm of a major industrial products company reviewed what it could do not only to reduce its own carbon footprint, but also to assist its clients in reducing the greenhouse-gas emissions of their vehicle fleets. The company developed initiatives to help customers choose the most carbon-efficient vehicles, taught their drivers to operate vehicles to minimise fuel use and emissions, and offered to manage the servicing of the vehicles so as to maximise their operating efficiency. By offering purchased offsets, the company was able to offer a low carbon fleet solution for their customers. The product pilot was successful and the initiatives have been launched company-wide.

Questions to consider:

- How can you limit your liabilities in your commercial loan business?
- Are you building businesses around financial innovations that promote the sustainability agenda? Will you be a player in carbon markets, for example?
- Are your clients and investors increasingly factoring sustainability in their investment decisions?
- How might regulators encourage industry practices that embrace the sustainability agenda?
- Can the carbon footprint of your retail and office presence be improved?
- Do you know if young graduate top talents take the sustainability performance into account when choosing their first employer?

How PricewaterhouseCoopers can help

PricewaterhouseCoopers works to solve complex business issues – locally and globally. Our teams draw upon skills in finance, regulation, risk, tax, people, operations and technology to design, manage and execute lasting change. We advise and we implement.

When it comes to matters of sustainability, organisations have very specific concerns. To help us respond to our client's requirements effectively and efficiently, PwC's Sustainability practice offers a range of solutions.

We can help clients to:

- Evaluate the strategic relevance and commercial implications of sustainability, including the potential impact on revenues, costs, risk profile and acquisitions. In addition, we provide assistance with the formulation of robust business strategies which include sustainability issues;
- Put a suitable governance, organisational structure and management process in place to capitalise on the commercial opportunities arising from the sustainability agenda, as well as establish appropriate systems for managing the risks;
- Implement sustainable processes and procedures, identify key targets and performance measures, and implement corresponding monitoring frameworks;
- Design reliable management information systems and develop non-financial reporting frameworks;
- Embed compliance with policies and regulations, ensuring that our clients' reporting frameworks are robust, and assure the non-financial information they disclose; and
- Factor sustainability issues into financial market transactions and advise clients on new markets (such as the carbon market).

We take the time to listen to your situation and offer a range of smart choices to consider – choices based on independent and challenging insights, supported by facts and industry benchmarks. For more information please visit www.pwc.com.

Contacts

Global

Thomas Scheiwiller +41 58 792 2810 thomas.scheiwiller@ch.pwc.com

Africa

Alison Ramsden +27 11 797 4658 alison.ramsden@za.pwc.com

Asia

Simon Copley +852 2289 2988 simon.copley@hk.pwc.com

Australia

Liza Maimone +61 3 8603 4150 liza.maimone@au.pwc.com

Canada

Mike Harris +416 941 8256 mike.harris@ca.pwc.com

Europe

Thierry Raes +33 1 56 57 8237 thierry.raes@fr.pwc.com

Japan

Takuei Maruyama +81 90 6491 4397 takuei.maruyama@jp.pwc.com

Latin America

Rogerio Gollo +55 11 3674 3851 rogerio.gollo@br.pwc.com

United Kingdom

Erica Hauver +44 20 7212 6888 erica.k.hauver@uk.pwc.com

United States

Fred Cohen +646 471 8252 fred.cohen@us.pwc.com

pwc.com