CHAPTER 3.

SUSTAINABLE DEVELOPMENT.

“SUSTAINABLE DEVELOPMENT SEEKS TO MEET THE NEEDS AND ASPIRATIONS OF THE PRESENT WITHOUT COMPROMISING THE ABILITY TO MEET THOSE OF THE FUTURE.”

World Commission on Environment and Development (also known as the Brundtland Commission).


Sustainable development is about ensuring a better quality of life for everyone, now and for generations to come (36. Holliday, 2002: 174). Sustainable development has to do with human rights, social justice, economic growth and the protection of the environment. It is clear from the above that this cannot be just a national issue but that for sustainable development to be successful it has to be a world wide effort addressing all three ingredients simultaneously.

As Rushworth Kidder points out (10. Kidder, 2003: 204): “the question is how to protect the natural environment while permitting human development. The very pressure that gives such cogency to environmental concerns also fires the need for development. Will
we promulgate regulations and ideals that enshrine nature’s rights at the expense of human rights?”

The efforts required to sustain our world are similar to those needed to ensure a long and healthy life for business. Although this is not always obvious to, or accepted by, business, I hope this chapter will show the correctness of this assertion. Business has a major role to play in sustainable development, and it should be readily prepared to take up this challenge which is in its own long term interest. Some businesses are major polluters and do not care because the market demands their product and the consumer, in his eagerness to obtain the product, is prepared to overlook the resulting environmental contamination. Only an irresponsible, unethical business would consciously behave in this manner. Governments have a duty to look out for such unacceptable conduct and put a stop to it in the interest of all. The polluting company should be punished, either by a new competitor and/or the consumer or by severe penalties inflicted by government.

Ethical people accept that they have a responsibility for the welfare of both the present and future generations. The obligation arises from Kant’s categorical imperative, namely the duty to treat others as ends not merely as means, to care for others and to refrain from harming them, and to respect their dignity and autonomy, whether they are of this or future generations. Ethical people cannot, in good conscience, ignore protecting the environment, waste limited natural resources or fail to develop the up and coming generations. To ignore these aspects would condemn future generations to untold misery.

Successful business is all about achieving as much output with as little input as possible, and no business can be successful without well educated, motivated and capable people.

25 An extreme example is the debate around the nuclear waste site in Nevada, USA that has already been under preparation for nearly 20 years at a cost in excess of $5 billion and which is to be put into operation in 2010. The waste to be stored there will reach its peak radiation level only after 100 000 years. The Environmental Protection Agency is expected to write a regulation that will protect the safety of humans in the area for 100 000 years from 2010 – a task that is probably impossible to fulfill at this stage, yet it is clearly the ethical thing to do in the interest of future generations. We cannot take actions to-day that militate against future generation’s safety – ethics has a job to do to help find solutions.
But as long as business does not have to pay a fair price for polluting the environment or when resources, education and training are subsidized, business’s bottom line may not be effected sufficiently for it to have a real incentive to act in a way wholly conducive to sustainable development. Subsidization also suppresses realization of the inherent risks and long term dangers and encourages laziness and complacency in finding ways to actively do something in support of sustainable development. In order to ensure a fairer market the authors of the book: *Walking the Talk* (36. Holliday, 2002) recommend that business should promote full-cost pricing. The cost of goods and services ought to include all the economic, financial, ecological and social cost elements. For instance, the costs of pollution by a business and/or its product, e.g., of cleaning up the environment or better, of preventing pollution in the first place (consider the efforts made by the automotive industry in regard to the use of more ecological friendly materials which helps to reduce pollution on scrapping of old cars) and of educating the people it employs (at least a fair portion of school and university fees) should be born directly by business and be calculated into the product price. Under such conditions business would have a proper understanding of the cost involved; it would not have to carry them itself because it could pass them on to the consumer (which seems fair as the consumer would be the main beneficiary); and business would have a real incentive to protect the environment, to conserve resources, to work for social justice and to do so in a most cost efficient way in order to keep prices down and thus be competitive.

In managing business and sustainable development, short- and long- term questions need to be carefully balanced. However, markets and stakeholders are usually less open to long- term realities, and for this reason business must sensitize them to these issues by pointing out the long- term environmental facts, by reporting on what it is doing and intending to do in addressing these matters and drawing attention to the cost/benefit affects accruing to the business over the long term. Transparency, “triple bottom line” (financial, social, environmental) reporting is needed not only for control purposes but also for business to reap the full benefit from its ethical behaviour. While it is easy to measure profitability, it is practically impossible to measure environmental protection and social justice. More work needs to be done to develop meaningful and comparable
reporting standards for these two more esoteric issues. However, this should not be seen as a reason for not attempting to report on those matters in a serious manner.

Sasol Ltd., which is a South African international, integrated oil and gas company with substantial chemical interests has received world-wide recognition for its sustainability reporting.

Sasol’s chairman, Pieter Cox, writes in the company’s Sustainable Development Report 2002-2004 (60. Sasol: 4 and 11) “The result of our efforts has been externally recognized and is reflected, for example, in our improved overall score on the Dow-Jones Sustainability Index, our acceptance on to the JSE Socially Responsible Investment Index, and our receipt of several awards and accolades.”

Under the heading “Implementing sustainable development – a matter of good business” the company states the following: “At Sasol we recognize there are significant advantages to be obtained in increasing shareholder value in a manner that is socially and environmentally responsible, and that contribute to overcoming the legacies of some of our past activities. We believe sustainability practices make good business sense”. The report then refers in some detail to issues such as:

- Identifying and managing risks;
- Complying with legal requirements and fostering trust with the various stakeholders;
- Improving energy and material efficiency, reducing waste and pollution;
- Developing environmentally friendly and innovative products;
- Employing socially responsible practices;
- Improving market share by enabling consumers to deal with companies they respect and whose values they share.
- Being a socially responsible company that displays integrity and motivates its staff;
- Enhancing reputation through ethical practices.

Sustainable development’s case is positive for business because practicing it results in improved reputation, brand value and customer relations. As with all ethical questions

26 The truth of this is well illustrated by the initiatives taken by many of Japan’s large corporations: Canon says that it is “our objective to coexist with nature, part of our corporate philosophy is living and working
in business, sustainable development issues can sometimes appear to be in conflict with the business’s perceived aims. As is more fully explained on pages 42 and 43, business has the duties to earn profits, create long term wealth and fulfill its other ethical obligations. Polluting the environment, failing to live up to corporate social responsibilities and wasting scarce resources will not allow a business to comply optimally with its duties – including earning profits and creating long term wealth. As long as there are not relevant national or industry-wide institutions (see chapter 6) that impose sustainable development supportive behaviour, it will always be far more difficult for a business alone to conduct its affairs in a sustainable development friendly way. Business needs to advertise its responsible behaviour and the eco/socio friendliness of its products so that purchasers know and can support such operators/products. As an example, consider the tuna fish which is caught in nets that do not also catch or entangle dolphins. Consumers who know this fact prefer to buy that brand of tuna, even if it is a little more expensive. Clearly, it would be preferable if the entire tuna fishing industry would catch their fish without endangering dolphins. It is the duty of the industry to design an appropriate institution for all to comply with. To save scarce resources, avoid pollution and waste (e.g., recycling), innovation will be necessary to develop new products, markets and processes. When designing new products, services and processes, business needs to carefully consider the ethical, environmental and social impact of and the ethics involved in researching and developing such new products and processes. Transparency will require a measure of joint innovation with stakeholders which should improve the supply chain through greater co-operation with suppliers and enhanced staff motivation and their personal growth. The more management can highlight the benefits that can be derived from sustainable development, the greater will be the market’s acceptance of the link to profitability. Dow Jones introduced a Sustainability Index (DJSI) in 1999 and this index, which tracks the performance of the leading sustainability driven international companies, has consistently outperformed the Dow Jones Global Index. The

Together for the common good”. Olympus chairman is quoted as saying that “our core mission is to improve the health and happiness of people around the world”. Ricoh lives by a code that says “refuse, return, re-use, reduce, and recycle”. It consistently strives to reduce the input needed for a given output (raw material and energy). Ricoh does not accept materials from suppliers that create waste and their workers’ overalls are made from recycled plastic soft-drink bottles. Ricoh’s chairman says “our proudest accomplishment in environmentalism is that we have involved everyone in the company. We have increased our earnings by being environmentally correct”.

37
Chicago Climate Exchange, the London International Petroleum Exchange and the recently formed European Climate Exchange are examples of new markets that are developing for the trading of emissions credits.

Preserving the environment is for many companies already a distinct competitive advantage. Improving the output obtained from limited resources and capturing the hearts and minds of the business’s employees are clearly also improving a business’s competitive position. But sustainable development can flourish only in the right legal framework – government has to be accountable and must allow private enterprise sufficient freedom to deliver sustainability. Governments, the relevant international organizations, businesses and NGOs\(^\text{27}\) must jointly develop effective and appropriate institutions including tax systems, subsidy regimes and pricing mechanisms which fully account for the cost of the various sustainable development components and which ensure the right degree of transparency in reporting. Such institutions should try to ensure, as far as possible, that all degrees (even small ones) of pollution, waste of limited resources and antisocial behaviour are disclosed so that any unfairness or free riding is reduced to an absolute minimum.

NGOs, and through them organized public opinion, play an ever greater role in the acceptance or rejection by the market of products, services and processes, e.g., cloning. Business must therefore be prepared to co-operate with and be open towards such organizations and to discuss the environmental and social affects their new inventions may have and ameliorate them where necessary. Society is also questioning the value of new technology and the concomitant risks (e.g., genetically modified crops). While such new products or technologies may on the face of it contribute substantially to sustainable development, society needs to be convinced and has a moral right (see Kant’s categorical imperative, i.e., the Formula of the End-in-Itself) to insist that its views are taken fully into consideration.

\(^{27}\) Non-Governmental-Organizations are unfortunately not all responsible, ethical and knowledgeable organizations. Some will peddle ideas that are not thought through properly or that are not aimed at the public good, but with which they seek to boost their own political clout.
In cases of public pressure and negative sentiment toward a company’s product, it is no longer helpful to argue that it is the supplier and not the company itself that is acting unethically. Outsourcing supply should not mean outsourcing moral responsibility. Businesses need to encourage their suppliers, customers and other business associates to manage their operations in a manner that supports ethical behaviour and sustainable development. Many SMEs feel that they cannot afford paying attention to ethics, but such an approach is a little like the fisherman who has so many fish to clean that he does not take the time to sharpen his knife. (See also the discussion on page 153 concerning the “ought” and the “can” for new small businesses).

Corporate social responsibility requires business making an effort to improve the quality of life for its employees, their families, the local community and society at large. Such action motivates and creates loyalty, good reputation and trust – invaluable assets which are beneficial for any business even if activities of this kind ostensibly sacrifice some short term profit. For there to be a level playing field business must agitate for the development of appropriate institutions (see chapter 6 “The Importance of Institutions”) and structures to be in place in order that there is motivation for running ethical, sustainable businesses and so that no one gets a free ride at the expense of others.

Management must ensure that stakeholders do not perceive its sustainability development policy as a mere fad. While it would be poor judgment to overemphasize sustainability issues in economically difficult times, it would also be wrong to give the impression that ethics and sustainability are issues to be considered only when the company is strongly profitable.

“Poverty is one of the single largest barriers to sustainability” (36. Holliday, 2002: 241). Business cannot flourish if surrounded by poverty and it must therefore strongly support open, liberal global markets – free trade will promote poverty alleviation, sustainable development and ethics, also in the underdeveloped countries.
It is abundantly clear that sustainable development is an important moral issue for business and that it should be addressed in a company’s ethics policy. I shall return to this issue in part III of this report.

Although as a financial services business, credit insurance is not likely to damage the environment directly, but by supporting polluters with its credit insurance facilities it can encourage such undesirable behaviour. This also applies to corporate social responsibility issues, although, through its own human resources policies, credit insurers are also directly responsible for enlightened personnel procedures. For more about these issues see chapter 12 “Underwriting”.